Report of the Central Board of Directors on the working of the Reserve Bank of India for the year ended June 30, 2000 submitted to the Central Government in terms of Section 53(2) of the Reserve Bank of India Act, 1934

RESERVE BANK OF INDIA ANNUAL REPORT 1999-2000

CENTRAL BOARD OF DIRECTORS

GOVERNOR

Bimal Jalan

DEPUTY GOVERNORS

S.P. Talwar

Y.V. Reddy

Jagdish Capoor

DIRECTORS NOMINATED UNDER SECTION 8(1)(b) OF THE RBI ACT, 1934

Yezdi Hirji Malegam

Jamshed Jiji Irani

Prithvi Nath Dhar

Erasu Ayyapu Reddy

DIRECTORS NOMINATED UNDER SECTION 8(1)(c) OF THE RBI ACT, 1934

Ratan N. Tata

Sardara Singh Johl

C.H. Hanumantha Rao

Bhai Mohan Singh

M.L. Shahare

Amrita Patel

Vipin Malik

G. Ramachandran

DIRECTOR NOMINATED UNDER SECTION 8(1)(d) OF THE RBI ACT, 1934

E.A.S. Sarma

MEMBERS OF LOCAL BOARDS

WESTERN AREA

Yezdi Hirji Malegam

Bakul H. Dholakia

Pradip Panalal Shah

Neelkanth A. Kalyani

Inder Chand Jain

EASTERN AREA

Jamshed Jiji Irani

Subrata Ganguly

Subir Chowdhury

NORTHERN AREA

Prithvi Nath Dhar

Shobhana Bhartia

Brij Mohan Lall

D.H. Pai Panandiker

SOUTHERN AREA

Erasu Ayyapu Reddy

N. Sankar

Devineni Seetharamaiah

As on June 30, 2000

PRINCIPAL OFFICERS

(As on June 30, 2000)

EXECUTIVE DIRECTORS	A. Vasudevan
	I.D. Agarwal
	M.G. Srivastava
	G.P. Muniappan
	P.B. Mathur
	P.R. Gopala Rao
	M.R. Umarji (on deputation)
CENTRAL OFFICE	
Department of Administration and Personnel Management	D.P. Sarda, Chief General Manager-in-Charge
Department of Banking Operations and Development	Amalendu Ghosh, Chief General Manager-in-Charge
Department of Banking Supervision	A.Q. Siddiqi, Chief General Manager-in-Charge
Department of Currency Management	C. Krishnan, Chief General Manager
Department of Economic Analysis and Policy	M.R. Nair, Officer-in-Charge
Department of Expenditure and Budgetary Control	J.R. Guha, Chief General Manager
Department of External Investments and Operations	Smt. Shyamala Gopinath, Chief General Manager-in-Charge
Department of Financial Companies	—
Department of Government and Bank Accounts	B. Ramani Raj, Chief General Manager-in-Charge
Department of Information Technology	S.R. Mittal, Chief General Manager-in-Charge
Department of Non-Banking Supervision	V. Satyanarayanamurty, Chief General Manager-in-Charge
Department of Statistical Analysis and Computer Services	R.B. Barman, Principal Adviser
Exchange Control Department	B. Maheshwaran, Chief General Manager-in-Charge
Financial Institutions Division	K.C. Bandyopadhyay, Chief General Manager
Human Resources Development Department	N.P. Sinha, Chief General Manager
Industrial and Export Credit Department	S.S. Gangopadhyay, Chief General Manager
Inspection Department	Chandra Kishore, Chief General Manager
Internal Debt Management Cell	Smt. Usha Thorat, Chief General Manager
Legal Department	N.V. Deshpande, Principal Legal Adviser
Monetary Policy Department	K. Kanagasabapathy, Adviser-in-Charge
Premises Department	B.K. Katyal, Chief General Manager
Rural Planning and Credit Department	B.R. Verma, Chief General Manager-in-Charge
Secretary's Department	H.N. Prasad, General Manager and Officer-in-Charge
Urban Banks Department	M.M.S. Rekhrao, Chief General Manager-in-Charge
COLLEGES	**PRINCIPALS**
Bankers Training College, Mumbai	C.R. Gopalasundaram
College of Agricultural Banking, Pune	S. K. Newlay
Reserve Bank Staff College, Chennai	K. Sivaraman
OFFICES	**REGIONAL DIRECTORS**
Calcutta	K.K. Chaudhuri
Chennai	A. Somasundaram
Mumbai	A.B. Telang
New Delhi	Y.S.P. Thorat
BRANCHES	**REGIONAL DIRECTORS**
Ahmedabad	K.K. Dutta
Bangalore	K. Vijayaraghavan
Bhopal	Ramesh Chander
Bhubaneswar	Radhe Shyam
Chandigarh	Surindra Kumar
Guwahati	M.K. Bandopadhyaya
Hyderabad	R. S. Bakkannavar
Jaipur	S.L. Parmar
Jammu	Radhey Shyam
Kanpur	R.S. Awasthi
Nagpur	Mohammad Tahir
Patna	M.D. Jha
Thiruvananthapuram	M. Jesudasan
	GENERAL MANAGERS
Kochi	K.V.M. Ramachandran
Lucknow	B. Ghosh
Byculla, Mumbai	S.G. Jadhav

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LIST OF ABBREVIATIONS

ACLF	–	Additional Collateralised Lending Facility
ADs	–	Authorised Dealers
ADB	–	Asian Development Bank
ADR	–	Asset Development Reserve
ADRs	–	Amercian Depository Receipts
AIDBs	–	All India Development Banks
AIFIs	–	All India Financial Institutions
AL	–	Autonomous Liquidity
ALBM	–	Automated Lending and Borrowing Mechanism
ALCO	–	Asset-Liability Committees
ALM	–	Asset-Liability Management
APL	–	Above Poverty Line
ARM	–	Additional Resource Mobilisation
ASEAN	–	Association of South-East Asian Nations
ASI	–	Annual Survey of Industries
ATP	–	Arbitrage Pricing Theory
BCBS	–	Basel Committee on Banking Supervision
BE	–	Budget Estimates
BFS	–	Board for Financial Supervision
BIS	–	Bank for International Settlements
BoP	–	Balance of Payments
BoPM	–	Balance of Payments Manual
BPL	–	Below Poverty Line
BSE	–	Bombay Stock Exchange
CAB	–	College of Agricultural Banking
CACP	–	Commission on Agricultural Costs and Prices
CAD	–	Current Account Deficit
CAG	–	Comptroller and Auditor General
CAMELS	–	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and System
CaR	–	Cost at Risk
CAR	–	Capital Adequacy Ratio
CAS	–	Central Accounts Section
CCL	–	Contingent Credit Line
CD	–	Certificate of Deposit
CDBMS	–	Central Database Management System
CDSL	–	Central Depository Services Limited
CENVAT	–	Central Value Added Tax
CGFS	–	Committee on the Global Financial System
c.i.f.	–	Carriage, Insurance and Freight
CIMC	–	Collective Investment Management Company
CIP	–	Central Issue Price
CIS	–	Collective Investment Scheme
CLF	–	Collateralised Lending Facility
CoR	–	Certificate of Registration
CP	–	Commercial Paper
CPI	–	Consumer Price Index
CPI-AL	–	Consumer Price Index for Agricultural Labourers
CPI-IW	–	Consumer Price Index for Industrial Workers
CPI-UNME	–	Consumer Price Index for Urban Non-Manual Employees
CPSS	–	Committee on Payment and Settlement Systems
CR	–	Contingency Reserve
CRAs	–	Credit Rating Agencies
CRAR	–	Capital to Risk-Weighted Assets Ratio
CRF	–	Credit Refinance Facility
CRISIL	–	Credit Rating Information Services of India Limited
CRR	–	Cash Reserve Ratio
CSO	–	Central Statistical Organisation
CUG	–	Closed User Group
DAD	–	Deposit Accounts Department
DAP	–	Di-Ammonium Phosphate
DCA	–	Department of Company Affairs
DDAs	–	Diamond Dollar Accounts
DEPB	–	Duty Exemption Pass Book

LIST OF ABBREVIATIONS

DFIs	–	Development Financial Institutions
DGCI&S	–	Directorate General of Commercial Intelligence and Statistics
DGFT	–	Directorate General of Foreign Trade
DICGC	–	Deposit Insurance and Credit Guarantee Corporation
DIT	–	Department of Information Technology
DL	–	Discretionary Liquidity
DP	–	Discussion Paper
DPs	–	Depository Participants
DRG	–	Development Research Group
DRI	–	Differential Rate of Interest
DRT	–	Debt Recovery Tribunal
DSBB	–	Dissemination Standard Bulletin Board
DTA	–	Domestic Tariff Area
DvP	–	Delivery versus Payment
EaR	–	Earning at Risk
EBR	–	Export Bills Abroad
E-Commerce	–	Electronic Commerce
ECB	–	External Commercial Borrowings/European Central Bank
ECGC	–	Export Credit Guarantee Corporation
ECS	–	Electronic Clearing Service
EDI	–	Electronic Data Interchange
EEA	–	Exchange Equalisation Account
EEFC	–	Exchange Earners' Foreign Currency Account
EFC	–	Eleventh Finance Commission
EFR	–	Exchange Fluctuation Reserve
EFT	–	Electronic Funds Transfer
EL/HP	–	Equipment Leasing/Hire Purchase
EMU	–	European Monetary Union
EPCG	–	Export Promotion Capital Goods
ERF	–	Export Credit Refinance Facility
ESCB	–	European System of Central Banks
EU	–	European Union
EXIM	–	Export Import
EXIM Bank	–	Export Import Bank of India
FCA	–	Foreign Currency Asset
FCCB	–	Foreign Currency Convertible Bond
FCI	–	Food Corporation of India
FCNR (B)	–	Foreign Currency Non-Resident Accounts (Banks)
FDI	–	Foreign Direct Investment
FEDAI	–	Foreign Exchange Dealers' Association of India
FEMA	–	Foreign Exchange Management Act
FERA	–	Foreign Exchange Regulation Act
FI	–	Financial Institution
FII	–	Foreign Institutional Investor
FIIA	–	Foreign Investment Implementation Authority
FIPB	–	Foreign Investment Promotion Board
fob	–	Free on board
FRA	–	Financial Restructuring Authority
FRA	–	Forward Rate Agreement
GAAP	–	Generally Accepted Accounting Practices
GAIL	–	Gas Authority of India Ltd.
GCA	–	General Currency Area
GCF	–	Gross Capital Formation
GDCF	–	Gross Domestic Capital Formation
GDP	–	Gross Domestic Product
GDDS	–	General Data Dissemination System
GDR	–	Global Depository Receipt
GDS	–	Gross Domestic Saving
GFD	–	Gross Fiscal Deficit
GFSM	–	Government Financial Statistics Manual
GLC	–	General Line of Credit
GOI	–	Government of India
GPF	–	General Provident Fund

LIST OF ABBREVIATIONS

GR – Government Resolution
HDFC – Housing Development Finance Corporation
HFCs – Housing Finance Companies
HMA – Hong Kong Monetary Authority
HP – Hodrick Presott
HRDD – Human Resources Development Department
HRIS – Human Resource Information System
HUDCO – Housing and Urban Development Corporation Ltd.
IAIS – International Association of Insurance Supervisors
IASC – International Accounting Standard Committee
IBA – Indian Banks Association
IBRD – International Bank for Reconstruction and Development
ICAI – Institute of Chartered Accountants of India
ICCs – International Credit Cards
ICDs – Inter-Corporate Deposits
ICICI – Industrial Credit and Investment Corporation of India
ICOR – Incremental Capital Output Ratio
ICSI – Interconnected Stock Exchange of India
IDBI – Industrial Development Bank of India
IDFC – Infrastructure Development Finance Company
IDRBT – Institute for Development and Research in Banking Technology
IFAC – International Federation of Accounts
IFCI – Industrial Finance Corporation of India
IIBI – Industrial Investment Bank of India Limited
IIP – Index of Industrial Production
IISL – India Services and Products Limited
IL&FS – Infrastructure Leasing and Financial Services
ILAF – Interim Liquidity Adjustment Facility
IMF – International Monetary Fund
INFINET – Indian Financial Network
IOC – Indian Oil Corporation
IOSCO – International Organisation of Securities Commissions
IPO – Initial Public Offer
IPP – Independent Power Projects
IPSS – Integrated Payment and Settlement System
IRA – Insurance Regulatory Authority
IRDA – Insurance Regulatory and Developmental Authority
IRDP – Integrated Rural Development Programme
IREDA – Indian Renewable Energy Development Agency
IRSs – Interest Rate Swaps
ISG – Inter-Exchange Market Surveillance Group
ISO – International Standards Organisation
IT – Information Technology
JVs – Joint Ventures
KCCs – Kisan Credit Cards
KWG – Khan Working Group
LAF – Liquidity Adjustment Facility
LCs – Letters of Credit
LIBOR – London Inter-Bank Offered Rate
LIC – Life Insurance Corporation of India
LOIs – Letter of Intents
M_0 – Reserve Money
M_1 – Narrow Money
M_3 – Broad Money
M&As – Mergers and Acquisitions

LIST OF ABBREVIATIONS

MBCs	–	Mutual Benefit Companies
MEFP	–	Memorandum of Economic and Financial Policies
MFs	–	Mutual Funds
MIBOR	–	Mumbai Inter-Bank Office Rate
MICR	–	Magnetic Ink Character Recognition
MIS	–	Management Information System
MMDAs	–	Money Market Deposit Accounts
MMMFs	–	Money Market Mutual Funds
MoV	–	Maintenance of Value
MSP	–	Minimum Support Price
MVE	–	Market Value of Equity
NABARD	–	National Bank for Agriculture and Rural Development
NAIRU	–	Non-Acceleratory Inflation Rate of Unemployment
NASDAQ	–	National Association of Securities Automated Quote
NASSCOM	–	National Association of Software and Service Companies
NAV	–	Net Asset Value
NBCs	–	Non-Banking Companies
NBFCs	–	Non-Banking Financial Companies
NCC	–	National Clearing Cell
NCCF	–	National Calamity Contingency Fund
NDC	–	Net Domestic Credit
NDTL	–	Net Demand and Time Liabilities
NEER	–	Nominal Effective Exchange Rate
NFA	–	Net Foreign Exchange Assets
NGO	–	Non-Government Organisation
NHB	–	National Housing Bank
NHC (LTO) Fund	–	National Housing Credit (Long-term operations) Fund
NIBM	–	National Institute of Bank Management
NIC	–	National Information Centre
NIC (LTO) Fund	–	National Industrial Credit (Long-Term Operations) Fund
NIM	–	Net Interest Margin
NL	–	Net Liquidity
NM_3	–	New Broad Money Aggregate
NNML	–	Net Non-monetary Liabilities
NOF	–	Net Owned Funds
NPA	–	Non-Performing Asset
NPC	–	National Payments Council
NPP	–	Net Policy Position
NRC (LTO) Fund	–	National Rural Credit (Long-Term Operations) Fund
NRE	–	Non-resident External Accounts
NR (E) RA/ NR (E)	–	Non-Resident (External) Rupee Accounts
NRI	–	Non-Resident Indian
NRNR/NR (NR) RD	–	Non-Resident (Non-Repatriable) Rupee Deposit Scheme
NRO	–	Non-Resident Ordinary
NR(S)RA	–	Non-Resident (Special) Rupee Account
NSC	–	National Savings Certificate
NSCCL	–	National Securities Clearing Corporation Limited
NSDL	–	National Securities Depository Limited
NSDP	–	Net State Domestic Product
NSE	–	National Stock Exchange
NSSF	–	National Small Saving Fund
NSSO	–	National Sample Survey Organisation
OCBs	–	Overseas Corporate Bodies
OECD	–	Organisation for Economic Co-operation and Development
OGL	–	Open General Licence
OMO	–	Open Market Operations
OMS	–	Open Market Sales
OMSS	–	Open Market Sales Scheme
OPEC	–	Organisation of Petrol Exporting Countries
OTC	–	Over the Counter
OWS	–	Other Welfare Schemes

LIST OF ABBREVIATIONS

PC	–	Personal Computer
PCA	–	Prompt Corrective Action
PCB	–	Primary Co-operative Bank
PCFC	–	Pre-Shipment Credit in Foreign Currency
PDs	–	Primary Dealers
PFIs	–	Public Financial Institutions
PFPs	–	Policy Framework Papers
PIM	–	Perpetual Inventory Method
PIN	–	Public Information Notice
PIOs	–	Persons of Indian Origin
PLR	–	Prime Lending Rate
POL	–	Petroleum, Oil and Lubricants
PPF	–	Public Provident Fund
PSB	–	Public Sector Bank
PSE	–	Public Sector Enterprise
PSG	–	Payment Systems Group
PSU	–	Public Sector Undertaking
PTLRs	–	Prime Term Lending Rates
RBI	–	Reserve Bank of India
RBS	–	Risk Based Supervision
R & D	–	Research and Development
RE	–	Revised Estimates
REER	–	Real Effective Exchange Rate
RFC	–	Resident Foreign Currency Accounts
RFIs	–	Rural Financial Institutions
RIBs	–	Resurgent India Bonds
RIDF	–	Rural Infrastructural Development Fund
RNBCs	–	Residuary Non-Banking Companies
RoA	–	Return on Assets
RPA	–	Rupee Payment Area
RPCD	–	Rural Planning and Credit Department
RRB	–	Regional Rural Bank
RTGS	–	Real Time Gross Settlement
RWA	–	Risk Wighted Assets
S & P	–	Standard and Poor's Financial Information Service
SAARC	–	South Asian Association for Regional Co-operation
SAC	–	Settlement Advisory Committee
SACPs	–	Special Agricultural Credit Plans
SBI	–	State Bank of India
SDDS	–	Special Data Dissemination Standards
SDF	–	Statutory Declaration Form
SDs	–	Satellite Dealers
SDRs	–	Special Drawing Rights
SEBI	–	Securities and Exchange Board of India
SENSEX	–	Sensitive Index
SEZ	–	Special Economic Zone
SGF	–	Settlement Guarantee Fund
SGL	–	Subsidiary General Ledger
SHCIL	–	Stock Holding Corporation of India Limited
SHG	–	Self Help Groups
SIA	–	Secretariat for Industrial Approval
SIDBI	–	Small Industries Development Bank of India
SIL	–	Special Import Licence / Special Import List
SLIC	–	State Level Inter-Institutional Committee
SLR	–	Statutory Liquidity Ratio
SNA	–	System of National Accounts
SRO	–	Self Regulating Organisation
SRS	–	Systems Requirement Specifications
SRWTOs	–	Small Road and Water Transport Operators
SSI	–	Small Scale Industry
STRIPS	–	Separate Trading of Registered Interest and Principal Securities
SUS	–	Special Unit Scheme
SVAR	–	Structural Vector Autoregression
SWIFT	–	Society for Worldwide Inter-bank Financial Telecommunication

TFCI	–	Tourism Finance Corporation of India
TFPd	–	Total Factor Productivity (Double Deflation)
TFPs	–	Total Factor Productivity (Single Deflation)
TP	–	Total Productivity
TPDS	–	Targeted Public Distribution System
TRIMs	–	Trade Related Investment Measures
TRIPs	–	Trade Related Intellectual Property Rights
UT	–	Union Territory
UTI	–	Unit Trust of India
VaR	–	Value-at-Risk
VAR	–	Vector Autoregression
VAT	–	Value Added Tax
VC	–	Venture Capital
VDIS	–	Voluntary Disclosure of Income Scheme
VRS	–	Voluntary Retirement Scheme
VSAT	–	Very Small Aperture Terminal
VSNL	–	Videsh Sanchar Nigam Limited
WAN	–	Wide Area Network
WDM	–	Wholesale Debt Market
WEO	–	World Economic Outlook
WMA	–	Ways and Means Advances
WOSs	–	Wholly Owned Subsidiaries
WPI	–	Wholesale Price Index
WTO	–	World Trade Organisation
Y2K	–	Year 2000
YTM	–	Yield to Maturity

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*For the Year July 1, 1999 to June 30, 2000**

PART ONE : ECONOMIC REVIEW

I POLICY ENVIRONMENT

Introduction

1.1 During the year 1999-2000, the Indian economy exhibited a good degree of resilience. Economic growth continued to be in line with the trend in the post 1991 period, notwithstanding deceleration in agricultural output (Appendix Table I.1). Industry showed recovery while the services sector surged ahead, led by some of the fast rising segments such as construction and software. Monetary conditions were supportive of growth. Interest rates softened. The combined gross fiscal deficit of both the Central and State governments increased particularly due to a sharp rise in the fiscal deficit position of State governments. The monetary policy efforts in ensuring availability of sufficient credit at reasonable interest rates were facilitated by the general absence of inflationary pressures in the economy, although towards the close of the year, the inflation rate moved up due to revisions in certain administered prices. The external sector gained in strength with the enlargement of the invisible surplus and capital inflows. Foreign exchange reserves increased by about US $ 5.5 billion in 1999-2000.

EXTERNAL ENVIRONMENT

1.2 A significant aspect of recent economic developments is the increasing influence of economic and financial market conditions in industrial economies on external payment and growth prospects in emerging market economies, including India. During 1999-2000, with the global growth and trade prospects improving significantly, almost all crisis affected South-East Asian economies and economies in other parts of Asia posted higher economic growth and experienced relatively stable financial market conditions.

1.3 In respect of India, however, there were three distinct developments that had a bearing on the domestic economic situation and policy evolution during 1999-2000. First, the border conflict in Kargil, which began in the first week of May 1999 and lasted for about two months, placed considerable pressure on government finances and created uncertainty in the financial markets. The additional defence expenditure had to be absorbed in the government budget, resulting in an adverse impact on the fiscal position. Secondly, the economic sanctions imposed by a number of western countries including the US and Japan on India, following the nuclear tests in May 1998, continued to cast their shadow in 1999-2000, notwithstanding some relaxations in November 1998 and October 1999. The Indian economy, however, could cope with the sanctions without much of adverse consequences, mainly because of heightened investor confidence as reflected in the increase in capital flows. Thirdly, the increase in international oil prices inflated the oil import bill.

1.4 It is against this difficult external environment that monetary and exchange rate policies and structural and institutional measures were framed during the year. The current account deficit was contained at a moderate level of 0.9 per cent of GDP during 1999-2000, notwithstanding the hardening of international petroleum prices and the consequent spurt in the oil import bill. The sharp increase in oil imports was partly offset by a turnaround in the export performance, which largely reflected higher export demand. Invisible receipts increased, partly owing to a rise in remittances and partly due to large exports of software products. There were strong capital

* While the Reserve Bank of India's accounting year is July-June, data on a number of variables are available on a financial year basis, *i.e.*, April-March, and hence, the data are analysed on the basis of the financial year. Where available, the data have been updated beyond June 2000 and in some vital areas, information beyond end-June 2000 is also discussed. For the purpose of analysis and for providing proper perspectives on policies, reference to past years as also to prospective periods, wherever necessary, have been made in this Report.

inflows for the larger part of the year, leading to the accumulation of foreign currency reserves.

Major External Sector Policies

1.5 The Reserve Bank proceeded with the policy of cautious liberalisation of the external sector. Several measures were undertaken to facilitate capital flows. First, the cut-off date for forward exchange cover to foreign institutional investors (FIIs) in respect of their equity investments was changed from June 11, 1998 to March 31, 1999 and authorised dealers (ADs) were permitted to provide forward exchange cover to FIIs to the extent of 15.0 per cent of their outstanding equity investments as at the close of business on March 31, 1999 and the entire amount of investments undertaken thereafter. Secondly, Indian companies were permitted to issue rights/bonus shares and non-convertible debentures to non-residents subject to certain conditions. Moreover, Indian mutual funds were allowed to issue units and similar instruments under schemes approved by the Securities and Exchange Board of India (SEBI) to FIIs with repatriation benefits. Foreign corporates and high net worth individuals were permitted to invest in Indian markets through SEBI registered FIIs. Thirdly, policies in respect of external commercial borrowings (ECBs) were substantially liberalised (for details, refer to Section VI). Fourthly, foreign direct investments in all sectors, except for a small negative list, were placed under the automatic route. Fifthly, Indian companies engaged in knowledge based sectors like information technology, pharmaceuticals, bio-technology and entertainment software were permitted to acquire overseas companies engaged in the same line of activity through stock swap options up to US $ 100 million or 10 times the export earnings during the preceding financial year on an automatic basis. Investments up to US $ 50 million subject to certain conditions can be made by Indian parties in joint ventures abroad/wholly owned subsidiaries without prior approval of the Reserve Bank/Government of India and those proposals of investment involving amounts in excess of US $ 50 million will be considered for approval by the Special Committee on Overseas Investment. Finally, the minimum maturity of FCNR(B) deposits was raised to one year from six months with a view to elongating the maturity profile of external debt.

1.6 The Export Import (EXIM) Policy for 1997-2002 had attempted to liberalise the trade regime with a view to improving the national export performance. In continuation of this process, modifications announced on March 31, 2000 introduced a number of important fresh initiatives and also significant changes in some of the existing policies/procedures. These include export promotion measures such as extension of the hitherto sector-specific Export Promotion Capital Goods (EPCG) Scheme to all sectors and to all capital goods without any threshold limit, several sector-specific measures, *e.g.*, for gems and jewellery, silk, leather, handicrafts and garments, drugs, pharmaceuticals, agro-chemicals and bio-technology along with a scheme for granting assistance to States for the development of export related infrastructure on the basis of their export performance. Reflecting India's international commitments, 714 out of 1,429 restricted items have been shifted from the Special Import Licence (SIL) list to the Open General Licence (OGL) list. The remaining items would be moved to the OGL list by March 31, 2001 by which time the SIL list would be abolished. Pharmaceutical and biotech firms would be able to import R&D equipment and goods duty-free up to 1 per cent of free on board (fob) value of their exports. The EXIM policy proposes to set up special economic zones (SEZs) in different parts of the country, which would be able to access capital goods and raw materials duty-free from abroad and from the domestic tariff area (DTA) without payment of terminal excise duty on the condition of achieving positive net foreign exchange earning as a percentage of exports annually and cumulatively for a period of five years from the commencement of commercial production. Sales to DTA would, however, be permitted on payment of full applicable customs duty. The EXIM policy also places emphasis on e-commerce – electronic data interchange including filing, processing and disposal of application forms.

DOMESTIC ENVIRONMENT

The Fiscal Framework

1.7 The gross fiscal deficit (GFD) of the Central Government increased to 5.6 per cent of GDP in the revised estimates from 4.0 per cent in the budget estimates, partly reflecting cyclical, unforeseen and security related factors. The combined state government fiscal deficit also increased sharply. In this context, issues relating to devolution of finances between the Centre and the States and specified aspects of Centre-State fiscal relations have been examined by the Eleventh Finance Commission (EFC), which submitted its final report in July 2000 (Box I.1).

Domestic Monetary Policy Framework

1.8 Monetary management has increasingly focussed on multiple indicators in order to influence domestic liquidity conditions. The strategy followed here was one of offsetting autonomous liquidity flows with discretionary flows. Given the thinness of the Indian foreign exchange market, the Reserve Bank had to ensure orderly conditions through pre-emptive and remedial measures. Pressures in the foreign exchange market emerged in May/June and end-August 1999. During this period, liquidity was appropriately tuned. Once normalcy was restored, the Reserve Bank could ease monetary conditions by reducing reserve requirements and rates consistent with the domestic credit demand.

Box I.1
Major Recommendations of the Eleventh Finance Commission (2000-2005)

The Eleventh Finance Commission (EFC) (Chairman: Prof. A.M.Khusro) was constituted on July 3, 1998 under Article 280 of the Constitution to give recommendations on specified aspects of Centre-State fiscal relations during 2000-05.

The Commission submitted an *interim* report on January 15, 2000 making provisional tax sharing arrangements for 2000-01. The final Report of the Commission was submitted on July 7, 2000 covering all aspects of its original mandate. The major recommendations of the EFC which have been accepted by the Government of India are as follows:

(a) The Commission has recommended that 28 per cent of the net proceeds of all shareable Central taxes and duties may be distributed amongst all States for each of the five years 2000-01 to 2004-05. In addition, 1.5 per cent of the net proceeds of all shareable Central taxes and duties may be distributed amongst such States which do not levy and collect sales tax on sugar, textiles and tobacco. Thus, the total share of the States in the net proceeds of Union taxes and duties would be 29.5 per cent.

(b) The Commission has recommended that the grants-in-aid under Article 275(1) of the Constitution, amounting to Rs.35,359 crore, may be provided to such States which will still have deficit on the non-Plan revenue account even after the devolution of Central tax revenues, equal to the amount of deficits assessed during the period 2000-05.

(c) The Commission has recommended grants totaling Rs.4,972.63 crore towards upgradation of standards of administration and special problem grants to States, for the five years commencing from April 1, 2000.

(d) The Commission has recommended grants amounting to Rs.10,000 crore for local bodies (*panchayats* and municipalities) during 2000-05 to be utilised (except the amount earmarked for maintenance of accounts and audit and for development of data base) for maintenance of civic services (excluding payment of salaries and wages). *Inter-se* share of States in the grants provided for *panchayats* and municipalities is based on the rural/urban population of the State, index of decentralisation, distance from the highest per capita income, revenue efforts of local bodies and geographical area.

(e) The Commission has recommended the discontinuance of the existing National Fund for Calamity Relief. Instead, the Commission has recommended that a National Calamity Contingency Fund (NCCF) be created in the Public Account of the Government of India. Any assistance provided by the Centre to the States for calamity relief would be financed by the levy of a special surcharge on the Central taxes for a limited period. The Government of India should contribute an initial core amount of Rs.500 crore to this fund, to be replenished by the levy of the special surcharge as and when any drawals are made from it.

(f) The EFC has proposed to continue the existing debt relief scheme, which is linked to improvement in the revenue receipts to revenue expenditure ratio of a State with enhanced incentives. It has recommended debt relief to Punjab and Jammu and Kashmir on the basis of specified expenditure incurred on security. The EFC has also suggested fixing limits on guarantees given by the Centre and States under suitable legislation and also setting up of sinking funds for amortisation of debt.

(g) The EFC suggested that in deciding the level of revenue transfers from the Centre to States all transfers have to be taken in their totality and their components like tax devolution, grants-in-aid and grants in other forms like Plan grants, should be decided in the light of the overall ceiling. In setting this ceiling, the EFC has indicated that the total quantum of devolution of Central taxes/duties, grants-in-aid and Plan grants to be transferred to the States should be at a notional limit of 37.5 per cent of the gross revenue receipts of the Centre.

The final implementation of the above recommendations is subject to necessary legislation in Parliament and/or Presidential order.

1.9 One of the important characteristics of 1999-2000 is the softening of the interest rate structure, despite an increase in the fiscal deficit (Appendix Table I.2). The key interest rates decided by the Reserve Bank, such as the Bank Rate, the repo rate and the interest rate on savings deposits, have come down substantially. The Reserve Bank has also reduced reserve requirements in order to reduce the implicit tax imposed on banks by such statutory pre-emptions and cut down banks' borrowing costs. The other domestic interest rates are left to the banks to decide except in the cases of credit extended under the DRI scheme and of credits of up to Rs.2 lakh. However, a number of structural factors prevent financial entities, especially banks, from quickly responding to changes in the inflation rate while deciding on the nominal interest rates they charge on their lending or offer on deposits. For example, the post-tax return on bank deposits remains lower than those on contractual savings such as the Provident Fund and the National Saving Scheme. The higher fixed rate on long-term deposits raised in the past when interest rates were ruling high as also the high level of non-performing assets (NPAs), besides the high administrative costs of the banking system have limited the flexible use of the interest rate as an instrument of financial intermediation.

1.10 The experience of the past year suggested that flexibility should be the guiding principle in respect of both deposit and lending rates as also in regard to the maturity structures. This was, to an extent, addressed in the Monetary and Credit Policy announcement for the year 2000-01. Nonetheless in 2000-01, there are several challenges to be faced, and dilemmas resolved. Among these, the significant ones are: managing the large Government borrowing programme, meeting the increasing credit needs of the growing economy, maintaining reasonable interest rates and financing the continuing high oil import bill.

Monetary and Exchange Rate Policy Measures

1.11 The course of monetary management in 1999-2000 could be categorised into three phases, *viz*., Phase I (April-May 1999), Phase II (June-October 1999) and Phase III (November 1999-March 2000).

Phase I

1.12 The Reserve Bank was able to ease monetary conditions following the turnaround of capital flows in March 1999. The Reserve Bank reduced the Bank Rate by one percentage point to 8.0 per cent at the close of business on March 1, 1999 and the fixed repo rate by two percentage points to 6.0 per cent, effective March 2, 1999. The Reserve Bank reduced the cash reserve ratio (CRR) by 0.5 percentage point, effective the fortnight beginning March 13, 1999 releasing, in the process, Rs.3,100 crore in terms of lendable resources to the banking system. In response, major public sector banks reduced their deposit rates and prime lending rates. The Reserve Bank continued to ease monetary conditions by reducing the CRR by a further 0.5 percentage point, effective the fortnight beginning May 8, 1999.

Phase II

1.13 The situation changed during the second phase as capital flows dried up in end-May 1999. The resultant volatility in the foreign exchange market, was, however, quickly contained as a result of the Reserve Bank's operations in the foreign exchange market and the money market coupled with the reiteration of its intention to meet demand and supply mismatches. There was a second bout of volatility in the foreign exchange market in end-August 1999. The Reserve Bank was again able to restore orderly conditions in the foreign exchange market with a similar mix of foreign exchange and money market operations and announcement effects. The Reserve Bank continued to align short-term interest rates with the interest rates implied in in the forward market premia in order to pre-empt funds from flowing into the foreign exchange market, in view of the prevailing excess demand conditions. This was achieved by modulating discretionary liquidity through export credit refinance to commercial banks and liquidity support to primary dealers (PDs), which resulted in the firming up of call rates. The Reserve Bank also continued with its policy of accepting private placements/devolvements of government paper when the domestic conditions were tight and offloading them in the market when the situation eased. Thus the Reserve Bank was able to modulate monetary and interest rate conditions using an array of mostly indirect monetary policy instruments such as open market operations and money market support to banks and primary dealers.

Phase III

1.14 The third phase saw the return of excess supply conditions in the foreign exchange market with the turnaround in capital flows. This, in turn, allowed the Bank to ease monetary conditions further. The cash reserve ratio was reduced by one percentage point in two stages of 50 basis points each, effective the fortnights beginning November 6 and November 20, 1999, respectively. This augmented commercial banks' lendable resources by about Rs.7,000 crore. Effective the fortnight beginning November 6, 1999, the liabilities under the FCNR(B) scheme were exempted from incremental CRR requirements of 10.0 per cent (over the April 11, 1997 level). The supply of discretionary liquidity through the reduction in reserve requirements allowed banks to retire their borrowings from the Reserve Bank. Call rates thus eased below the Bank Rate. Further, as a result of the return of stability in the foreign exchange market, the Bank withdrew the stipulation of a minimum interest rate of 20.0 per cent per annum on overdue export bills and the interest rate surcharge of 30.0 per cent on import finance imposed in January 1998.

1.15 The Reserve Bank introduced a "Special Liquidity Support" facility for the period December 1, 1999 to January 31, 2000 with a view to enabling banks to meet any unanticipated additional demand for liquidity in the context of the century date change. Banks were allowed to avail of liquidity to the extent of their excess holdings of Central Government dated securities/Treasury Bills over the required statutory liquidity ratio (SLR) at the rate of 2.5 percentage points over and above the Bank Rate. Further, with a view to enabling the banks to meet any unanticipated surge in currency demand on account of the century date change, cash in hand, amounting to about Rs.4,500 crore, with banks was allowed to be included for compliance of CRR requirements during the same period.

Developments during 2000-01

1.16 The Reserve Bank continued to ease monetary conditions in April 2000 through a package of measures. The CRR was reduced by one percentage point to 8.0 per cent in two equal stages, effective April 8 and April 22, 2000, augmenting the lendable resources with commercial banks by about Rs.7,200 crore. The Reserve Bank reduced the Bank Rate by one percentage point to 7.0 per cent, effective the close of business on April 1, 2000. The fixed rate repo rate was reduced by one percentage point to 5.0 per cent, effective April 3, 2000. The Reserve Bank cut the savings deposit rate of scheduled commercial banks by 0.5 percentage point to 4.0 per cent, effective April 3, 2000. Comfortable liquidity conditions allowed commercial banks and primary dealers to redeem their borrowings (Rs.11,172 crore) from the Reserve Bank by April 21, 2000, thereby easing call rates below the Bank Rate. There was a general softening of interest rates across the maturity spectrum.

1.17 May 2000 saw a return of excess demand conditions in the foreign exchange market, mainly on account of large oil import payments and a slowdown in capital inflows. The Reserve Bank undertook net sales of US $ 1,948 million during May-June 2000 to meet temporary demand-supply mismatches. The resultant gap put pressure on money market conditions, driving up banks' and PDs' recourse to the Reserve Bank by Rs.7,236 crore by June 30, and thereby nudging up call rates above the Bank Rate especially during the second half of May and June 2000. The Reserve Bank accepted private placements/devolvements amounting to Rs.6,961 crore. The Centre's ways and means advances (WMA) declined by Rs.6,859 crore.

1.18 In order to reduce the uncertainty in the foreign exchange market, the Reserve Bank undertook the following policy actions on May 25, 2000: (i) an interest rate surcharge of 50 per cent of the lending rate on import finance was imposed with effect from May 26, 2000, as a temporary measure, on all non-essential imports; (ii) it was indicated that the Reserve Bank would meet, partially or fully, the Government debt service payments directly as considered necessary; (iii) arrangements would be made to meet, partially or fully, the foreign exchange requirements for import of crude oil by the Indian Oil Corporation; (iv) the Reserve

Bank would continue to sell US dollars through the State Bank of India in order to augment supply in the market or intervene directly as considered necessary to meet any temporary demand-supply imbalances; (v) banks would charge interest at 25 per cent per annum (minimum) from the date the bill falls due for payment in respect of overdue export bills in order to discourage any delay in realisation of export proceeds; (vi) ADs acting on behalf of FIIs could approach the Reserve Bank to procure foreign exchange at the prevailing market rate and the Reserve Bank would, depending on market conditions, either sell the foreign exchange directly or advise the concerned bank to buy it in the market; and (vii) banks were advised to enter into transactions in the foreign exchange market only on the basis of genuine requirements and not for the purpose of building up speculative positions. In response to these measures, the rupee regained stability and traded within a narrow range of Rs.44.57-Rs.44.79 per US dollar during June 2000.

1.19 The introduction of the Liquidity Adjustment Facility (LAF) effective June 5, 2000, allowed the Reserve Bank an additional lever for influencing short-term liquidity conditions. With the persistence of pressures in the foreign exchange market, the Reserve Bank conducted reverse repo auctions, averaging about Rs.3,000 crore, at interest rates which increased from 9.05 per cent as on June 9 to 10.85 per cent as on June 14. The Reserve Bank rejected all bids in the June 16, 2000 auction. Reacting to this, inter-bank call rates went up to 28.0 per cent. The Reserve Bank accepted reverse repos (Rs.1,350 crore) at 13.5 per cent as on June 19, 2000 and gradually scaled down the reverse repo rate to 12.25 per cent as on June 28, 2000 with the return of stability in the foreign exchange market.

1.20 The exchange rate of the rupee, which was bound in the range of Rs. 44.68–Rs. 44.74 per US dollar during the first half of July 2000, depreciated to Rs. 45.02 per US dollar on July 21, 2000. On a review of developments in the international and domestic financial markets, including the foreign exchange market, the Reserve Bank took the following measures on July 21, 2000: (i) the Bank Rate was increased by 1 percentage point from 7 per cent to 8 per cent as at the close of business on July 21, 2000; (ii) CRR was increased by 0.5 percentage point from 8 per cent to 8.5 per cent in two stages by 0.25 percentage point each, effective July 29, 2000 and August 12, 2000, respectively; and (iii) the limits available to banks for refinance facilities including the collateralised lending facility (CLF) were reduced temporarily to the extent of 50 per cent of the eligible limits under two equal stages effective from July 29, 2000 and August 12, 2000. In early August, the Reserve Bank also introduced special repo auctions of more than one day maturity to absorb excess liquidity.

Financial Reforms

1.21 The Reserve Bank continued to play a major role in the development of financial markets and improvement of credit delivery systems. In order to provide greater flexibility, the Reserve Bank has attempted to move gradually towards provision of a daily liquidity adjustment facility in the Indian money markets. The Interim Liquidity Adjustment Facility (ILAF) introduced in April 1999 was replaced in June 2000 by a full fledged liquidity adjustment facility in which liquidity would be injected through reverse repo auctions and liquidity would be sucked out through repo auctions. This is being introduced in stages (Box I.2).

1.22 The Reserve Bank has, in addition, introduced several measures to facilitate short-term liquidity management. First, in order to facilitate cash management banks were advised to maintain CRR during a fortnight on the basis of net demand and time liabilities (NDTL) as on the last Friday of the second preceding (instead of the first as hitherto) fortnight with effect from November 6, 1999. Further, the minimum daily requirement of CRR balances was reduced from 85.0 per cent to 65.0 per cent with effect from May 6, 2000. Secondly, the Reserve Bank allowed cheque writing facilities to money market mutual funds (MMMFs), gilt funds and Liquid Income Schemes of mutual funds, which invest not less than 80.0 per cent of their *corpus* in money market instruments through tie-ups with banks. Further, it has been decided that MMMFs need to be set up as separate entities instead of operating through money market deposit accounts (MMDAs). Finally, the Reserve Bank attempted to further widen the scope of money market instruments. The minimum

Box I.2
Liquidity Adjustment Facility

In order to further the development of short-term money markets with adequate liquidity, the Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) (1998) recommended, *inter alia*, that the Reserve Bank should provide support to the market through a liquidity adjustment facility (LAF).

In line with these recommendations, the Reserve Bank has decided to introduce the LAF in phases. The *interim* liquidity adjustment facility (ILAF), introduced in April 1999, pending further upgradation in technology and legal/procedural changes to facilitate electronic transfer and settlement, provided a mechanism for liquidity management through a combination of repos, export credit refinance and collateralised lending facilities supported by open market operations at set rates of interest. Banks could avail of a collateralised lending facility (CLF) of up to 0.25 per cent of the fortnightly average outstanding aggregate deposits in 1997-98, which was available for two weeks at the Bank Rate. Further, an additional collateralised lending facility (ACLF) for an equivalent amount at the Bank Rate plus two per cent was also introduced. These facilities could be accessed beyond two weeks for another two weeks at a penal rate of 2.0 per cent but were followed by a cooling period of two weeks thereafter. The period of payment of the amount drawn was limited to 90 days from the date of drawal. The stipulation of the cooling period was, however, removed on October 6, 1999 as it had come in the way of availment of the facility itself and in some cases led to artificial hardening of demand for funds in the call money market. Primary dealers were provided level I liquidity support (equivalent of CLF for banks) against collateral of Government securities, based on bidding commitments and other parameters at the Bank Rate, for up to 90 days, with additional level II support (equivalent of ACLF for banks) at the Bank Rate plus two per cent, for a period not exceeding two weeks at a time.

In the light of the experience gained in its operation, an internal group in the Reserve Bank recommended gradual implementation of a full-fledged LAF. The LAF would be implemented in three phases. First, the ACLF for banks and level II liquidity support to PDs would be replaced by variable reverse repo auctions. Besides, the fixed rate repo will be replaced by variable repo auctions. In the second stage, it is intended that CLF for banks and level I support to PDs would be replaced by variable reverse repo rate auctions. With full computerisation of the Public Debt Office and the introduction of Real Time Gross Settlement (RTGS), repo operations through electronic transfers will be introduced and in the final stage, it would, therefore, be possible to operate the LAF at different timings of the same day if necessary. The quantum of adjustment as also the rates would be flexible responding immediately to the needs of the system. At the same time, funds made available by the Reserve Bank through this facility would meet primarily the day-to-day liquidity mismatches in the system and not the normal financing requirements of eligible institutions.

The LAF was introduced effective June 5, 2000. Repo/reverse repo auctions are conducted on a daily basis except Saturdays, with a tenor of one day except on Fridays and days preceding the holidays. Interest rates in respect of both repos and reverse repos are decided through cut-off rates emerging from auctions conducted by the Reserve Bank on uniform price basis. No adjustment is made for accrued coupon and the cash flow depends on the repo rate emerging on day-to-day basis. In August 2000, repo auctions of tenors ranging between 3 to 7 days were introduced.

References

1. Government of India, (1998), *Report of the Committee on Banking Sector Reforms* (Chairman: Shri M. Narasimham), New Delhi.
2. Reserve Bank of India, (2000), “Monetary and Credit Policy Statement”, *Reserve Bank of India Bulletin*, May.

maturity period of certificates of deposit (CDs) has been reduced to 15 days in order to bring it at par with other instruments such as commercial paper (CP) and term deposits.

1.23 The measures to develop money markets continue to be well supported by reforms in the government securities market. First, the repo market has been gradually developed with the introduction of proper regulatory safeguards. The Reserve Bank clarified that there are no restrictions on the tenor of repos. All non-bank entities maintaining SGL accounts and current accounts with the Reserve Bank, which could so far undertake only reverse repos, have been permitted to borrow money through repos on par with banks and PDs, so that the permission presently given to such entities to only lend in the call money market could be eventually withdrawn. Secondly, several steps were undertaken with a view to imparting depth and liquidity to the Treasury Bill market. It was decided to announce a calendar for the issuance of Treasury Bill auctions for the entire year. Effective May 26, 1999, 182-day Treasury Bills have been re-introduced. The Reserve Bank initiated two-way operations in Treasury Bills in February 2000, based on the recommendations of an internal working group. Thirdly, the Reserve Bank continued to increase the PD network by adding six more

PDs, taking the total number to 15. The system of underwriting has been replaced by a system of minimum bidding commitments at the beginning of each year in respect of Treasury Bill auctions, with the minimum bidding commitments of all PDs absorbing more than 100 per cent of the issuance of Treasury Bills. The liquidity support to PDs would now be based on bidding commitments and other parameters. It was further modified during April 2000 to take into account not only the bidding commitment but also the performance in both primary and secondary markets. At the same time, the payment of commissions for Treasury Bills was withdrawn with effect from June 5, 2000, as PDs are no longer required to take devolvements. In case of dated securities, it was decided to accept underwriting from PDs up to 100 per cent of the notified amounts (as against 50.0 per cent so far). PDs were advised to evolve reasonable leverage ratios with the consent of their boards of directors. In view of the differences in the regulations on bank/financial institution (FI)-subsidiary PDs and others, detailed guidelines on internal control systems relating to securities transactions on uniform basis were issued to PDs. Capital adequacy standards are also proposed to be introduced for PDs. The payment date for 14-day Treasury Bills and 91-day Treasury Bill auctions (normally held on Fridays) was changed from Saturday to the next working day as there is no large value clearing on Saturday.

1.24 The Reserve Bank undertook several measures to further facilitate the deregulation and flexibility in interest rates. First, the Reserve Bank allowed banks the freedom to prescribe different prime lending rates (PLRs) for different maturities. Banks were accorded the freedom to charge interest rates without reference to the PLR in case of certain specified loans. Banks may also offer fixed rate term-loans in conformity with the ALM guidelines. Secondly, scheduled commercial banks (excluding regional rural banks), PDs and all-India financial institutions were allowed to undertake forward rate agreements (FRAs)/ interest rate swaps (IRS) for hedging and market making. Corporates and mutual funds were allowed to undertake these transactions for hedging balance sheet exposures. The Reserve Bank would also consider requests for hedging commodity price exposures from Indian corporates in specified products, such as over-the-counter (OTC) futures contracts, based on average prices, categories of options contracts, *etc.* Thirdly, the Reserve Bank allowed the interest rates that are implied in the foreign forward exchange market to be used as an additional benchmark to price rupee interest rate derivatives and facilitate integration between money and foreign exchange markets.

1.25 A Working Group was constituted by the Reserve Bank to explore the possibilities of setting up a Credit Information Bureau in India (Chairman: Shri N.H.Siddiqui). Based on its recommendations and realising the need for development of better institutional mechanisms for sharing of credit related information, the Union Budget 2000-01 announced the establishment of a Credit Information Bureau. The Reserve Bank advised banks and FIs in April 2000 to make necessary in-house arrangements for transmittal of the appropriate information to the Bureau.

1.26 With the passing of the Insurance Regulatory and Development Authority (IRDA) Act, 1999, banks and non-banking financial companies (NBFCs) have been permitted to enter the insurance business. The Reserve Bank issued guidelines in this regard (Box I.3). These are felt necessary in view of the fact that the insurance business does not break-even during the initial years of operation and that the banks and NBFCs do not have adequate actuarial and technical expertise in undertaking insurance business.

1.27 The Reserve Bank issued guidelines to banks for operation of gold deposit schemes. The Reserve Bank also granted in-principle approval for an assaying and hallmarking venture to be set up by the State Bank of India (SBI) as its subsidiary, with equity participation from Allahabad Bank, Corporation Bank, Canara Bank and Credit Suisse Financial Products, London.

1.28 In view of the need for promoting and sustaining financial stability and in the light of the international discussions on transparency practices and standards in different financial sector activities, the Reserve Bank appointed a Standing Committee on International Financial Standards and Codes

Box I.3

Guidelines for Entry of Banks and Non-Banking Financial Companies into Insurance Business

Banks and non-banking financial companies (NBFCs) registered with the Reserve Bank will be permitted to set up joint venture companies for undertaking insurance business with risk participation, subject to safeguards. Such banks, as on March 31, 2000 must satisfy the following criteria, *viz*., i) a net worth of not less than Rs.500 crore, ii) CRAR not less than 10 per cent, iii) a reasonable level of non-performing assets (NPAs), iv) net profit for the last three continuous years and v) a satisfactory track record of the performance of the subsidiaries, if any. NBFCs should possess i) owned funds (as defined in Section 45IA of the 1934 Reserve Bank Act) of not less than Rs.500 crore, ii) CRAR of not less than 12.0 per cent (15.0 per cent in case of NBFCs engaged in loan and investment activities holding public deposits), iii) level of net NPA not more than 5.0 per cent of the total outstanding leased/hire purchase assets and advances taken together, iv) net profit for the last three continuous years, and v) a satisfactory track record of the performance of the subsidiaries, if any and adhere to vi) regulatory compliance and servicing of public deposits held. In case the audited balance sheet for the year ending March 31, 2000 is not available, the unaudited balance sheet for the year ending March 31, 2000 may be considered for reckoning the eligibility criteria. For subsequent years, the eligibility criteria would be reckoned with reference to the latest available audited balance sheet for the previous year. The maximum equity contribution that a bank/NBFC could hold in the joint venture company will normally be 50 per cent of the paid-up capital of the insurance company. On a selective basis, the Reserve Bank may permit a higher equity contribution by a promoter bank/NBFC initially, pending divestment of equity within the prescribed period. Holding of equity by a promoter bank/NBFC in an insurance company or participation in any form in insurance business will be subject to compliance with any rules and regulations laid down by the IRDA/Central Government. This will include compliance with Section 6AA of the Insurance Act as amended by the IRDA Act, 1999, for divestment of equity in excess of 26 per cent of the paid-up capital within a prescribed period of time.

In cases, where a foreign partner contributes 26 per cent of equity with the approval of Insurance Regulatory and Development Authority/Foreign Investment Promotion Board, more than one public sector bank or private sector bank or NBFC may be allowed to participate in the equity of the insurance joint venture. As such participants will also assume insurance risk, only those banks/NBFCs which satisfy the above criteria, would be eligible.

Banks and registered NBFCs, which are not eligible as joint venture participants, as above, can make investments up to 10 per cent of the net worth of the bank and owned funds of the NBFC or Rs.50 crore, whichever is lower, in the insurance company. Such participation shall be treated as investment and should be without any contingent liability for the bank/NBFC. Such banks and NBFCs must satisfy the second, third and fourth clauses of the above eligibility criteria.

All scheduled commercial banks and registered NBFCs with net owned funds of Rs.2 crore, as per the latest audit balance sheet, would be permitted to undertake insurance business as agents of insurance companies on fee basis without any risk participation. The subsidiaries of banks will also be allowed to undertake distribution of insurance products on agency basis. However, a subsidiary of a bank or of another bank will not normally be allowed to join the insurance company on risk participation basis. Banks and NBFCs will not be allowed to conduct such business departmentally.

All banks and NBFCs entering into insurance business will be required to obtain prior approval of the Reserve Bank. The Reserve Bank will give permission to banks and registered NBFCs on case-by-case basis, keeping in view all relevant factors including the position in regard to the level of NPA of the applicant banks/NBFCs so as to ensure that NPAs do not pose any future threat to the bank/NBFC in its present or the proposed line of activity, *i.e.*, insurance business. It should be ensured that risks involved in insurance business do not get transferred to the bank/NBFC and that the banking/NBFC business does not get contaminated by any risks, which may arise from insurance business. There should be 'arms length' relationship between the bank/NBFC and the insurance entity.

(Chairman: Dr. Y.V. Reddy) in order to identify and monitor developments in global standards and codes being evolved and consider the applicability of these standards and codes to the Indian financial system and chalk out a road map for aligning India's standards and practices with international best practices (Box VI.8). The Reserve Bank has already initiated several measures in order to achieve greater transparency in banking operations by closely complying with the Core Principles for effective banking supervision prescribed by the Basel Committee on Banking Supervision. The Reserve Bank issued a self-assessment of the Core Principles in operation in Indian banking.

BANKING SECTOR REFORMS

1.29 In line with the recommendations of the second Narasimham Committee, the Mid-Term Review of the Monetary and Credit Policy of October 1999 announced a gamut of measures to strengthen the banking system. Important measures on strengthening the health of banks included: (i) assigning of risk weight of 2.5 per cent to cover market risk in respect of investments in securities outside the SLR by March 31, 2001 (over and above the existing 100 per cent risk weight) in addition to a similar prescription for Government and other approved securities by March 31, 2000, and (ii) lowering of the exposure ceiling in respect of an individual borrower from 25 per cent of the bank's capital fund to 20 per cent, effective April 1, 2000.

Capital Adequacy and Recapitalisation of Banks

1.30 Out of the 27 public sector banks (PSBs), 26 PSBs achieved the minimum capital to risk assets ratio (CRAR) of 9 per cent by March 2000. Of this, 22 PSBs had CRAR exceeding 10 per cent. To enable the PSBs to operate in a more competitive manner, the Government adopted a policy of providing autonomous status to these banks, subject to certain benchmarks. As at end-March 1999, 17 PSBs became eligible for autonomous status.

1.31 While nationalised banks need to augment their capital base to deal with the changing operational environment, the Government preferred that banks raise capital from the market. To facilitate this, the Government decided to reduce its minimum shareholding to 33 per cent, whilst at the same time, keeping the public sector character of these banks unchanged as well as ensuring that the fresh issues of shares are widely held by the public. The Government also proposed to bring about necessary changes in the legislative provisions to accord flexibility and autonomy to the boards of banks.

1.32 While the Government did not provide any amount towards recapitalisation of PSBs in 1999-2000, it nonetheless provided a sum of Rs.297 crore towards writing down of its investments in the capital base of Vijaya Bank for adjustment of its losses. With this, the cumulative losses written off against capital amounted to Rs.6,334 crore. The reduction in the Government's investments cleans up the balance sheets of the banks concerned and enables them to go for public issues.

1.33 As a move towards consolidated reporting, the Reserve Bank advised banks in April 2000 to voluntarily build-in the risk weighted components of their subsidiaries into their own balance sheets on a notional basis, at par with the risk weights applicable to banks' own assets. Banks are to earmark additional capital in their books over a period of time so as to obviate the possibility of impairment of their net worth when the switch over to a uniform balance sheet for the group as a whole is adopted. The additional capital required may be provided in the banks' books in phases beginning with the year 2000-01.

Prudential Accounting Norms for Banks

1.34 The Reserve Bank persevered with the on-going process of strengthening prudential accounting norms with the objective of improving the financial soundness of banks and to bring them at par with international standards. The Reserve Bank advised PSBs to set up Settlement Advisory Committees (SACs) for timely and speedier settlement of NPAs in the small scale sector, *viz.*, small scale industries, small business including trading and personal segment and the agricultural sector. The guidelines on SACs were aimed at reducing the stock of NPAs by encouraging the banks to go in for compromise settlements in a transparent manner. Since the progress in the recovery of NPAs has not been encouraging, a review of the scheme was undertaken and revised guidelines were issued to PSBs in July 2000 to provide a simplified, non-discriminatory and non-discretionary mechanism for the recovery of the stock of NPAs in all sectors. The guidelines will remain operative till March 2001. Recognising that the high level of NPAs in the PSBs can endanger financial system stability, the Union Budget 2000-01 announced the setting up of seven more Debt Recovery Tribunals (DRTs) for speedy recovery of bad loans. An amendment in the Recovery of Debts Due to Banks and Financial Institutions Act, 1993, was effected to expedite the recovery process.

1.35 Further progress was made in respect of the market valuation of investments in SLR securities by raising the proportion of current investments by 5 percentage points to a minimum of 75 per cent for the year ended March 31, 2000. The proportion has been retained unchanged for the year 2000-01.

Asset Liability Management (ALM) System for Banks and Financial Institutions

1.36 The Reserve Bank advised banks in February 1999 to put in place an ALM system, effective April 1, 1999 and set up internal asset liability management committees (ALCOs) at the top management level to oversee its implementation. Banks were expected to cover at least 60 per cent of their liabilities and assets in the *interim* and 100 per cent of their business by April 1, 2000. The Reserve Bank also released ALM system guidelines in January 2000 for all-India term-lending and refinancing institutions, effective April 1, 2000. As per the guidelines, banks and such institutions were required to prepare statements on liquidity gaps and interest rate sensitivity at specified periodic intervals.

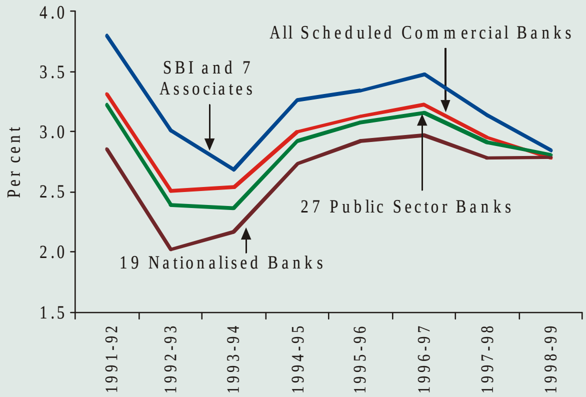
Risk Management Guidelines

1.37 The Reserve Bank issued detailed guidelines for risk management systems in banks in October 1999, encompassing credit, market and operational risks (Box I.4). Banks would put in place loan policies, approved by their boards of directors, covering the methodologies for measurement, monitoring and control of credit risk. The guidelines also require banks to evaluate their portfolios on an on-going basis, rather than at a time close

Box I.4
Risk Management in Indian Banks

Financial liberalisation has ushered in a sea change in the desired role, functions, operations, competitiveness, rules and regulations and external environment faced by financial entities. For example, the removal of market imperfections through the entry of new players resulting in increased competition limits arbitrage opportunities, exerts pressure on margins and reduces the cushion for absorbing losses even as the potential for business losses increases due to higher market volatility. In India, the interest rate spread exhibited a narrowing trend following the deregulation of interest rates since October 1994 with some convergence by 1998-99 (Chart I.1). Simultaneously, an entire spectrum of financial market risks has emerged in day-to-day operations of banks in India, *viz.*, price risks like interest rate risks, liquidity risks like local and cross-currency funding risks, counter-party risks like pre-settlement and settlement risks, in addition to credit risks, posing a threat to banks' operations in the new deregulated environment.

Chart I.1: Net Interest Income as a Share of Total Assets



Price risks arise from adverse movements in interest rates and exchange rates. Consequently, individual banks have to quantify factor sensitivities of each category of financial assets. Managements of banks have, therefore, to set limits on the maximum potential loss that can result from such positions and to provide for action triggers to alert them of such possibilities. Local currency liquidity risks arising from tenor mismatches between assets and liabilities are among the first kind of risks to be systematically addressed in the Indian banking sector through the asset-liability management process. Cross-currency funding risk may arise, varying directly with liquidity. One advantage of a liquid risk weighted assets (RWA) profile is the flexibility that it imparts in managing RWA. A key factor to be kept in mind about RWA is the significance of a particular RWA in the total assets portfolio. For example, the most significant part of RWA is the loans and advances. Therefore, in the management of capital adequacy ratio, both on the asset side and on the liability side, the management of loans and advances needs to be given relatively high importance.

In the liberalised environment, risks would assume considerable significance for the banking sector in India. First, the reforms may involve some initial increase in risks resulting from the increased volatility and uncertain reactions on the part of market players. Second, as margins get squeezed, banks without strong capital bases will be left without adequate cushion against shocks. Third, adequate and systematic risk management will require substantial changes in the methods of operation of banks and retraining of managers and putting in place elaborate and sophisticated Management Information Systems (MIS).

Reference

1. Reserve Bank of India, (1999), *Risk Management Systems in Banks: Guidelines.*

to the balance sheet date. As regards off-balance sheet exposures, the current and potential credit exposures may be measured on a daily basis. Banks were also asked to fix a definite time-frame for moving over to the Value-at-Risk (VaR) and duration approaches for the measurement of interest rate risk. The banks were also advised to evolve detailed policy and operative framework for operational risk management. These guidelines together with ALM guidelines would serve as a benchmark for banks which are yet to establish an integrated risk management system.

Disclosure Norms

1.38 As a move towards greater transparency, banks were directed to disclose the following additional information in the 'Notes to Accounts' in the balance sheets from the accounting year ended March 31, 2000: (i) maturity pattern of loans and advances, investment securities, deposits and borrowings, (ii) foreign currency assets and liabilities, (iii) movements in NPAs and (iv) lending to sensitive sectors as defined by the Reserve Bank from time to time.

Legal Issues

1.39 In the Union Budget Speech 1998-99, the Finance Minister had proposed to set up an expert group to suggest amendments in the key laws governing banking and financial practices. Accordingly, the Government set up an Expert Committee (Chairman: Shri T.R. Andhyarujina) to suggest appropriate amendments in the legal framework affecting the banking sector such as the Transfer of Property Act, foreclosure laws, Stamp Act, Contract Act, Debt Recovery Tribunal Act, *etc*. The Committee has recently submitted its report to the Government. The Reserve Bank is also finalising its views on amendments with regard to certain important issues, such as penal provisions against directors indulging in connected and related lending, foreclosure and bankruptcy, besides broadbasing of certain provisions designed to plug existing lacunae as well as to achieve greater clarity in bank related Acts.

Technological Developments in Banking

1.40 In India, banks as well as other financial entities have entered the domain of information technology and computer networking. A satellite-based Wide Area Network (WAN) would provide a reliable communication framework for the financial sector. The Indian Financial Network (INFINET) was inaugurated in June 1999. It is based on satellite communication using VSAT technology and would enable faster connectivity within the financial sector. The INFINET would serve as the communication backbone of the proposed Integrated Payment and Settlement System (IPSS). The Reserve Bank constituted a National Payments Council (Chairman: Shri S. P. Talwar) in 1999-2000 to focus on the policy parameters for developing an IPSS with a real time gross settlement (RTGS) system as the core.

1.41 With the ultimate goal of designing and developing multiple deferred/discrete net settlement systems and RTGS, facilitating efficient funds management, house-keeping and customer service, the Reserve Bank took a number of steps to improve the infrastructure which include developing a Payments System Generic Architecture Model for both domestic and cross-border payments. The model conceives networking of computerised bank branches, with their controlling offices, central treasury departments and head offices with the provision for introducing standardisation of operating systems and networking platforms within the bank and a bank-level standardised gateway to the INFINET. Progress has also been made towards developing standards for newer payments instruments such as SMART cards.

1.42 The Committee on Technology Upgradation in the Banking Sector (Chairman: Dr. A. Vasudevan), which submitted its report to the Reserve Bank in July 1999, recommended, *inter alia*, a new legislation on the Electronic Funds Transfer (EFT) system to facilitate multiple payment systems to be set up by banks and FIs. Technological upgradation in payments and settlements systems has implications for the conduct of monetary policy. The demand for liquidity at the short end of the market itself depends on the type of settlement system that is in operation. The pricing of resources at the short end of the market also depends on the payments and settlement system in place. The intra-day liquidity requirements would be substantial if the RTGS mechanism is made operational.

Revival of Weak Banks

1.43 The Reserve Bank had set up a Working Group (Chairman: Shri M. S. Verma) to suggest measures for the revival of weak PSBs in February 1999. The Working Group, in its report submitted in October 1999, suggested that an analysis of the performance based on a combination of seven parameters covering three major areas of i) solvency (capital adequacy ratio and coverage ratio), ii) earnings capacity (return on assets and net interest margin) and iii) profitability (operating profit to average working funds, cost to income and staff cost to net interest income plus all other income) could serve as the framework for identifying the weakness of banks. PSBs were, accordingly, classified into three categories depending on whether none, all or some of the seven parameters were met. The Group primarily focussed on restructuring of three banks, *viz*., Indian Bank, UCO Bank and United Bank of India, identified as weak as they did not satisfy any (or most) of the seven parameters. The Group also suggested a two-stage restructuring process, whereby focus would be on restoring competitive efficiency in stage one, with the options of privatisation and/or merger assuming relevance only in stage two.

1.44 The Union Budget 2000-01 announced the setting up of a Financial Restructuring Authority (FRA) in a modified form from the model suggested by the Working Group in respect of any bank which is considered potentially weak. The FRA, comprising experts and professionals, would be given powers to supersede the board of directors on the basis of recommendations of the Reserve Bank. It was announced in the Budget that the Government would consider recapitalisation of weak banks to achieve the prescribed capital adequacy norms, provided a viable restructuring programme acceptable to the Government as the owner and the Reserve Bank as the regulator is made available by the banks concerned. The restructuring plans of the three weak banks are under active consideration.

Deposit Insurance Reforms

1.45 Reforming the deposit insurance system, as observed by the Narasimham Committee (1998), is a crucial component of the present phase of financial sector reforms in India. The Reserve Bank constituted a Working Group (Chairman: Shri Jagdish Capoor) to examine the issue of deposit insurance which submitted its report in October 1999. Some of the major recommendations of the Group are : (i) fixing the capital of the Deposit Insurance and Credit Guarantee Corporation (DICGC) at Rs.500 crore, contributed fully by the Reserve Bank, (ii) withdrawing the function of credit guarantee on loans from DICGC and (iii) risk-based pricing of the deposit insurance premium in lieu of the present flat rate system. A new law, in supercession of the existing enactment, is required to be passed in order to implement the recommendations. The task of preparing the new draft law has been taken up. The relevant proposals in this respect would be forwarded to the Government for consideration.

Rural Credit

1.46 The Reserve Bank advised public sector banks to prepare Special Agricultural Credit Plans (SACPs) on an annual basis. For the financial year 1999-2000, the disbursement to agriculture under the SACPs amounted to Rs.21,913 crore against the projection of Rs.21,308 crore. In response to the Union Budget 1998-99, all scheduled commercial banks were advised in August 1998 to introduce the scheme, formulated by NABARD, for issuance of Kisan Credit Cards (KCCs) to farmers to enable them to readily purchase agricultural inputs and draw cash for their production needs. As on March 31, 2000, 27 PSBs had issued 13.7 lakh KCCs as against the target of 20 lakh KCCs fixed for the year. It is proposed to extend the coverage of KCCs to 75 lakh in 2000-01 as announced in the Union Budget.

1.47 The policy to channelise the shortfall in the priority sector lending by banks into rural infrastructure investment continued during 1999-2000. A Rural Infrastructure Development Fund (RIDF) with a *corpus* of Rs.2,000 crore was constituted at NABARD in April 1995 for advancing loans to State governments and state owned corporations for quick completion of on-going projects relating to medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructure. Subsequently, RIDF – II-V were established between 1996-97 and 1999-2000 (Table 1.1). The Union Budget 2000-01

Table 1.1: RIDF Loans Sanctioned and Disbursed (As at June 2000)

(Amount in Rupees crore)

RIDF	Year of establishment	Corpus	Loans sanctioned	Loans disbursed
1	2	3	4	5
RIDF-I	1995	2,000	1,892	1,691
RIDF-II	1996	2,500	2,601	1,892
RIDF-III	1997	2,500	2,669	1,485
RIDF-IV	1998	3,000	3,114	727
RIDF-V	1999	3,500	3,651	474
RIDF-VI	2000	4,500	460	Nil
Total		**18,000**	**14,386**	**6,269**

Source: National Bank for Agriculture and Rural Development

announced the establishment of RIDF – VI with a *corpus* of Rs.4,500 crore at NABARD and a reduction in the interest rate by 0.5 percentage point. The repayment period for loans under RIDF-V and VI has been extended to 7 years from 5 years earlier with the scope also widened to include lending to *gram panchayats*, self-help groups and other eligible organisations for implementing village level infrastructure projects. The order of disbursal of RIDF funds, as at end-March 2000, however, continued to remain low reflecting the difficulties associated with the identification of appropriate projects by some of the State governments, lack of budgetary support where only part-funding from RIDF was visualised, delays in finalisation of formalities for drawal of funds and in completing the necessary spade work for irrigation projects involving land acquisition and tendering procedures. The state-wise utilisation was uneven. Three States, Uttar Pradesh, Andhra Pradesh and Maharashtra accounted for 37.6 per cent of total disbursements as at end-March 2000. No State had utilised their RIDF sanctions in full.

1.48 A sum of Rs.152.65 crore was expended by the Central Government during 1998-99 to strengthen the capital base of regional rural banks (RRBs). Besides, a budgeted sum of Rs.168 crore was released by the Central Government for restructuring the capital base of select RRBs during 1999-2000. For the year 1999-2000 (July–June), the Reserve Bank renewed a credit limit of Rs.5,700 crore, sanctioned in the previous year, to the National Bank for Agriculture and Rural Development (NABARD) consisting of Rs.4,850 crore under GLC I (for seasonal agricultural operations) and Rs.850 crore under GLC II (for various other approved short-term purposes). In view of the increase in the sanction of credit limit by NABARD to co-operatives and RRBs in general and for meeting the additional requirements of funds on account of the recent cyclone/floods, in Orissa in particular, an additional limit of Rs.400 crore under GLC I was sanctioned in December 1999, at the request of NABARD.

Micro-Finance and Self-Help Groups

1.49 The Micro-credit Special Cell, set up in the Reserve Bank pursuant to the Monetary and Credit Policy announcement in April 1999, submitted its report in January 2000. Meanwhile, the Task Force on Supportive Policy and Regulatory Framework for Micro Finance, set up by NABARD, had also submitted its report. Taking into consideration the broad thrust of these two reports, the Reserve Bank advised banks in February 2000 to mainstream micro-credit and extend the outreach of micro-credit providers. Micro-credit extended either directly or through any intermediary is reckoned as part of banks' priority sector lending. Banks are now free to prescribe their own lending norms. Micro-credit would form an integral part of their corporate credit plan and would be reviewed at the highest level every quarter. In view of its potential in the alleviation of poverty, banks have been advised to make all out efforts for provision of micro-credit.

1.50 The Union Budget 2000-01 announced an additional coverage of one lakh self-help groups (SHGs) during the year by NABARD and SIDBI. To give a further boost to this programme, the Union Budget 2000-01 has also announced the creation of a Micro-Finance Development Fund in NABARD with a start-up capital of Rs.100 crore from the Reserve Bank, NABARD, banks and others. This Fund will provide start-up funds to micro-finance institutions and infrastructure support for training and systems management and data building.

Non-Banking Financial Companies (NBFCs)

1.51 The process of registration of NBFCs is a continuous one. The Reserve Bank (Amendment) Act 1997 had allowed a period of three years to NBFCs which did not have the statutory minimum net owned funds (NoF) of Rs.25 lakh at the commencement of the Act to attain the minimum NoF and thus become eligible for registration. The three-year time period expired on January 9, 2000. Out of 26,938 NBFCs whose NoF was less than Rs.25 lakh as on January 9, 2000, as many as 8,070 NBFCs have reported to have stepped up their NoF to Rs.25 lakh or more, thus becoming eligible for registration. In addition, the Reserve Bank received 2,211 applications for extension of time. As per the provisions in the Act and NBFC Acceptance of Public Deposits (Reserve Bank) Directions, 1998, NBFCs with NoF less than Rs.25 lakh are not entitled to accept fresh public deposits. In the case of new NBFCs, which commence the business of a non-bank financial institution as on or after April 21, 1999, and which seek registration with the Reserve Bank, the requirement of minimum NoF was raised to Rs.2 crore. As on June 30, 2000, the Reserve Bank has granted certificates of registration to 679 companies permitting them to accept public deposits and to 8,451 companies without authorisation for acceptance of public deposits.

1.52 The Monetary and Credit Policy of April 2000 announced a number of measures in respect of the NBFC segment. These include, among others, prescription of guidelines on ALM and risk management, guidelines for their entry into the insurance business and procedures for fixing of interest rates. Considering the heterogeneous size and geographical spread of NBFCs, the Reserve Bank is exploring the possibility of promoting the concept of self regulatory organisations (SRO), particularly among smaller NBFCs, and further improving the disclosure requirements in order to instill confidence in their functioning. The Union Budget 2000-01 proposed to introduce a new bill, which would strengthen the hands of depositors in situations of *malafide* or fraudulent actions of NBFCs.

Financial Institutions: Policy Changes

1.53 The traditional division between banks (as providers of working capital) and FIs (as providers of project finance) is increasingly getting blurred with the deepening of financial reforms and integration of financial markets. There is a need to gradually put in place a regulatory framework which will facilitate eventually the transition to universal banking. The Reserve Bank undertook a number of policy measures during 1999-2000, relating to the prudential regulation and supervision of all India term-lending and refinancing institutions. Effective March 31, 2000, a risk weight of 2.5 per cent was assigned to all securities to cover the market risk over and above the existing 20-100 per cent credit risk weight assigned to different types of securities. The Reserve Bank issued prudential norms relating to the assignment of risk weight, asset classification and provisioning in respect of such take-out financing by FIs. With a view to moving towards the international standards of 15 per cent, the exposure ceiling in respect of all-India term-lending institutions for individual borrowers was reduced from the present level of 25 per cent to 20 per cent of their capital funds, effective April 1, 2000. However, the exposures in excess of 20 per cent existing as on October 31, 1999 are required to be brought down to 20 per cent by end-October 2001. On the resource raising front, all-India financial institutions have also been recently accorded the freedom to determine interest rates on term-deposits. On June 21, 2000, the Reserve Bank also issued a new set of guidelines providing FIs with greater flexibility in resource mobilisation through bond issues.

Capital Market

New Directions of Regulatory Initiatives

1.54 The process of reform in the capital market was carried forward during 1999-2000. In order to ensure better investor protection and transparency in corporate affairs, SEBI accepted the recommendations of the Committee on Corporate Governance (Chairman: Shri K.M. Birla) (Box II.6). A beginning in establishing a code of corporate governance was made by changing the listing norms at the stock exchanges while other recommendations of the Committee are under consideration of various regulatory agencies. Regulations for rating agencies have been framed. In order to promote new entrepreneurs and knowledge-based industries through venture capital route, the SEBI has been made the single point nodal agency in the Union Budget for 2000-01. The SEBI has accepted the recommendations of the Committee on

Venture Capital Fund (Chairman: Shri K.B. Chandrasekhar) and is reviewing its existing guidelines on venture capital (Box V.3). Legal restrictions in respect of derivative trading were removed by enacting the Securities (Amendment) Act, 1999. Two major stock exchanges *viz.*, the Stock Exchange, Mumbai (BSE) and the National Stock Exchange (NSE), commenced trading in stock index futures in June 2000. To protect investor interest, the SEBI framed regulations for collective investment schemes (CIS) as suggested by the Dave Committee. The guidelines stipulate, *inter alia*, higher net worth for collective investment management companies (CIMC), compulsory rating for CISs and prohibit assured return schemes. The SEBI served notices to 23 CISs, which failed to comply with the SEBI guidelines to wind up their operations and repay investors' money.

Primary Market

1.55 The SEBI reduced the minimum public offering of equity for the purpose of initial public offering (IPO) from 25.0 per cent to 10.0 per cent of the post-issue capital for companies in the information technology (IT) sector in August 1999 and, subsequently, for those in the media, telecommunications and entertainment sectors. The companies will be required to make a public offer for at least Rs.50 crore and offer at least 20 lakh securities. In order to ensure that companies do not take undue advantage of relaxed norms for IPOs, it was stipulated that companies in the IT, media, telecommunications and entertainment sectors making IPOs must have track record of distributable profits in three out of five years in these businesses/from these activities. In June 2000, the SEBI decided to tighten the IPO norms by stipulating that companies making IPOs of size up to five times of the pre-issue net worth should either satisfy the track record of profitability and net worth criterion or should adopt the book-building route. Further, any issue size beyond five times the pre-issue net worth would have to take the book-building route. The SEBI also modified the guidelines for the book-building method of floating new capital issues, allowing the issuer to choose either the existing or the modified mode of book-building. The modified guidelines impart greater flexibility in terms of display of demands, price disclosures, allotment to small investors, *etc.* It has resulted in an increasing number of issuers adopting the book-building route in order to reduce transaction costs and for a better price discovery.

Secondary Market

1.56 The SEBI allowed Internet trading through the order routing system, which allows routing of orders from clients to brokers for trade execution on the recognised stock exchanges. In order to shorten the settlement period, the SEBI introduced the rolling settlement system by bringing initially 10 scrips under the compulsory rolling settlement on a T+5 basis with effect from January 10, 2000. Subsequently, more scrips were brought under rolling settlement. Stock exchanges were also permitted to open trading terminals anywhere in the country. In order to improve liquidity in the secondary market, the SEBI accepted the recommendations of Committee on Market Making (Chairman: Shri G.P. Gupta). Market makers would be required to offer two-way quotes in specified shares. The SEBI prescribed eligibility criteria and risk containment measures for automatic lending and borrowing mechanism (ALBM), a quasi-derivative instrument, in line with the carry forward system.

Mutual Funds

1.57 The SEBI modified the investment guidelines for mutual funds (MFs). The new guidelines restrict MFs from investing more than 10 per cent of the net asset value (NAV) of a scheme in shares or share-related instruments of a single entity. The MFs' investments in rated debt instruments of a single issuer was restricted to 15 per cent (up to 20 per cent with prior approval of Board of Trustees and AMC). Restrictions were also put in place in respect of investments in unrated debt instruments and in shares of unlisted companies. The new norms also specified a maximum limit of 25 per cent of NAV of any scheme for investment in listed group companies as against an umbrella limit of 25 per cent of NAV for all schemes taken together earlier. The SEBI also issued a code of conduct restricting MFs from making assurance or claims that could mislead the public.

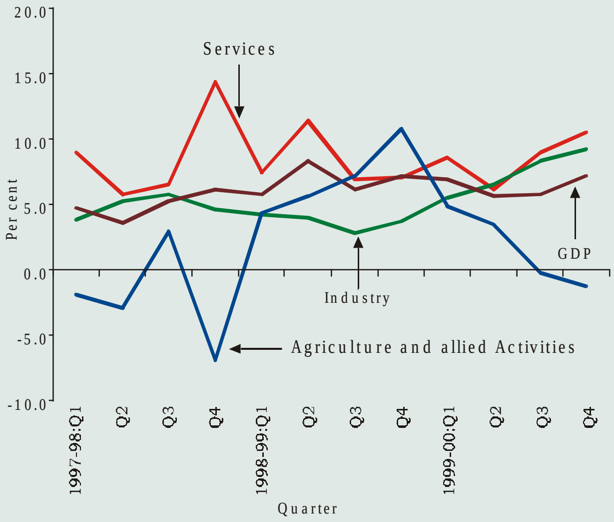
II	THE REAL ECONOMY

MACRO-ECONOMIC SCENE

2.1 The overall economic performance during 1999-2000 remained robust. The real GDP growth of 6.4 per cent, although a shade lower than that of 6.8 per cent in 1998-99, was in line with the average rate for the period 1992-93 to 1999-2000 (Appendix Table II.1). The slowdown in the growth of agriculture and allied activities from 7.2 per cent in 1998-99 to 1.3 per cent in 1999-2000 was compensated by a strong increase in industrial growth from 3.7 per cent to 7.5 per cent and an improvement in the services sector's growth from 8.0 per cent to 8.7 per cent. A number of manufacturing industries staged a recovery, with growth rates in 1999-2000 higher than those in the preceding two years. The growth of the services sector was driven by the higher rates of expansion of 'construction', 'financing, insurance, real estate and business services' segment, especially computer software. Both industry and services showed improvement in 1999-2000 over their respective average growth rates of 7.2 per cent and 7.7 per cent during 1992-93 to 1999-2000.

2.2 Quarterly real GDP growth picked up steadily from 5.7 per cent in the second quarter to 7.2 per cent in the fourth quarter of 1999-2000 (Appendix Table II.2 and Chart II.1). The growth in industry and services rose from 6.6 per cent and 6.2 per cent in the second quarter, respectively, to 9.2 per cent and 10.5 per cent in the fourth quarter. On the other hand, growth in agriculture and allied activities dropped from 3.5 per cent to -1.3 per cent during the same period. In contrast, in 1998-99, the real GDP growth had peaked at 8.3 per cent in the second quarter before moving down to 7.2 per cent in the fourth quarter. While there had been a slowdown in industry and services in the last two quarters, gross value added in agriculture and allied activities had recorded a steady acceleration from 4.3 per cent in the first quarter to 10.8 per cent in the fourth quarter in 1998-99. The quarterly movements in real GDP growth over the period 1997-98 to 1999-2000 indicate that while agricultural growth has shown sharp fluctuations, industry has experienced a clear upturn since the fourth quarter of 1998-99. The quarterly growth of

Chart II.1: Growth Rates of Quarterly Real GDP and Sectoral GDP



services sector has remained fairly robust, averaging 8.6 per cent over the past three years.

2.3 While the share of services in real GDP has increased from 47.9 per cent in 1994-95 to 52.3 per cent in 1999-2000, its relative contribution to growth has moved up even more sharply from 46.5 per cent to 69.1 per cent, mainly attributable to the improved performance of 'trade, hotels and restaurants', 'transport, storage and communication' and 'financing, insurance, real estate and business services' (Box II.1). During the period 1990-91 through 1999-2000, there was growing evidence of intersectoral linkages pointing to an upsurge of industry-related services. In terms of aggregate demand, the basic stimulus to growth emerged from consumption rather than investment. This may be seen from the behaviour of real final consumption expenditure *vis-a-vis* real gross investment. During the period 1994-95 through 1998-99, the average relative contribution of real final consumption expenditure to growth of GDP at constant market prices at 68.7 per cent stood much higher than that of real gross investment at 34.0 per cent. This has important implications for the long-term sustainability of growth. There are, however, indications that growth impulses in recent years have emerged from productivity increases in the economy. A distinct

Box II.1
The Leading Sector of the Economy

The development process of an economy entails the transformation of agrarian economies first into industrial economies and then into economies characterised by the predominance of the services sector. Similar insights can be found in the Lewis model where the dynamics of growth is traced in terms of shifting labour from agriculture to industry. The approach underlying such a shift is also in line with stages-of-growth theories. During each stage of growth, a particular sector serves as an engine of growth and therefore becomes the leading sector of the economy. Cross-country experience suggests that during the course of development of an economy, the leading sector shifts successively from agriculture to industry and then to services, although in many economies the shift to services has been more rapid than suggested in the literature.

The structural shift in favour of the services sector in the Indian economy in recent years bears out the cross-country experience regarding the secular pattern of growth. Though the sectoral composition and growth of GDP originating in the services sector experienced a quantum leap in the 1990s, the trend was nonetheless visible since the early 1980s. The growth of the services sector during the 1990s turned out to be higher than that of the agricultural and industrial sectors and provided a basis for a higher trend growth. The growth impulse emanating from the services sector imparted stability to a higher trajectory of GDP growth in the 1990s notwithstanding episodes of fluctuating agricultural performance. The structural shift of the Indian economy towards the services sector is consistent with the recent world-wide growth dynamics in an environment of increasing marketisation and globalisation on the one hand, and the growth of sunrise services sector, on the other. Moreover, consumption demand of households has been changing in favour of services and the supply response has also been towards greater competition. Endogenous sources of productivity change are also tilting the growth patterns in favour of the services sector.

The services sector constitutes diverse sub-sectors (including substantial value added and skill intensive segments) like 'transport, storage and communication', 'financing, insurance, real estate and business services', and 'community, social and personal services'. The sub-sector, 'financing, insurance, real estate and business services' recorded the fastest growth as well as the highest share in GDP among the various sub-sectors. Within this sub-sector, the segment, 'banking and insurance' was the leading contributor reflecting perhaps the emergence of a strong link between financial liberalisation and growth. 'Trade, hotels, transport, storage and communication' was another sub-sector that registered quantum growth in the recent years. While there had only been a marginal rise in the share of GDP from 'public administration and defence', its growth rate in the 1990s turned out to be lower by 2 percentage points than that of the 1980s.

The emergence of services as the leading sector of the economy in the recent years has generated growing interest in estimation procedures relating to GDP originating from the services sector. In the current series of national accounts, which takes 1993-94 as the base year, the scope and compilation details of various constituent sectors of services has been expanded. For example, the scope of communication services and trade has been broadened to cover private sector as well. However, the absence of reliable benchmark estimates and performance indicators for the private corporate sector remains a major limitation.

The expansion of the services sector has important implications for productivity, employment, welfare, income distribution, trade and for the design and conduct of macroeconomic policies. First, the relatively high growth of services would generally be supported on the supply side by productivity gains in agriculture and industry due to diffusion of technical progress and innovations especially through the use of information technology and computers; on the demand side, there would be shift in real expenditure from manufacturing to services. Secondly, the rising share of services indicates that productivity gains in this sector would have an important bearing on the overall productivity growth of the economy. As large part of services is non-tradable, policy initiatives need to be directed towards increasing competition in this sector. Finally, the growing share of services in real economic activity has important implications for future fiscal policy regime.

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improvement in the total factor productivity at industry levels found by several studies in India is supported by the decline in the incremental capital output ratio (ICOR)[1] for the economy as a whole from 4.4 in 1990-91 to 3.4 in 1998-99. Productivity of the services sector moved up sharply, reflecting its low capital intensity, and the presence of highly professional and technically well trained labour. The greater thrust on infrastructure development, coupled with a build-up of capacity in the 1990s is

1. The actual ICOR is computed as a ratio of real rate of GCF and growth rate of real GDP.

expected to slow down the productivity in the short-run but lead to efficiency gains in the long run associated with forward and backward linkages related with these projects.

2.4 The growth experience of the 1990s raises issues relating to the potential output growth, the output gap and implications for monetary policy. Studies on the recent growth dynamics and structural shifts indicate that the estimates of potential output growth vary widely (Box II.2).

Box II.2

Estimating Potential Output and Output Gap

'Potential output' and 'output gap' provide useful information on the nature, size and amplitude of the cyclical fluctuations in the real economic activity. Potential output represents the 'capacity' output of the economy as is represented by the steady-state level that is associated with the long-run supply curve under full employment conditions. Output gap is derived as the deviation of the actual from the potential output.

Potential output can be estimated by following any of the three methods – the time-series method, the unobserved components method and the technique of structural modelling. The most commonly used are the detrending methods which attempt to decompose time series into permanent and cyclical components through filters, such as those provided by Beveridge and Nelson (1981) and Hodrick and Prescott (1997). Hodrick-Prescott (HP) filter, first developed in 1981, has become the most popular approach to estimating output gaps for its simplicity and statistical properties. The unobserved component method seeks to estimate unobserved variables such as the potential output and the non-accelerating inflation rate of unemployment (NAIRU), using information from observed variables. This method takes the form of a state-space representation in which the unobserved state variable – the potential output - is a function of the observed variables such as output, unemployment and inflation. Structural modelling takes recourse to explicit relationships based on economic theory to measure output gap. Currently, the Structural Vector Autoregression (SVAR) is the most commonly employed approach, though production functions, aggregate demand models and multivariate system models are also used.

Some central banks have in recent years begun to take cognisance of the empirical estimates of potential output and output gap in their reaction functions, which generate policy/instrument settings to fine-tune their monetary policies to cyclical considerations.

While HP filter provides a useful way for detrending, it has its limitations too. The most cited deficiency is the arbitrary choice of the parameter (*viz.*, λ). In most empirical works related to real business cycles, the choice has been for λ=100 for annual frequencies and λ=1600 for monthly frequencies. However, mechanical detrending based on HP filter can lead to spurious cycles. The HP filtered series also suffers from high end-sample biases. More recently, there is a growing awareness that indicators of aggregate capacity utilisation such as the NAIRU or the output gap are measured with considerable margins of uncertainty. Formulating monetary policy under output gap uncertainty using instrument rules, such as the Taylor rule or constrained discretion, poses considerable challenge for monetary authorities. Notwithstanding these limitations, estimates of potential output and output gap using univariate or multivariate HP filters or alternative unobserved components and structural methods have provided useful signals to practitioners of policy.

The output gap is a useful key in gauging future inflation. A positive gap with actual output above (below) its potential leads to overheating (slowdown) of the economy. It is also important to note that in the recent years the economy has been experiencing frequent agricultural shocks with the actual output fluctuating by a large degree from the trend output. Monetary policy reaction to these shocks needs to assess the nature, amplitude and duration of agricultural supply cycles. Moreover, there is also evidence of productivity shocks in the economy which could be in the nature of either one time effects or dynamic improvements in the technical efficiency of various sectors. These factors have significant implications for the potential output growth in the economy although given the present limited information, it is difficult to capture their exact quantitative impact on the estimates of potential output.

Recent exercises conducted in the Indian context through various methodological approaches such as time series techniques, the balanced (optimal) growth and production function approaches have estimated the potential growth rate of the Indian economy to be in the range of 6-10 per cent.

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Saving and Capital Formation

2.5 The rate of gross domestic saving, as per the quick estimates of the Central Statistical Organisation, is estimated at 22.3 per cent in 1998-99, down from 24.7 per cent in 1997-98 (Appendix Table II.3). At the level estimated for 1998-99, the gross domestic saving rate showed a fall of 3.2 percentage points from the peak rate of 25.5 per cent in 1995-96. The decline in the saving rate in 1998-99 was observed across all the three sectors, *viz.*, public, private corporate and household. Fiscal slippages and large deficits in the revenue account of government administration brought down the public sector saving rate from 1.4 per cent in 1997-98 to a very negligible level in 1998-99. The saving rate of the private corporate sector declined from 4.3 per cent in 1997-98 to 3.8 per cent in 1998-99. Household saving rate also recorded a fall from 19.0 per cent in 1997-98 to 18.5 per cent in 1998-99.

2.6 The 1990s was characterised by an improvement in the household financial saving rate from 9.3 per cent in 1990-91 to 10.9 per cent in 1998-99 with a peak rate of 12.0 per cent in 1994-95. On the other hand, a drop in the rate of household physical saving from 11.2 per cent of GDP to 7.6 per cent led to a fall in the overall household saving from 20.5 per cent in 1990-91 to 18.5 per cent in 1998-99 (Table 2.1). The structural phenomenon of financial saving outstripping the physical saving in most years of the 1990s could be attributed to the increased financial intermediation, widening and deepening of the financial system with a large menu of available financial assets as well as the improvement in relative rates of return on financial assets.

2.7 The instrument-wise position of household financial saving attests to the dominance of deposits in the household sector portfolio, its share in total financial saving increasing to 41.8 per cent in 1998-99 from 33.3 per cent in 1990-91 (Appendix Table II.4). The other major portfolio choice of the households has been provident and pension funds whose share at 22.7 per cent in 1998-99 moved up from 18.9 per cent in 1990-91. The share of each of the remaining instruments, with the sole exception of shares and debentures, has hovered around 10.0 per cent of gross financial saving of households during the 1990s.

2.8 On the basis of the latest tentative information available with the Reserve Bank, the rate of household financial saving is estimated at 10.6 per cent in 1999-2000 as against 10.8 per cent in 1998-99. An interesting characteristic was the sharp increase in holdings of assets in the form of shares and debentures.

2.9 The investment rate moved down in tandem with the saving rate. The rate of nominal Gross Capital Formation (GCF) declined from 23.4 per cent in 1997-98 to 21.8 per cent in 1998-99 (Appendix Table II.3). All the constituent sectors revealed reduction in the rates of capital formation. The rate of Gross Domestic Capital Formation (GDCF), i.e., GCF adjusted for errors and omissions, was placed at 23.4 per cent in 1998-99 against 26.2 per cent in 1997-98. The average share of net capital inflow from abroad in the investment rate stayed around 5.7 per cent (or 1.5 per cent of GDP) during the 1990s as compared with 8.8 per cent (or 2.0 per cent of GDP) during the 1980s. Given the relatively low dependence on foreign saving, the primary impetus to investment has come from domestic saving (Box II.3).

Table 2.1: Gross Domestic Saving and Household Saving Rates

Item	1998-99	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91
1	2	3	4	5	6	7	8	9	10
1. Household Saving	18.5	19.0	17.1	18.5	19.8	18.4	17.7	17.7	20.5
1.1. Financial Saving	10.9	10.4	10.4	8.9	12.0	11.0	9.3	10.1	9.3
1.2. Physical Saving	7.6	8.6	6.7	9.6	7.8	7.4	8.4	7.7	11.2
2. Gross Domestic Saving	22.3	24.7	23.3	25.5	25.0	22.5	22.0	22.9	24.3

Note: 1. Figures are as percentage of GDP at current market prices.

2. Figures up to 1992-93 and from 1993-94 to 1998-99 are as per the 1980-81 series and the 1993-94 series of National Accounts Statistics, respectively.

Source: Central Statistical Organisation.

Box II.3

Saving-Investment Gap

An economic entity would have a net deficit in its external transactions when its expenditure exceeds its income or when it saves less than it invests. At an economy-wide level, this indicates the relationship between a country's external current account balance and its domestic saving and investment. Since the determinants of saving (income/wealth, rate of return) differ broadly from that of investment (profitability, risk), they are likely to differ *ex ante*. In a closed economy, domestic saving and domestic investment must be equal *ex post, i.e.*, a rise in saving is invariably reflected in a concomitant rise in investment. However, in an open economy, such *ex post* equality may not hold good, as each country's saving would ideally flow to that part of the world which offers relatively high rates of return. Thus, the increase in domestic saving in an open economy framework may not necessarily result in higher domestic investment and growth, but would be reflected in a larger current account surplus.

Whether a decline in the domestic saving rate should lead to an increase in the saving-investment gap depends on the response of investment. However, if the reduction in the domestic saving rate translates into lower investment rate, the constraint on growth shifts to the saving rate, while capital inflow is independently influenced by conditions in domestic and international capital market. There could thus exist a low correlation between domestic saving and investment rates among developed countries assuming that international capital markets are well integrated. However, contrary to the expectations, high and significant correlation between investment and saving was found using data for a cross section of OECD countries, suggesting imperfect international capital mobility. One implication of this is that investment rates tend to move along with the trends in saving performance and capital inflow has a limited influence on an economy's growth potential. These findings are also buttressed by others for various cross section and time series samples of developed countries. In a developing economy's context, however, capital flows can play a significant role in boosting domestic investment, given the unutilised production potential. A sustained flow of capital would at the same time require sound macro fundamentals including the growth of domestic saving. Evidence also suggests that factors like growth, demographic structure, relative prices, taxes, government behaviour, productivity shocks and other variables might affect saving and investment performance producing a spurious correlation between them.

Gross Domestic Capital Formation (GDCF) has always outstripped Gross Domestic Saving (GDS) in India. The implied dependence on foreign savings (*i.e.*, saving-GDCF gap) was lower in the 1990s as compared to that in the 1980s, indicating an improvement in current account deficit during the 1990s and a commensurate decline in the dependence on foreign saving. Sector wise analysis of saving-investment gaps on the other hand, indicates that the household sector experienced a steady surplus. While both the public and private corporate sectors were in deficit during the 1980s and 1990s, the saving-investment gap of the public sector was higher than that of the private corporate sector.

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PRODUCTION TRENDS

Agriculture

2.10 After having staged a remarkable turnaround during 1998-99, agricultural production suffered some setback during 1999-2000. The crop production index (with base: triennium ending 1981-82 = 100) recorded a decline of 1.3 per cent in 1999-2000 in sharp contrast to a robust growth of 8.2 per cent during the previous year (Appendix Table II.5). However, the output of rice at 88.3 million tonnes and wheat at 74.3 million tonnes registered their record levels. The quantum of foodgrains production increased to 205.9 million tonnes in 1999-2000 from the earlier level of 203.0 million tonnes in 1998-99. There was, on the other hand, a sharp decline in the production of pulses and coarse cereals (Table 2.2). In the non-foodgrains segment, major crops such as oilseeds – particularly groundnut – cotton and tea registered declines in output over their respective levels in the previous year, while sugarcane, jute and mesta recorded a rise in production. Sugarcane output, which has been increasing continuously since 1996-97, has scaled a new peak in 1999-2000. Non-foodgrains output, which had been smoothly increasing in the first half of the 1990s, witnessed a certain degree of fluctuation in the second half of the decade.

2.11 The 1990s witnessed considerable fluctuations in agricultural output, with four years recording a decline in production and the decade ending on a subdued note, yielding

Table 2.2: Agricultural Production

(Million tonnes)

Crop	1999-2000A	1998-99	1997-98
1	2	3	4
All crops: Annual Growth Rate+ (per cent)	-1.3 E	8.2 E	-6.1
Foodgrains	205.9	203.0	192.3
Rice	88.3	86.0	82.5
Wheat	74.3	70.8	66.3
Coarse Cereals	30.4	31.5	30.4
Pulses	13.1	14.8	13.0
Non-Foodgrains			
Oilseeds++	21.2	25.2	21.3
Of which : Groundnut	5.6	9.2	7.4
Sugarcane	309.3	295.7	279.5
Cotton @	12.0	12.2	10.9
Jute and Mesta#	10.6	9.7	11.0
Tea*	805.6	870.4	810.6
Coffee*	292.0	265.0	228.0

E Estimated.

A Advance estimates as on June 29, 2000.

+ Based on the Index of Agricultural Production with base: triennium ending 1981-82=100.

++ For nine oilseeds out of eleven in all.

@ Million bales of 170 kg. each.

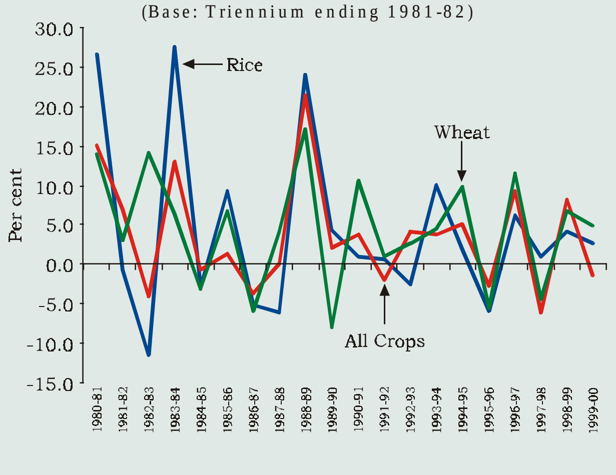
Million bales of 180 kg. each.

* Million kg. and data for tea on a calendar year basis.

an annual trend growth rate of 2.2 per cent as against 3.1 per cent during the 1980s, on the basis of agricultural production index with base: triennium ending 1981-82=100 (Chart II.2).

Chart II.2: Growth Rates in Indices of Agricultural Production

(Base: Triennium ending 1981-82)



2.12 Season-wise, the *kharif* foodgrains production showed a modest rise of 0.5 per cent to 103.9 million tonnes in 1999-2000 from 103.4 million tonnes in 1998-99. The *rabi* foodgrains output attained a record level of production at 102.0 million tonnes to register 2.3 per cent growth over the previous year. The record production of *rabi* foodgrains was facilitated by the new peak attained in wheat output at 74.3 million tonnes. Rice and wheat output scaled new highs, while pulses and oilseeds declined from their respective peaks in 1998-99. The fall in production of coarse cereals (by 1.1 million tonnes) and pulses (by 1.7 million tonnes) was more than compensated by the rise in output of rice (by 2.3 million tonnes) and wheat (by 3.5 million tonnes). The increased rice output is attributable to the record production in West Bengal and Punjab, while the peak level of wheat production is attributable to the record yield levels attained in Punjab and Haryana despite the fall in the area under wheat and drought conditions in some wheat-producing areas of Rajasthan and Madhya Pradesh. The production of pulses witnessed a fall to 13.1 million tonnes in 1999-2000 from 14.8 million tonnes in 1998-99, *i.e.*, a decline of 11.8 per cent. Coarse cereals declined on account of adverse weather conditions in major producing states, *viz.*, Gujarat, Maharashtra, Rajasthan, Andhra Pradesh and Madhya Pradesh.

2.13 The index of non-foodgrains crops (with base: triennium ending 1981-82=100) declined by 4.6 per cent during 1999-2000. Production of nine oilseeds is estimated to have declined on account of a fall in the groundnut crop reflecting severe drought conditions in Gujarat. Almost all the other major oilseeds recorded declines in output during the year, except for linseed. While sugarcane output posted a record level, cotton production suffered marginally due to adverse climatic conditions and diversion of area under cotton to paddy in Punjab. Production of jute and mesta and coffee, however, increased while production of tea fell.

2.14 During 1999-2000, total procurement of foodgrains reached a new peak, recording an increase of 27.0 per cent over that of 24.2 million tonnes in 1998-99 (Appendix Table II.6). The total off-take of rice and wheat during 1999-2000 was moderately high at 21.9 million tonnes compared with 20.7 million tonnes in the previous year. The rise may be attributed to higher off-take under the Open Market Sales Scheme (OMSS), even though the off-take under Targeted Public Distribution System (TPDS) fell by 14.7 per cent. Under the TPDS, introduced in June 1997, a dual pricing system is operative whereby consumers below poverty line (BPL) are supplied with a limited quantity of foodgrains (20 kg. per month per family) at prices which are almost one-half of the central issue price (CIP) fixed for the consumers above poverty line (APL). While off-take by consumers under the BPL category is restricted by quantity stipulation, that for APL consumers is limited by the price. During 1999-2000, the fractional decrease in the off-take under BPL category was accompanied by a substantial fall in the off-take under APL category (20.7 per cent). This decline was compensated through a substantial rise in OMSS and some increase in off-take through Other Welfare Schemes (OWS). The sharp rise in procurement of rice and wheat coupled with a moderate growth in off-take raised the stock of foodgrains to 28.0 million tonnes at the end of March 2000, from 21.7 million tonnes at the end of March 1999. It is important to recognise that foodgrains

Box II.4
Optimal Level of Buffer Stock

Buffer stocking operations in India have been in practice since the Fourth Five Year Plan (1969-74). Their basic objectives have been to insulate food availability from the vagaries of monsoon and thereby to stabilise prices and farm incomes, and contain interregional disparities in the consumption profiles. Buffer stock of foodgrains with public agencies comprise base level stock (lying in storage over various depots in small quantities, or in transit and not available for issue) and food security stock (intended to fill the gap between procurement and distribution in a bad year). Operational stock is maintained for month-to-month distribution. Government sets the norms for optimum stock levels for the four quarters of a year, on the basis of several factors such as procurement season, lean periods and off-take in preceding years. These norms have been progressively raised since the mid-1970s (Table 2.3).

Table 2.3: Buffer Stock Norms

(Million Tonnes)

Date	Fourth Plan	1975	1981	1992	1998
1	2	3	4	5	6
April 1	7.0	15.5-15.8	16.5	14.5	15.8
July 1	7.0	20.2-20.8	21.4	22.3	24.3
October 1	7.0	17.5-18.0	17.8	16.6	18.1
January 1	7.0	16.8-17.5	20.1	15.4	16.8

Notwithstanding the increase in instability in production, the yields in the post-Green Revolution period have been significantly high. Concurrently, public stock of foodgrains has also shown impressive growth over time. The average annual procurement of rice and wheat by the Government agencies increased to 23.3 million tonnes (or 16.2 per cent of total production) during the 1990s from 16.4 million tonnes (or 15.7 per cent of total production) during the 1980s. The level of stock stood at 28.0 million tonnes as at the end of 1999-2000 as against 15.8 million tonnes at the end of 1990-91. The growing level of buffer stock has added to the fiscal burden by raising the level of food subsidy in the Union budget from Rs.2,450 crore in 1990-91 to Rs.9,200 crore in 1999-2000 reflecting the rising cost of procurement, storage and distribution operations. Since 1998-99, stock levels have remained higher than the norms for each quarter.

In view of the current steep rise in buffer stock, an issue has arisen about what could be the optimal level of such stock for the Indian economy. A few estimates that exist for India relate to either the 1970s or the 1980s and no reliable estimates exist for the more recent period. For example, Ray (1987) estimated the optimal level of stock at around 15 to 18 million tonnes. However, he found that buffer stock operations can moderate the excess of price and farm income fluctuations only when the expected growth rates in demand and supply are equal and instability emanates mainly from fluctuating output. Applying the methodology used for fixing public buffer stock norms, Krishnaji (1988) estimated that 13 million tonnes of buffer stock of foodgrains are required for a population of 750 million to ensure food security against an unforeseen shortage in any given year. His estimate was based on a net per capita mean production of 440 gm. per day with a standard deviation of about 30 gm. Assuming that the underlying distribution of foodgrains production is normal, the provision of buffer stock equivalent to 1.6 times the standard deviation from the trend line would provide an adequate cushion against an abnormal shortfall, since the chance of a larger than the suggested deviation is only 5 per cent. Applying the same methodology, the optimal buffer stock for a population of 991 million in 1999 could be higher by 2.5-3.5 million tonnes than the norms currently in operation.

The estimates of optimal buffer stock are generally made from the food security angle, which is the most important objective of buffer stocking operation. Buffer stock also

(Contd......)

(........Concld.)

involves a fiscal cost in the form of food subsidies. While stock piling escalates the costs, associated benefits occur in terms of an increase in saving in the form of physical inventory of commodities. Further, estimation of optimal buffer stock needs to take into account the new developments such as growing liberalisation of agricultural trade, decentralisation and privatisation of food operations and development of the futures market in foodgrains. These factors could have significant implications for the level of optimal buffer stock in India although their empirical evaluation poses a difficult challenge in estimation.

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stock has remained well above the buffer stock norms during 1999-2000, raising the issue of the optimal level of stock (Box II.4).

2.15 Procurement of wheat during the first quarter of 2000-01 reached to a record level of 16.2 million tonnes as compared with 14.1 million tonnes procured during the corresponding quarter of the previous year. The procurement of rice during the same period at 2.0 million tonnes was marginally higher than that of 1.8 million tonnes during the corresponding quarter of 1999-2000. The sharp increase in procurement was due to the bumper wheat crop coupled with the enhancement of Minimum Support Price (MSP). However, the total off-take of rice and wheat at 3.3 million tonnes during April-June 2000 was lower by 17.6 per cent than that of 4.0 million tonnes during the corresponding period of the previous year. The record procurement coupled with the lower off-take resulted in accumulation of stock with the public sector agencies. The stock of rice and wheat, at the end of June 2000 stood at an unprecedented high of 42.3 million tonnes (32.4 million tonnes a year ago) ruling much above the minimum buffer stock norm of 24.3 million tonnes for July 1, 2000.

INDUSTRY

Overall Performance

2.16 Industrial production recovered from a subdued performance in 1998-99 and exhibited a turnaround during 1999-2000, mainly attributable to, *inter alia,* increased exports, higher credit availability, a low inflation rate, a stable rupee and improved business sentiment. The Index of Industrial Production (IIP) increased by 8.1 per cent during 1999-2000 as compared with the rise of 3.8 per cent during the previous year (Appendix Table II.7 and Chart II.3). The recovery was driven by a strong improvement in the manufacturing sector's performance which has a weight of 79.36 per cent in the general index. Manufacturing output recorded a significantly higher growth of 9.2 per cent during 1999-2000 than 4.1 per cent in the previous year. The IIP grew by 5.4 per cent in first quarter of 2000-01 as compared with 5.7 per cent in the corresponding period of the previous year. The manufacturing sector recorded a lower growth of 5.5 per cent in the first quarter of 2000-01 than 6.7 per cent in the first quarter of 1999-2000.

Chart II.3: Monthly Growth Rates of Index of Industrial Production

(Base: 1993-94)

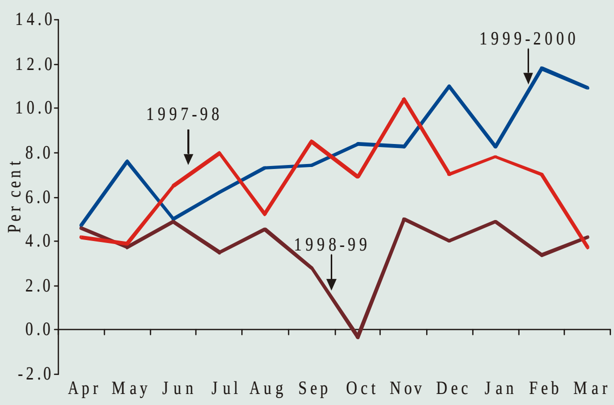
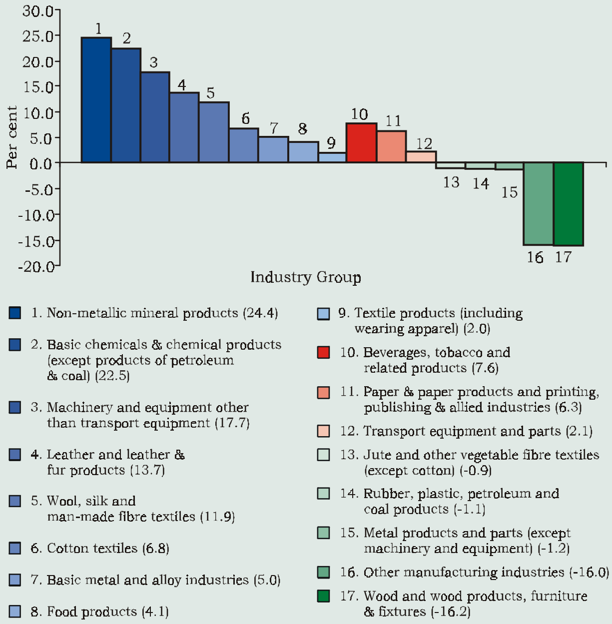


Chart II.4: Growth in Index of Seventeen Major Groups of Manufacturing Sector during 1999-2000

(Base : 1993-94)



Note: Figures in brackets represent growth rates.

Manufacturing Sector

2.17 There has been a broad-based recovery in the manufacturing sector in 1999-2000 (Appendix Table II.8). Twelve of the seventeen groups at the two-digit level industrial classification showed positive growth during 1999-2000 (Chart II.4). During 1999-2000, nine major industry groups (55.96 per cent weight in IIP) registered accelerated growth rates, three groups (9.01 per cent weight in IIP) posted decelerated growth and the remaining five groups (14.39 per cent weight in IIP) recorded declines. The pattern of growth also showed some variation. Some of the industry groups which had shown accelerated growth in 1998-99 registered declines/slow down in 1999-2000. Notable among these were metal products and parts and the group rubber, plastic, petroleum and coal products. The industry groups which performed exceedingly well in 1999-2000, were those that had not performed well in the preceding year. Nevertheless, the number of groups which have shown acceleration have not only increased from seven to nine, but their combined weights in IIP have also doubled to 56 per cent in 1999-2000 from 28 per cent in 1998-99.

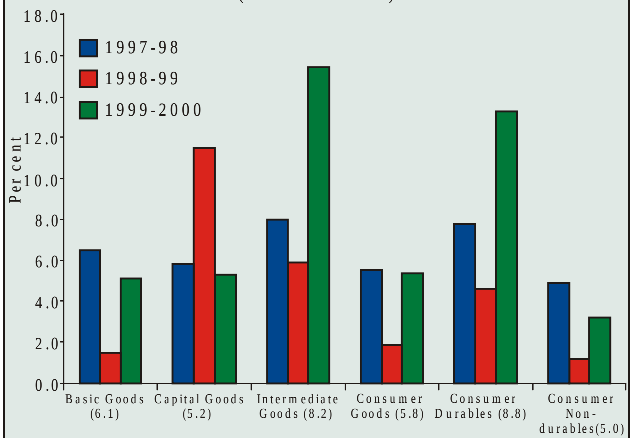
2.18 The analysis of growth rates of output of major industry groups for the period 1994-95 to 1999-2000, for which the new series of IIP is available, shows that five groups, *viz.*, (i) beverages, tobacco and related products, (ii) wool, silk and man-made fibre textiles, (iii) paper and paper products and printing, publishing and allied industries, (iv) basic chemicals and chemical products (except products of petroleum and coal), and (v) non-metallic mineral products have consistently witnessed growth rates above 5 per cent for at least 5 out of 6 years (Appendix Table II.9). In the first quarter of 2000-01, however, the growth of these industry groups except the chemicals group decelerated below 5 per cent.

Use-based Classification

2.19 The use-based classification of industrial output indicates a pattern of growth wherein intermediate goods led the recovery showing a growth of 15.4 per cent during 1999-2000 as against 5.9 per cent during 1998-99, while capital goods recorded a major slowdown to 5.4 per cent from 11.5 per cent (Appendix Table II.10 and Chart II.5). The latter reflects sluggish investment demand. On the other hand, basic goods and consumer goods sectors registered a moderate though higher growth of 5.1 per cent and 5.4 per cent, respectively, during 1999-2000 as compared with 1.5 per cent and 1.9 per cent during the preceding year. Within the consumer goods sector, the production of consumer durables accelerated sharply to 13.3 per cent from 4.6 per cent in the previous year.

Chart II.5: Growth in Index of Industrial Production as per Use-based Classification

(Base : 1993-94)



Note: Figures in brackets indicate growth rates in the 1990s.

The contribution of the two leading sectors, *viz*., intermediate goods sector (weight being 26.44 per cent in the IIP) and basic goods sector (weight being 35.51 per cent) increased to 53.5 per cent and 20.7 per cent, respectively, during 1999-2000 from 43.6 per cent and 13.0 per cent during 1998-99. The contribution of the consumer goods sector (weight being 28.36 per cent) improved to 18.7 per cent during 1999-2000 from 14.3 per cent in 1998-99.

2.20 The slump in the capital goods sector's growth brought down its share in overall IIP growth to 6.7 per cent during 1999-2000 from 28.8 per cent during 1998-99. The experience since 1992-93 reveals that excepting in three years (1994-95, 1996-97 and 1998-99), growth in capital goods production remained lower than the overall industrial growth. Although the weight of the capital goods sector in the IIP is relatively low (9.69 per cent), it has crucial importance as a leading sector with substantial forward linkage. Any deceleration of output of this sector would be reflected on the growth of production capacity and future prospect of industrial growth. Since 1992-93, import substitutes have also been a major source of supplement to domestic supply of capital goods output (Table 2.4).

2.21 During April-June 2000-01, basic goods and consumer goods sectors registered higher growth rates of 5.5 per cent and 8.5 per cent, respectively, in comparison with 3.3 per cent and 2.1 per cent respectively during the corresponding period of the previous year. However, capital goods sector showed no growth in April-June 2000-01 as against 10.6 per cent in April-June 1999-2000. Intermediate goods sector also registered a lower growth of 4.0 per cent in April-June 2000-01 than 10.5 per cent during April-June 1999-2000.

Table 2.4: Trends in the Growth of IIP and Production and Import of Capital Goods

(Per cent)

Year	IIP	Capital Goods Production	Capital Goods Imports
1	2	3	4
1992-93	2.3	– 0.1	7.1
1993-94	6.0	– 4.1	37.8
1994-95	8.9	9.2	22.4
1995-96	13.1	5.4	35.2
1996-97	6.1	11.4	– 4.0
1997-98	6.6	5.8	– 1.3
1998-99	3.8	11.5	2.7
1999-2000P	8.1	5.4	– 19.8
Annual Average	**6.9**	**5.6**	**10.0**

P Provisional.

2.22 There has been a marked improvement in the performance of the infrastructure sector during 1999-2000 as the composite index of six infrastructure industries (weight being 26.68 per cent of IIP) grew at a rate of 8.7 per cent as against 2.8 per cent in 1998-99. Petroleum refinery products, steel and cement achieved noteworthy growth rates of 25.2 per cent, 13.6 per cent and 14.0 per cent, respectively, in 1999-2000 as compared with 5.2 per cent, 1.4 per cent and 5.7 per cent in 1998-99. Electricity recorded only a marginally high growth of 7.1 per cent in 1999-2000 as against 6.6 per cent in 1998-99. Coal and crude petroleum, however, recorded low and negative growth, respectively, in 1999-2000 (Appendix Table II.11). Of the ten infrastructure industries, (including those not covered in the IIP), performance of five exceeded their targets during 1999-2000 as against one during 1998-99 (Table 2.5). Telecommunications recorded a substantially high growth of 40.2 per cent during 1999-2000 as against the growth of 36.1 per cent in 1998-99.

2.23 During the first quarter of 2000-01, the overall growth rate of infrastructure industries was higher at 8.0 per cent as compared with 7.1 per cent in the corresponding period of the previous year. During this period, petroleum refinery products registered the highest growth of 34.5 per cent as against 15.4 per cent in the corresponding period of the previous year. Production of coal recorded a substantially high growth of 11.4 per cent during April-June 2000-01 than the decline of 3.1 per cent during April-June 1999-2000. Steel recorded a growth of 11.5 per cent on top of 12.7 per cent recorded for the first quarter of 1999-2000. However, production of crude petroleum declined by 2.5 per cent on top of a decline of 0.3 per cent in the previous year. In the case of cement production, there was a sharp deceleration in growth to 3.9 per

Table 2.5: Targets and Achievements of Infrastructure Industries

Sector	Unit	1999-2000 P			1998-99		
		Target	Achievement	Gap (%)	Target	Achievement	Gap (%)
1	2	3	4	5	6	7	8
1. Power	Billion Units	469.00	480.01	2.3	450.00	448.37	– 0.4
2. Coal	Million Tonnes	298.90	298.98	0.0	306.50	290.15	– 5.3
3. Finished Steel	Thousand Tonnes	12334.00	11388.80	– 7.7	12321.00	10101.30	– 18.0
4. Railways +	Million Tonnes	450.00	456.31	1.4	424.00	420.92	– 0.7
5. Shipping @	Million Tonnes	258.00	271.87	5.4	258.00	251.72	– 2.4
6. Telecommunications #	Thousand Lines	5870.00	6717.32	14.4	4930.00	4789.90	– 2.8
7. Fertilisers	Thousand Tonnes	14412.30	14273.90	– 1.0	13709.10	13620.70	– 0.6
8. Cement	Million Tonnes	94.00	100.24	6.6	90.50	87.91	– 2.9
9. Petroleum Crude	Million Tonnes	33.02	32.01	– 3.1	34.72	32.72	– 5.8
10. Petroleum Refinery Products	Million Tonnes	96.87	85.89	– 11.3	67.86	68.54	1.0

P Provisional.
\+ Revenue earning freight traffic.
@ Cargo handled at major ports.
\# Net switching capacity added.

Source: Ministry of Planning and Programme Implementation, Government of India.

cent from 21.1 per cent in the corresponding period of the previous year.

Industrial Recovery and its Sustainability

2.24 The annual trends in industrial growth showed a cyclical pattern with a general upturn during 1992-93 to 1995-96 being followed by a downturn during the first three quarters of 1996-97. Industrial growth picked up over the next ten months; however, this could not be sustained thereafter and it was only in 1999-2000 that the industrial recovery set in. The monthly growth rate of IIP reveals that industrial growth picked up to a range of 4.7 to 11.8 per cent in 1999-2000 from -0.3 to 5 per cent in 1998-99 (Chart II.3). The financial health of firms also recorded recovery during 1999-2000; sales and gross profits of 916 non-financial public limited companies increased by 15.4 per cent and 20.8 per cent, respectively, during 1999-2000 as against 8.6 per cent and 0.8 per cent, respectively, for

Box II.5
Sustainability of Industrial Recovery

The issue of sustainability of industrial recovery needs to be analysed in a business cycle framework assessing each cycle from the points of view of its duration, amplitude, and causes. Factors like random impulses, technological innovations, investments and expectations can usher in recovery while demand and supply imbalances that emerge at a macro level can cause a slowdown. The cyclicity in industrial output in the Indian economy in the recent years seems to result from an interplay of a host of demand and supply factors, some of which are internal to the growing sophistication of the industrial sector and its structural orientation in an increasingly open environment and some to the cyclical demand pattern arising from external demand and changing dynamics of private and public demand.

The sustainability of the recent industrial recovery in India can be empirically examined through time series analysis and leading indicator approach. As the IIP series essentially exhibited non-stationarity, the method suggested by Beveridge and Nelson (1981) has been adopted to study the dynamics of industrial growth. After de-seasonalising the monthly data on IIP from March 1980 to March 2000, the series was decomposed into permanent and transitory components on the basis of forecast function estimated for the period April 1989 to March 2000. The permanent component of the IIP denotes the value the series would have on the long-run path in the current time period without any transitory disturbances. The behaviour of the growth rates of actual and permanent components of output over this period suggested that the permanent component has picked up at a faster rate than the actual growth rate in recent years indicating an increase in the output gap in the industrial sector (Chart II.6).

The spectral density function of cyclical series showed that

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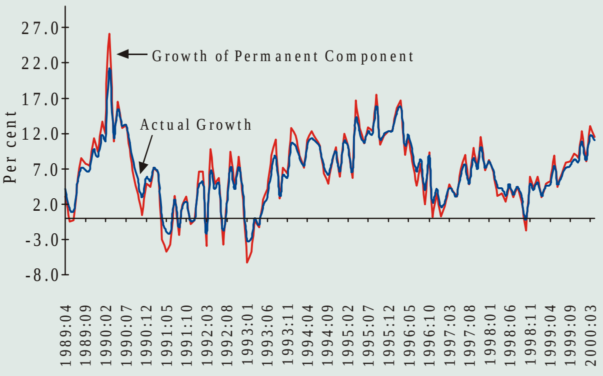
Chart II.6: Beveridge-Nelson's Decomposition of Growth Rate of Industrial Production*



* Actual Growth and Growth of Permanent Components are based on de-seasonalised data.

the duration of the upward trend could be about two years without any intervening shocks. Reform initiatives that focus on technological and institutional improvements play an important role in sustaining industrial recovery and in raising the permanent component of output.

The leading indicator approach provides clues for an understanding of the stages of the current business cycle. Different countries use different leading indicators, such as the average work week, the index of overtime hours, the applications for unemployment compensation, the new companies registered, the new orders, the vendor performance, the index of consumer expectations, and such data as stock prices, money supply and prices of sensitive metals to identify the turning points of business cycle and their capability to post the beginning of a new cycle. While data limitations are serious in the Indian case, some recent research studies in the Indian context show that non-food credit and currency with the public could provide leading information on the IIP at the time of the peak of the cycle, while currency with the public and imports could be leading indicators of IIP at the time of the trough. Yet another way to pick up the future prospects is to conduct periodic surveys of business sentiment such as the NCAER's business confidence index. In its April 2000 estimates it had reported optimism regarding the prospects of a speedier recovery. However, in the July 2000 estimates, NCAER has projected a cautious outlook for the next few months. Moreover, the subdued level of investment activity as revealed by the drop in investment rates, slow-down in domestic capital goods production and fall in capital goods imports, remain a cause for concern. The lower growth of agriculture in 1999-2000 may also have an impact on effective demand for industrial goods. In the medium run, however, sustainability of industrial recovery will depend on the growth of investment demand, the supply elasticities, trading environment and strengthening of reforms to improve competitiveness.

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1,248 such companies during 1998-99. Foreign investment flows also increased significantly during 1999-2000. The implication of the typical cyclical dynamics of industrial output is related to the issue of sustainability of industrial recovery (Box II.5).

2.25 The Union Budget for 2000-01 has introduced a number of initiatives to support industrial recovery. These include increase in Foreign Institutional Investors' (FIIs) equity holding limits, simplification of tax procedures like the design of Central Value Added Tax (CENVAT), withdrawal of interest tax on financial institutions, incentives for infrastructure industries, venture capital funds, IT industries and housing, reduction of interest on small savings, *etc*. Further, the EXIM Policy 2000 has proposed establishment of Special Economic Zones, removal of quantitative restrictions, extension of Export Promotion Capital Goods Scheme uniformly to all sectors and to all capital goods with a view to accelerating exports.

Mergers and Acquisitions (M & A)

2.26 In a competitive environment, M & A are gaining increasing importance as a way of improving competitiveness and allocative efficiency. This process has gained momentum since 1994 when the need for formulating a new take-over code was felt by the regulating agencies. Many firms are seriously re-examining their business portfolios and the stronger and dominant ones are restructuring their entire gamut of activities. There is now a discernible trend among promoters and established corporate groups towards consolidation of market shares, diversification into new areas, *albeit* in a limited way and concentration on core competencies through mergers and acquisitions. M&A deals worth over Rs. 16,000 crore were reported during 1998-99. During 1999-2000, the magnitude of M&A deals surged to around Rs.37,000 crore. The sectors which witnessed substantial mergers and open offers during the year were finance, chemicals, computer software, hotels, cement, pharmaceuticals, textiles and agricultural products.

2.27 With the increasing scope for expansion and the rising global operations brought about by mergers and acquisitions, the need for a sound corporate governance system in the industrial sector has become critical for gaining investor confidence. In this context, it may be noted that internationally the best practices and codes of corporate governance, evolved by the OECD and World Bank, are being widely discussed and examined with a view to adopting them at the national level. In India, the Securities and Exchange Board of India (SEBI) took the lead in appointing a Committee on Corporate Governance under the Chairmanship of Shri Kumar Mangalam Birla in May 1999 and the Committee submitted its report in February 2000 (Box II.6). The Committee recommended a number of measures relating to investor protection and greater transparency in management and disclosure in accounting practices. These are being implemented in a phased manner.

Box II.6
Corporate Governance in Industry

Ownership and management are generally separate in case of most of the modern corporate entities but are traditionally linked within a principal-agent framework. Shareholders, being the principal, appoint managers as their agents and the agents, in turn, are ideally accountable to the shareholders for their performance. In reality, however, there may be a conflict of interest between them. It would be generally difficult to have effective control over the management, particularly when shareholders are thinly spread and hold shares of the companies as financial assets, rather than exercise their ownership rights. On the other hand, the role of managers may get undermined in instances of concentration of ownership and large-scale cross-holdings of shares across companies thwarting competition and efficiency. Corporate governance, which is the system by which companies are directed and controlled, aims at resolving such possible conflict of interests. It specifies the distribution of rights and responsibilities among different participants in a company and spells out the rules and procedures for making decisions on the company's affairs. A sound corporate governance culture enforces better discipline upon corporate management and ensures maximum value to the shareholders, keeping in view the interests of other stakeholders, such as creditors, customers, employees and above all, the society at large.

The issues relating to corporate governance are many and diverse and are evolving over time and space with the changing corporate practices across nations and cultures. There has been a growing international focus on corporate governance, particularly, in the wake of the recent global economic crises involving East Asia, Japan, Russia and Latin America. Several committees have been set up in various countries to suggest ways and means to improve the corporate governance system. Notable among the reports that appeared on the subject are: (i) the Report of the Cadbury Committee of the UK, (ii) the Combined Code of the London Stock Exchange, (iii) the OECD Code on Corporate Governance, and (iv) the Blue Ribbon Committee on Corporate Governance in the USA.

In India, the issue of corporate governance has come up mainly in the wake of economic liberalisation and deregulation of industry and business. There has been a growing concern about good corporate governance in the corporate sector especially in the light of corporate failures, financial irregularities and lack of adequate management accountability. In the financial sector, substantial progress has been made in strengthening governance in the banks and other financial institutions by designing and implementing international prudential norms and setting up the regulatory and supervisory system. In the corporate sector, the Confederation of Indian Industry (CII) had released the Desirable Corporate Governance Code in April 1998 containing recommendations regarding the composition of the board of directors, levels of corporate disclosure, role of audit committees and other related matters and enhancing corporate transparency and responsibility.

The Securities and Exchange Board of India (SEBI) Committee on Corporate Governance (Chairman: Shri Kumar Mangalam Birla) submitted its final report in February 2000. The Committee has viewed the fundamental objective of corporate governance as the enhancement of shareholder value, keeping in view the interests of the other stakeholders. It has identified three key constituents of corporate governance as the shareholders, the board of directors and the management and delineated their roles, responsibilities and rights. The Committee has made wide-ranging recommendations pertaining to, *inter alia*, the composition of the board of directors of the company, the appointment of nominee directors by banks and financial institutions, the role of independent directors, the setting up of an audit committee and a remuneration committee, the stipulation of accounting standards and financial reporting, the levels of disclosure relating to important financial and commercial transactions and the shareholders' rights. The recommendations are being made applicable by SEBI in phases to all the listed companies, their directors,

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management, employees and professionals associated with such companies. The recommendations have been divided into mandatory and non-mandatory categories.

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Small-Scale Industries

2.28 Development of the small-scale sector has been an important plank of India's industrial policy. The various promotional policy measures adopted by the Government to strengthen the importance of this sector in the economy have enabled SSIs to increase their production by more than ten-fold and the employment to rise by over four times during the period 1973-74 to 1998-99. The total number of units in the SSI sector increased to 31.21 lakh in 1998-99 from 30.14 lakh in 1997-98 with the growth in the value of production (at current prices) of these units moving up to 13.4 per cent from 12.7 per cent. However, employment in the SSI sector has decelerated to 2.6 per cent in 1998-99 from 4.5 per cent in 1997-98. Exports from SSI have decelerated to 11.4 per cent in 1998-99 from 13.2 per cent in the preceding year. Against the target of 60 per cent credit flow to the tiny sector, the actual share of the tiny sector in the advances to SSI sector decreased from 27.0 per cent at the end of March 1998 to 20.7 per cent at the end of March 1999. The Central Government, in December 1999, redefined a SSI unit as an industrial undertaking in which investment in plant and machinery whether held on ownership terms or on lease/hire-purchase basis does not exceed Rs.10 million, as against Rs.30 million earlier.

2.29 In the context of growing domestic and international competition, strengthening the SSI sector through special promotional policies has assumed considerable importance. Several efforts have been made in the past to enhance the flow of credit to small-scale industries. Credit to small-scale sector constitutes a part of the priority sector credit of commercial banks. SIDBI as an apex financing institution provides refinance for various types of activities. Following the announcements made by the Union Budget 2000-01 in respect of the SSI sector, the Reserve Bank in its monetary and credit policy 2000-01 has raised the loan limit for the tiny sector from Rs.1 lakh to Rs.5 lakh for which no collateral would be required. To promote credit flow to small borrowers, the composite loan limit (for providing working capital and term loans through a single window) has been increased from Rs.5 lakh to Rs.10 lakh. Public sector banks have been advised to accelerate their programme of SSI branches to ensure that every district and SSI clusters within districts are served by at least one specialised SSI bank branch. To improve the quality of banking services, SSI branches are being asked by the Central Government to obtain ISO certification. After the announcement of a credit guarantee scheme for SSI in the previous year's Union Budget, the Government has formulated a new central scheme for this purpose and also made a provision for Rs.100 crore in the Union Budget for 2000-01. The scheme is proposed to be implemented through SIDBI and would cover loans up to Rs.10 lakh from the banking sector. The guaranteed loans would be securitised and tradable in the secondary debt market. Furthermore, under the National Equity Fund Scheme, the equity support which is provided for projects up to Rs.15 lakh has been increased to Rs.25 lakh. The operation of the Technology Development Modernisation Fund Scheme being presently administered by SIDBI has been extended by another 3 years. As announced in the Budget Speech for the year 2000-01, NABARD and SIDBI are expected to cover an additional 1 lakh Self-Help Groups (SHGs) during the current year. To give a further boost to this programme, the Reserve Bank in its monetary and credit policy for 2000-01 has proposed the creation of a micro-finance development fund at NABARD with a start-up contribution of Rs. 100 crore from the institutions concerned. This fund will provide start-up funds to micro-finance institutions and infrastructure support for training and system management and data building.

2.30 An important challenge in the context of industrial restructuring relates to the growing number of sick/weak units. As per the provisional data, the total number of sick/weak units financed by scheduled commercial banks increased to 3,09,013 as at end-March 1999 from 2,24,012 as at end-March 1998. The SSI sick units constitute 99 per cent of total number of sick/weak units. They accounted for 22.2 per cent of the total outstanding bank credit, whereas the non-SSI sick/weak units, which constitute 1.0 per cent of total units, account for as high as 77.8 per cent of the outstanding bank credit. Of the total number of non-SSI sick/weak units, 84.7 per cent are in the private sector accounting for 75.9 per cent of credit. Among the non-SSI sick/weak units, the highest number of units are in the textiles sector, followed by chemicals and engineering. These three industries accounted for around 36 per cent of the non-SSI sick/weak units and over 38 per cent of the total outstanding bank credit to these units. As at the end of March 1999, there was an overall increase of 28.1 per cent in the outstanding bank credit to non-SSI sick/weak units over the previous year.

III MONEY, CREDIT AND PRICES

3.1 Monetary policy during 1999-2000 attempted to ensure that all legitimate requirements for bank credit were met while guarding against any emergence of inflationary pressures. During the year as a whole, broad money (M_3) grew by 13.9 per cent, which was substantially below the long-run average of a little over 17.0 per cent. Scheduled commercial banks' non-food credit off-take picked up to record 16.5 per cent in support of industrial recovery. At the same time, long-term interest rates eased significantly.

MONETARY SURVEY

3.2 M_3 increased by 13.9 per cent (Rs.1,36,182 crore) during 1999-2000 as compared with the growth of 19.4 per cent in 1998-99 (Table 3.1). Net of Resurgent India Bonds (RIBs), the M_3 growth rate worked out to 14.1 per cent during 1999-2000 as compared with 17.3 per cent during 1998-99.

3.3 Monetary aggregates as at end-March are compiled on the basis of data pertaining to the Reserve Bank as on March 31 (*i.e.*, the last working day of the fiscal year) and scheduled commercial banks as on the last reporting Friday of the year. However, in 1999-2000, with the lag between the last reporting Friday of March (*i.e.*, March 24, 2000) and March 31, widening to one full week, the year-end balance sheet adjustments, such as interest rate applications and credit disbursals, were large. For instance, scheduled commercial bank deposits increased by Rs.28,623 crore between

Table 3.1: Monetary Flows

(Per cent)

Variable	Point-to-point basis			Monthly Average basis		
	1999-2000	1998-99	Average during 1990s	1999-2000	1998-99	Average during 1990s
1	2	3	4	5	6	7
I. Reserve Money	**8.1**	**14.6**	**13.9**	**11.9**	**12.2**	**14.4**
II. Narrow Money (M_1)	**10.2**	**15.4**	**15.6**	**14.7**	**12.5**	**15.9**
III. Broad Money (M_3)	**13.9**	**19.4**	**17.2**	**17.1**	**19.7**	**17.4**
III.1 M_3, net of RIBs	14.1	17.3		16.6	18.2	
III.2 NM_3	14.5	18.0	16.6	17.1	18.5	16.8
IV. Select Components of Broad Money						
a) Currency with the Public	11.7	16.1	15.1	16.3	11.7	15.9
b) Aggregate Deposits (i+ii)	14.5	20.2	17.6	17.3	21.9	17.6
i) Demand Deposits	9.1	14.9	16.3	13.0	14.6	15.8
ii) Time Deposits	15.6	21.4	18.0	18.2	23.3	18.2
V. Select Sources of Broad Money						
a) Net Bank Credit to Government (i+ii)	14.2	17.0	14.2	15.1	18.0	14.6
i) Net Reserve Bank Credit to Government	-2.8	12.9	7.5	5.3	18.7	8.9
Of which: to Centre	-3.8	8.8	7.1	4.3	18.2	8.8
ii) Other Banks' Credit to Government	25.3	19.8	21.2	21.6	17.8	21.1
b) Bank Credit to Commercial Sector	16.6	14.5	14.4	16.1	15.0	14.3
Of which:						
Scheduled Commercial Banks' Non-food Credit	16.5	13.0	15.4	15.4	14.4	15.3
c) Net Foreign Exchange Assets of the Banking Sector	15.6	28.8	44.7	21.1	31.2	46.4

Data are provisional.

March 24-31, 2000 as compared with Rs.11,526 crore between March 26-31, 1999. The year-end bulge in deposits usually results in a degree of overestimation of monetary growth, given the fact that a large part of such deposits, especially demand deposits are, in general, drained out of the banking system in April and May (Table 3.2). The exclusion of such outliers from monetary statistics would provide a more accurate picture of monetary growth. The aberrations that such point estimates could bring about could be somewhat obviated by averaging the monthly year-on-year M_3 growth rates in line with the recommendations of the Working Group on Money Supply (1998). The monthly average year-on-year M_3 (net of RIBs) growth rate worked out to 16.6 per cent during 1999-2000 as compared with 18.2 per cent during 1998-99.

3.4 The year-on-year M_3 growth rate jumped in August 1998 due to inflows on account of RIBs and correspondingly dipped in August 1999 (Chart III.1). If RIBs are not directly reckoned in broad money in line with the residency criterion recommended by the Working Group, the month-end year-on-year M_3 growth rate would turn out to be broadly stable throughout 1999-2000. Monetary growth was mainly driven by the accretion to primary liquidity during the first half of the year and the increase in the M_3 multiplier resulting from the reduction in cash reserve requirements during the second half of the year. The increase

Table 3.2: Scheduled Commercial Banks' Deposits and Credit: Year-end Positions

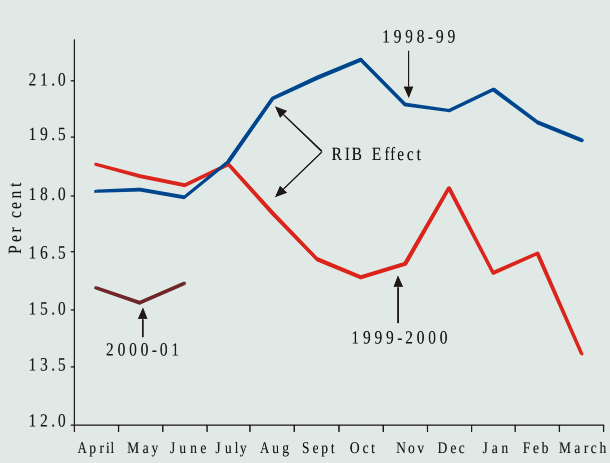
(Rupees crore)

Variable	March 24, 2000 over March 10, 2000	March 31, 2000 over March 24, 2000	April 21, 2000 over March 31, 2000	May 19, 2000 over April 21, 2000
1	2	3	4	5
Demand Deposits				
1999-2000	4,294	9,093	-5,753	-4,458
1998-99 #	14,561	5,929	-13,517	-2,160
Non-food Credit				
1999-2000	8,155	14,372	-3,287	-8,610
1998-99 #	13,513	6,387	-9,610	-3,409

Corresponding position during 1998-99.

Note: Data are provisional.

Chart III.1: M_3 Year-on-year Growth Rate



in reserve money during 1999-2000 essentially emanated from a steady accretion to the Reserve Bank's net foreign assets (NFA) for the larger part of the year. Although the Reserve Bank's NFA declined during June-October 1999, the resultant contractionary effect was largely offset by an increase in the Reserve Bank's domestic credit, especially to banks and primary dealers. The growth in net bank credit to the government sector, which had been a major factor in intra-year fluctuations in M_3 growth in the recent past, remained subdued in 1999-2000, reflecting the Reserve Bank's liquidity management operations. The expectations of a spurt in transactions demand on account of the Year 2000 transition did not, however, materialise.

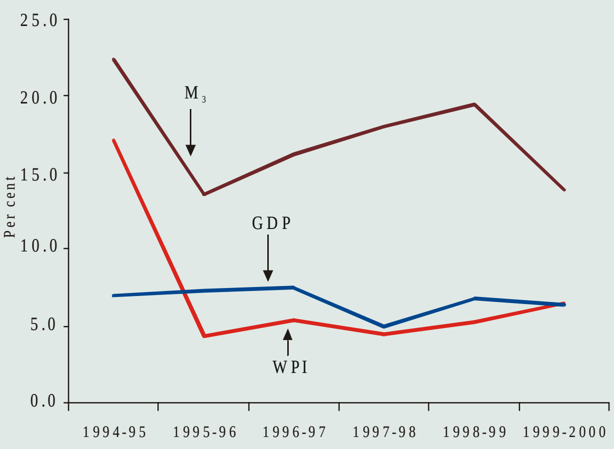
3.5 Currency with the public expanded by 11.7 per cent (Rs.19,761 crore) in 1999-2000 as against 16.1 per cent in 1998-99. However, on monthly average basis, currency grew at a much higher rate of 16.3 per cent during 1999-2000 than that of 11.7 per cent during 1998-99. Aggregate deposits decelerated to 14.5 per cent (Rs.1,17,108 crore) during 1999-2000 from 20.2 per cent (17.6 per cent, net of RIBs) during 1998-99, because of a subdued growth in scheduled commercial banks' deposits at 13.9 per cent. During 1999-2000, interest rates on bank deposits of various maturities were revised downwards while the return on other financial assets such as equities remained strong. This was partly reflected in the relatively sluggish accretion to bank fixed deposits.

3.6 The income velocity of money is expected to decline with increased monetisation of the economy, especially with the spread of bank branches but increase with the implementation of financial sector reforms with consequential financial innovations. The M_3 income velocity has declined, since 1970-71, from an average of 3.5 in the 1970s to 2.4 in the 1980s and 2.1 in the 1990s. The demand for money which should have declined with financial innovations, has, in fact, gone up in the 1990s on the basis of evidence provided by the downward movement in the income velocity of money. This may be essentially on account of three factors. First, the present M_3 compilation includes banks' non-resident foreign currency repatriable fixed deposit liabilities such as FCNR(B) deposits (since May 1993) and RIBs (since August 1998), which essentially relate to non-resident portfolio considerations rather than domestic money demand. Secondly, the saving motive for holding money in the form of bank fixed deposits is still very strong despite the emergence of alternate instruments of saving, partly because of public confidence in the Indian banking system and partly because of absence of awareness about how the other financial markets operate. Thirdly, as all financial transactions between the non-bank financial intermediaries and the non-financial commercial sector are routed through the organised clearing and settlement operations in which banks are the participants, the role of banks as providers of financial services is best reflected in the growing number of bank accounts and the predominant share of bank deposits in total financial assets.

3.7 Monetary policy for 1999-2000 had to be framed in the context of uncertainties. The outlook on growth and inflation at the beginning of 1999-2000 was less than clear. However, the actual outcome in respect of real GDP growth and inflation turned out to be relatively favourable. While the foreign exchange market remained relatively stable during the year, the Reserve Bank had to occasionally undertake money market and foreign exchange market operations to contain speculative pressures. The course of monetary management, however, had to contend with buoyant commercial credit demand, the rise in the fiscal deficit and the inflationary implications arising out of the uncertainties surrounding the performance of agriculture. To face the multiple challenges, the Reserve Bank had to use an array of instruments to influence both the quantity and rate variables. While it is recognised that the rate channel would have to ultimately gain prominence in the conduct of monetary policy, in the absence of adequate integration of financial markets, quantity variables such as monetary and credit aggregates would continue to play an important role in the transition. In this context, the movements in broad money need to be seen along with those in output and prices (Chart III.2).

3.8 In the Indian context, both output and price stability should be recognised as vital objectives that should be pursued in both the short term and the medium term. In the absence of complete financial integration and in view of the on-going financial sector reforms, it would be difficult to have a specified single anchor for monetary policy. However, several central banks, especially in industrialised countries, have adopted inflation targeting, by doing away with the intermediate targeting framework, because of the uncertainties in the links between intermediate and final targets and because financial markets are generally well knit (Box III.1). Although price stability is an important economic policy objective by itself, there are several difficulties in adopting such a single goal of monetary policy in India. Given the need to manage the Government borrowing programme, the Reserve Bank would have to balance, often times, its internal debt management function with the monetary

Chart III.2: Money, Output and Prices



Box III.1

Inflation Rate as Nominal Anchor for Monetary Policy

Nominal anchors serve as effective guideposts in the conduct of monetary policy. Three types of targets or nominal anchors, *viz.*, monetary targeting (base money or broad money), exchange rate targeting and inflation targeting, have been adopted by different central banks depending upon their institutional and financial structure and the level of maturity of markets.

Inflation targeting is a framework, not a rule, for conducting monetary policy in which decisions are guided by expectations of future inflation relative to the announced target. Kannan (1999) pointed out that inflation targets could be regarded as a mixture of the solution to the problem of how best to convince economic agents regarding the authorities' good intentions and to the problem of how best to carry them out. In an inflation targeting framework, the authorities announce either a point target or a range for the target. The expected future inflation becomes an indicator variable for monetary policy. The central bank announcement in this regard could have leeway for pre-announced contingencies which would be outside the control of the monetary authority such as a shock in the terms of trade or a shift in indirect taxes.

From the policy perspective, the estimation of the permanent component, usually referred to as "core" inflation becomes crucial. The economic rationale for considering core inflation is governed by the fact that, being permanent in nature, it is fully anticipated by the economic agents and duly incorporated into their decision making processes. In other words, it is the existence of the permanent component which imparts downward rigidity to the measured rate of inflation in the event of a positive supply shock. From the monetary policy angle, it is desirable that the policy makers endeavour to reduce core inflation. However, the ideal measure of core inflation is yet to emerge in the Indian context.

In a policy framework of inflation targeting, transparency is an essential pre-requisite because the success of inflation targeting depends on whether private agents accept the officially announced target. Inflation targeting leaves room for policy discretion, and this freedom could tempt the monetary authority to raise output in the short term through expansionary policies. This phenomenon is commonly referred to in economic literature as the "time inconsistency" problem. Thus, discretionary policy suffers from inflation bias and the consequential loss of credibility. In other terms, potential inconsistencies between the inflation target and the preference for raising output beyond potential may render inflation targeting neither credible nor enforceable. To circumvent this problem, all countries targeting inflation have introduced credibility enhancing measures, including more open policy discussions as also publication of policy deliberations in detail consisting of the voting pattern of the members of policy groups and interpretation of economic data.

A defining feature of inflation targeting is that the target variable, future inflation, is not observed. From an operational point of view, inflation targeting can, therefore, be seen as a two step process. The monetary authority first makes an inflation forecast to assess whether, under current policies, inflation is likely to remain within the announced target range. When future inflation is likely to move outside the target range, the second step is required. At this stage, a feedback rule that links policy actions to projected inflation is used to determine a path for monetary policy instruments that will bring the projected inflation rate to the target level.

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management function in steering interest rates in a manner that should yield allocative efficiency.

3.9 In most cases of central banking in industrialised countries, the inflation mandate is pursued by adjusting interest rates in order to maintain the economy at a consistent (usually potential) level. Certain central banks have favoured the adoption of some monetary policy rules, including the Taylor rule, in order to provide a basis for expectation formation under normal circumstances (Box III.2). In India, the development of such a rule would require considerable deepening and integration of financial markets and emergence of a strong relation between the interest rate, output and inflation.

3.10 Of late, there has been a growing interest in the impact of the volatility of asset prices on the conduct of monetary policy. There is an on-going debate as to whether asset prices should be factored into the commodity price indices to be targeted or merely considered as an information variable (Box III.3). There is not much evidence to show that movements in asset, particularly stock, prices have a significant impact on monetary conditions in India. This is because exposure of the Indian banking system

Box III.2
Taylor Rule

In recent years, many central banks have recognised the need for explicit targeting of inflation. This has resulted in renewed interest in designing optimal policy rules consistent with an inflation target. One such monetary policy rule has been developed by John Taylor of Stanford University.

The typical Taylor rule (1993) is a simple monetary policy rule which sets an interest rate path for an economy in response to the deviations of output from its potential and of the inflation rate from the target. It indicates a nominal interest rate, reflecting the movements of a real interest rate away from equilibrium according to a reaction function, which gives weights to deviations of output from the trend and of inflation from the target. The simple rule is expressed as:

Interest rate (nominal) to be set by the central bank

= equilibrium real interest rate + actual rate of inflation + w_1 (output gap) + w_2 (actual inflation - inflation target),

where the output gap is the difference between the actual output and potential output and w_1 and w_2 are the weights given to deviations of output and inflation from their respective trend and target.

The weights (w_1 and w_2) in the rule are a simplified representation of the ways in which monetary policy reacts to economic developments. In his original specification, Taylor assigned the value of 0.5 for each weight (w_1 and w_2) while testing the rule on the historical data of the United States.

There are broadly two ways to interpret the interest rate path provided by the Taylor rule. One is that it provides a descriptive path for interest rates – the rule simply mimics passively the behaviour of monetary policy makers in practice. Another interpretation is that it is a useful prescriptive tool, providing a diagnostic mechanism to assess the probable course of monetary policy – tightening of monetary policy rather than a neutral stance when output is above the trend and inflation is above the target, and easing in contrary circumstances.

While the Taylor rule has received considerable attention in recent years due to its apparent ability to explain the monetary authority's interest rate responses to developments in the key goal variables in a simple and transparent manner, it is also vulnerable to criticism on several accounts. First, as the Taylor rule makes an assumption of a closed economy, where output and inflation act as key determinants of interest rates, the rule may fail to provide an optimal policy decision in an open economy, in which exchange rates could have significant effects on inflation and output. Secondly, it has been argued that the existing specification of the Taylor rule model may not be sufficient. Some authors have suggested the incorporation of some additional economy specific variables while some like Goodhart (1998) have argued for incorporation of lagged interest rates and a variable representing central bank independence. Such modified rules - the Taylor-type rules - are possible but these too have generated a considerable amount of debate. Thirdly, some authors have criticised the Taylor rule on the issue of measurement of some crucial variables of the model, *viz.*, 'potential output' and 'real equilibrium interest rate'. While the output gap concept is theoretically appealing, in practice, it is hard to measure as there is considerable uncertainty about the estimation of the potential or trend growth. Moreover, even if the potential growth was known, the actual output statistics are subject to substantial revisions. Another difficulty is in determining the appropriate level in respect of the equilibrium real interest rate. The theory suggests that the equilibrium real interest rate should be similar to the long-term trend growth rate. Changes in the equilibrium real interest rate have a one-to-one impact on the level of the nominal interest rate generated by the Taylor rule. Thus, different assumptions about the equilibrium real interest rate result in differences in the stance of monetary policy. Moreover, it is argued that the Taylor rule based recommendations are not stable as they may lead to alternative policy formulations depending upon the methods selected for estimation of the output-gap, inflation and equilibrium real interest rate, the weighting pattern of output and inflation gaps and the selection of the sample periods (Kozicki (1999)).

In the Indian context, the applicability of such a rule at present hinges on the identification of an appropriate policy reaction function of the Reserve Bank and efficiency of the channel of the transmission of monetary policy. The position in this regard is, however, not very clear. Secondly, the stance of monetary policy has to be directed towards one objective, going by the rule, but this is not so in the Indian case. Thirdly, estimation of the crucial parameters such as potential output is not easy in the Indian case notwithstanding some recent efforts. The empirical robustness of potential output could improve if more data and quality information are available on the size of the unorganised sector, employment and capacity utilisation in various sectors of the economy. Fourthly, the determination of real equilibrium interest rates for India may not be easy because of market segmentation and the absence of agreement on the price measures to be utilised. As such, a single policy rule that could guide discretionary policy of the authorities in stabilising business cycles is yet to emerge. Hence, the stance of policy in recent times has been to draw policy perspectives by continuously monitoring a host of quantum and rate variables, commonly known as the "multiple indicator approach".

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to the capital market (lending against shares, for instance) is, at present, limited.

Credit Aggregates

3.11 Net domestic credit (NDC), including commercial banks' investments in commercial paper (CP), public and private sector bonds/debentures/preference shares and equity shares (termed as non-SLR investments) recorded a lower increase of 16.1 per cent during 1999-2000 as compared with 16.9 per cent during 1998-99 (Table 3.3 and Appendix Table III.1). The ratio of scheduled commercial banks' incremental non-food credit (including

Box III.3

Asset Prices and Monetary Policy

Recent episodes of asset price volatility the world over have generated a debate on the linkages between asset market fluctuations and the conduct of monetary policy. While it is generally agreed that monetary policy alone cannot maintain orderly conditions in the asset markets, there is substantial evidence to establish that the deleterious effects of asset price crashes are usually reinforced by unresponsive monetary policy. This implies that central banks need to view price stability and financial stability as mutually complementary and consistent objectives in the conduct of monetary policy.

Asset markets reflect the fundamentals as well as the animal spirits of the economy. It is argued, therefore, that central banks do not need to react to asset price movements, *per se*, which reflect fundamentals and may regard this as an information variable about the state of the economy. The case for central bank intervention arises in case of the swings, especially when they generate adverse real economy-wide effects. In addition, financial liberalisation that is not accompanied by a sufficient regulatory framework has also proved to be a source of financial instability.

Asset price volatility could affect the conduct of monetary policy in a number of ways. First, the relative prices of monetary and non-monetary assets such as bonds, equity and real estate, influence the demand for money. Second, movements in asset prices generate wealth effects that, in turn, generate demand for goods and services and thereby affect the present and future course of inflation. However, recent research has not found a very strong relation between asset price changes and consumption patterns. Third, shifts in asset prices often impact on the financial stability of the banking system through the "balance sheet channel", both directly, to the extent banks invest in such assets and indirectly, to the extent banks advance loans against such assets as collateral. Deteriorating balance sheets and the resultant reduced credit often adversely affect aggregate demand in the short-run and sometimes persist in the longer run by impacting on aggregate supply by constraining capital formation and reducing working capital. Fourthly, movements in asset prices often affect the foreign exchange market, as investors optimise their portfolios by investing in cross-country asset markets.

A key issue is whether asset price stability should be part of the objective of monetary policy (*i.e.*, built into the price index) or be treated as an information variable (*i.e.*, form an element in the central bank's reaction function). It is suggested that a correct measure of inflation should incorporate asset prices because they reflect current money price claims on future as well as current consumption. Secondly, it has been argued that central banks targeting a future inflation rate should include asset prices in the price index as an indicator of future inflation. It is argued, on the other hand, that monetary policy should be limited to stabilising the money price of current consumption. If central banks could achieve price stability in terms of current consumption, they would, *ipso facto*, facilitate efficient inter-temporal exchange of values, whether in terms of financial assets through the bond markets or in terms of goods and services. Moreover, introducing inter-temporal considerations into the price level would lead to severe measurement problems. To the extent asset prices are used as an information variable, they need not be built into the price index as an indicator of future inflation.

It is generally agreed that central banks should contain non-fundamental asset price volatility, both directly, through changes in interest rates which alter the relative rates of return on monetary and non-monetary assets and indirectly, by instituting prudential norms which limit bank exposure to asset markets. The principal difficulty lies in identifying the nature of decomposing asset price fluctuations caused by changes in fundamentals from those due to changes in investor confidence. This is more so since asset values essentially depend on the perceptions of the future, which have tended to grow more complex, especially given the difficulties regarding the valuation of new economy stocks. While monetary policy actions pre-empting asset bubbles would minimise the adverse effects of asset price volatility, most central banks are still wary of making judgements on the course of asset prices since it is difficult to distinguish between asset price misalignments and asset price changes. In this context, Bernanke and Gertler (1999) have proposed that central banks simultaneously pursue both price stability and financial stability through a strategy of "flexible inflation targeting".

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Table 3.3: Total Flow of Resources to Commercial Sector (excluding Food Procurement Credit)

(Rupees crore)

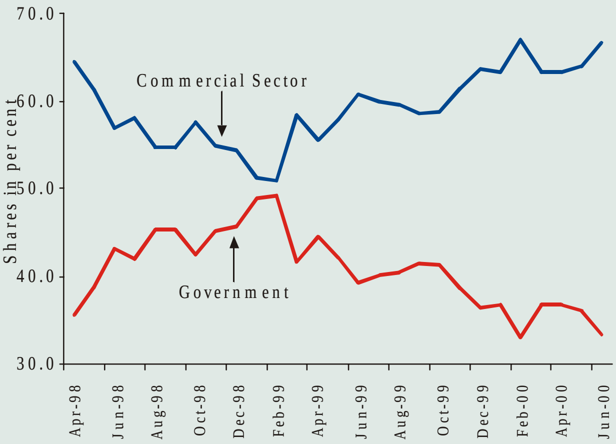
Item	1999-2000P	1998-99 P
1	2	3
I. Scheduled Commercial Banks (I.1+I.2)	**70,687**	**56,349**
I.1 Non-food credit	58,246	40,427
I.2 Other Investments (2.1+2.2+2.3)	12,441	15,921
2.1 Commercial Paper (CP)	1,060	1,563
2.2 Bonds/Debentures/Preference Shares Issued by	10,883	13,488
2.2.1 Public Sector Undertakings (PSUs)	6,316	5,407
2.2.2 Private Corporate Sector	4,567	8,081
2.3 Equity Shares issued by PSUs and Private Corporate Sector	498	870
II. Other Banks	**12,407**	**13,735**
III. Other Sources (III.1+III.2+III.3+III.4+III.5)	**68,693**	**57,868**
III.1 Bills rediscounted with Financial Institutions	-96	187
III.2 Capital Issues $ (2.1+2.2)	17	-2,312
2.1 Non-Government Public Companies	17	-3,664
2.1.1 Debentures and Preference Shares	-2,166	-5,631
2.1.2 Equity shares	2,183	1,967
2.2 PSUs and Government Companies	0	1,352
III.3 Global Depository Receipts (GDRs) /American Depository Receipts (ADRs) and Foreign Currency Convertible Bonds (FCCBs)	1,675	2,105
III.4 Issue of CPs #	-167	1,707
III.5 Borrowings from Financial Institutions ##	67,264	56,181
Total Flow of Non-food Resources (I+II+III)	**1,51,787**	**1,27,952**
Memo Items		
1. Loans to Corporates against Shares	-44	20
2. Private Placements	61,259	49,679

P Provisional.
$ Adjusted for banks' investments in shares and debentures.
# Excluding CPs issued to banks.
Excludes bills rediscounted with FIs.

incremental non-SLR investments) in incremental NDC increased to 47.1 per cent from 41.8 per cent during 1998-99. This development was in line with the policy objective of ensuring availability of sufficient credit in order to facilitate economic recovery. In the event, the share of the Government sector in incremental NDC declined to 36.7 per cent during 1999-2000 from 41.6 per cent during 1998-99 (Chart III.3).

3.12 Net bank credit to Government increased by a lower order of 14.2 per cent (Rs.55,077 crore) during 1999-2000 as compared with 17.0 per cent during the previous year. While scheduled commercial banks' investments in Government securities shot up by 24.7 per cent during 1999-2000, the net Reserve Bank credit to the Government recorded a decline of 2.8 per cent, brought about by a reduction in net Reserve Bank credit to the Centre by 3.8 per cent. For the first time since 1977-78, the Central Government account with the Reserve Bank showed a surplus, the surplus being Rs.5,587

Chart III.3: Shares of Government and the Commercial Sector in Annual Net Domestic Credit Growth
(inclusive of commercial banks' non–SLR investments)



crore in 1999-2000, as against a deficit of Rs.11,800 crore in 1998-99. The ratio of scheduled commercial banks' incremental investments in Government securities in the incremental net bank credit to the Government soared to 100.3 per cent during 1999-2000 from 64.7 per cent during 1998-99.

3.13 Bank credit to commercial sector accelerated to 16.6 per cent (Rs.82,548 crore) during 1999-2000 from 14.5 per cent during 1998-99. Scheduled commercial banks' total flow of non-food resources to the commercial sector grew at 17.6 per cent in 1999-2000 as compared with 16.4 per cent during 1998-99. The resource flow from bank and non-bank sources - including capital issues, GDRs/ ADRs/FCCBs, CPs (other than those subscribed by banks) and borrowings from as well as bills rediscounted with financial institutions - to the commercial sector increased by Rs.1,51,787 crore in 1999-2000 as against Rs.1,27,952 crore in the previous year (Table 3.3).

3.14 The share of the banking system in the total resource flow to the commercial sector, at 54.7 per cent during 1999-2000 was comparable to that of 54.8 per cent during 1998-99. The increase in the share of the banking system in resource mobilisation by the commercial sector in the past four years suggests that bank finance continues to remain important in the Indian economy.

Reserve Money

3.15 Reserve money increased at a slower rate of 8.1 per cent (Rs.20,969 crore) during 1999-2000 as compared with 14.6 per cent during 1998-99, primarily reflecting the reduction in reserve requirements, on the one hand, and the impact of the increasing market orientation of monetary policy operations on the Reserve Bank balance sheet, on the other. Adjusting bank reserves for the first round release of lendable resources, the increase in the monetary base would work out to about 13.0 per cent.

3.16 The increase in reserve money is conventionally decomposed into domestic and external sources of monetisation (Table 3.4). It may be pointed out that a correct picture of the contribution of the domestic and external sources to primary liquidity would require adjustment mainly of Reserve Bank's revaluation

Table 3.4: Analytics of Sources of Reserve Money

(Rupees crore)

Variable	1999-2000	1998-99
1	2	3
Reserve Money (I+II=I.6+II.3)	**20,969**	**32,943**
I. RBI's Net Domestic Assets (NDA) (I.1+I.2+I.3+I.4-I.5)	-6,958	10,880
I.1 Net RBI credit to Government	-4,275	17,379
I.2 RBI's credit to Commercial Sector	3,044	4,040
I.3 RBI's gross claims on banks	3,523	6,165
I.4 Government's currency liabilities to the Public	416	494
I.5 RBI's Net Non-monetary Liabilities	9,666	17,199
I.5.1 Interest/ Discount earned from foreign securities	5,907	5,545
I.5.2 Revaluation Accounts #	130	6,880
I.6 Adjusted NDA (I+I.5.1+I.5.2)	-921	23,305
II. RBI's Net Foreign Assets	27,927	22,063
II.1 Gold	414	-835
II.2 Foreign Currency Assets (FCA)	27,512	22,905
II.3 Adjusted NFA (II- I.5.1-I.5.2)	21,890	9,638

Pertains to foreign currency assets.

of and income from foreign currency asset (FCA) accounts, which are essentially the Reserve Bank's claims on itself and hence reserve money-neutral. In the event, the Reserve Bank's adjusted net foreign assets increased by Rs.21,890 crore during 1999-2000, accounting for as much as 104.4 per cent of incremental reserve money. The ratio of the accretion to the Reserve Bank's adjusted NFA to currency drawals worked out to 104.7 per cent during 1999-2000. The Reserve Bank's adjusted net domestic assets (NDA) declined by Rs.921 crore as the Reserve Bank's incremental credit to commercial banks (Rs.3,256 crore) and primary dealers (PDs) (Rs.3,206 crore) were largely offset by the Centre's monetised surplus (Rs.5,587 crore) (Table 3.5).

3.17 The intra-year switches between the domestic and external sources of reserve money could be viewed in terms of four distinct phases, *viz.*, the first, April-May 1999, the second, June-October 1999, the third, November 1999-February 2000, and the fourth, March 2000 (Chart III.4 and Table 3.6).

3.18 The first phase, *i.e.*, April-May 1999, saw relatively easy monetary conditions. The stage was set by a turnaround in capital

Table 3.5: Net Reserve Bank Credit to the Central Government

(Rupees crore)

Variable	1999-2000	1998-99	1997-98	First Quarter 2000-01	First Quarter 1999-2000**
1	2	3	4	5	6
Net Reserve Bank Credit to the Centre (1+2+3+4-5)	**-5,587 (-3.8)**	**11,800 (8.8)**	**12,914 (10.7)**	**14,412 (10.3)**	**11,279 (7.8)**
1. Loans and Advances	-2,060	1,042	2,000	4,316	5,720
2. Treasury Bills held by Reserve Bank (2.1 + 2.2 + 2.3)	1,107	148	-44,026	5	137
2.1 *Ad hoc* Treasury Bills			-33,738		
2.2 Discounted Treasury Bills			-9,464		
2.3 Auction Treasury Bills	1,107	148	-824	5	137
3. Reserve Bank's holdings of Dated Securities	-5,376	10,817	55,666 @	7,956	2,559
3.1 Central Government Securities	-5,358	10,817	24,843 $	7,720	2,576
4. Reserve Bank's holdings of Rupee Coins	38	42	-118	13	38
5. Central Government Deposits	-704	248	608	-2,123	-2,826
Memo Items*					
1. Market Borrowings of Dated Securities by the Centre	86,630	83,753	43,390	33,683	37,000
2. Reserve Bank's subscription to fresh Dated Securities	27,000	38,205	13,028	6,961	21,000
3. Repos (-) / Reverse Repos (+), net position	1,021	-827	801	-1,006	-77
4. Net Open Market Sales#	35,369	26,348	7,614	1,528	18,562
4.1 Of which: commercial banks	15,886	19,266	5,578	1,011	7,119

* At face value. # Excludes Treasury Bills. ** Pertains to July 2, 1999.

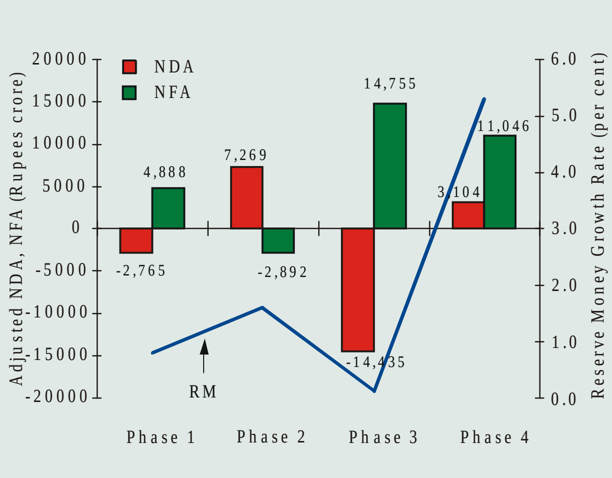
@ Includes Special Securities 1997 worth Rs. 50,818 crore created on conversion of *ad hoc* and tap Treasury Bills outstanding as on Mach 31, 1997.

$ Includes special securities worth Rs. 20,000 crore converted into marketable securities.

Parenthetic figures constitute percentage variations over previous year.

inflows in March 1999, resulting in an accretion of Rs.8,008 crore (net of revaluation) to the Reserve Bank's NFA. With the return of orderly conditions in the foreign exchange market, the Reserve Bank announced the reduction in cash reserve requirements by 50 basis points to 10.5 per cent, effective March 13, 1999, releasing lendable resources of about Rs.3,100 crore to the banking system. The Reserve Bank also signaled its preference for a lower interest rate regime by reducing the Bank Rate by one percentage point to 8.0 per cent and the fixed repo rate by two percentage points to 6.0 per cent, effective March 2, 1999.

Chart III.4: Select Sources of Reserve Money



3.19 The monetary conditions improved with a further accretion to the Reserve Bank's FCA (Rs.4,947 crore, adjusted for revaluation, up to May 21, 2000), reflecting continuing capital flows. The Reserve Bank injected liquidity amounting to about Rs.3,250 crore with a 0.5 percentage point CRR cut, effective May 8, 1999. Consequently, reserve money increased by Rs.2,122 crore. Scheduled commercial banks (Rs.1,298 crore) and PDs (Rs.2,015 crore) redeemed their drawals from the Reserve Bank in the wake of the CRR cut. The Reserve Bank continued to modulate domestic interest rates,

Table 3.6: Select Sources of Reserve Money: Phase-wise Flows

(Rupees crore)

Variable	Phase I	Phase II	Phase III	Phase IV
	May 21, 1999 over March 31, 1999	October 22, 1999 over May 21, 1999	February 25, 2000 over October 22, 1999	March 31, 2000 over February 25, 2000
1	2	3	4	5
Reserve Money	**2,122**	**4,376**	**320**	**14,150**
Select Sources of Reserve Money				
1. Net RBI credit to Centre	7,846	2,040	-10,972	-4,501
1.1 Ways and Means Advances to the Centre	483	300	-1,254	-1,589
1.2 Subscriptions to fresh Dated Securities *	16,000	11,000	0	0
1.3 Net Open Market Sales *	12,003	11,683	8,088	-913
1.3.1 Commercial banks *#	5,358	5,540	3,898	1,090
2. RBI's claims on banks and commercial sector	-4,594	4,824	2,457	3,881
2.1 Commercial Banks	-1,298	2,382	110	2,062
2.2 Primary Dealers	-2,015	1,649	1,601	1,972
3. Foreign currency assets of the RBI $	4,947	-2,242	13,751	10,926
Memo Item				
1. Release of Resources on account of changes in Cash Reserve Ratio (approximate)	3,250	0	10,000	0
2. Net Central Government Borrowing #	22,273	31,503	16,500	0

* At face value. # Excludes Treasury Bills. $ Net of revaluation.

especially in the face of the large net Central Government borrowing programme, by taking devolvements/private placements of dated securities when market conditions were not conducive and then selling them to the market as and when liquidity conditions permitted. The Reserve Bank's subscription to fresh dated securities (Rs.16,000 crore) was largely offset by open market sales of dated securities amounting to Rs.12,003 crore, limiting the increase in the net Reserve Bank credit to the Centre to Rs.7,846 crore during 1999-2000 (up to May 21, 1999).

3.20 The situation changed in the second phase, *i.e.*, June-October 1999, as capital flows dried up in the wake of domestic uncertainties, border tensions and bulk crude oil imports. The foreign exchange market witnessed some degree of volatility during end-May-June 1999 and August 1999. Orderly conditions were restored in the foreign exchange market with the Reserve Bank reiterating its policy to meet temporary demand-supply mismatches in the foreign exchange market, backed by foreign exchange operations. During this period, the Reserve Bank's FCA declined by Rs.2,242 crore (adjusted for revaluation). The Reserve Bank expanded its net domestic assets by Rs.7,269 crore (adjusted for revaluation) largely through credit to scheduled commercial banks (Rs.2,382 crore) and primary dealers (Rs.1,649 crore). As a result, reserve money increased by Rs.4,376 crore. The increase in the net Reserve Bank credit to the Centre was limited to Rs.2,040 crore with the Reserve Bank's fresh subscription to fresh dated securities (Rs.11,000 crore) more than swamped by net open market sales (Rs.11,683 crore).

3.21 The third phase, *i.e.*, November 1999-February 2000, saw the revival of capital inflows which enabled the Reserve Bank to build up its reserves through net purchases from authorised dealers (Rs.8,365 crore). The Reserve Bank mopped up the resultant liquidity by net open market sales amounting to Rs.8,088 crore. This, in turn, reduced net Reserve Bank credit to the Centre by Rs.10,972 crore. Consequently, the incremental primary liquidity was limited to a mere Rs.320 crore.

3.22 The Reserve Bank augmented the lendable resources with banks by about

Rs.10,000 crore through a one percentage point reduction in CRR (as well as phasing of incremental CRR on FCNR(B) deposits, *etc.*) during the fortnights ending November 19 and December 3, 1999. This allowed scheduled commercial banks and PDs to reduce their recourse to the Reserve Bank (Rs.9,791 crore during these two fortnights) and thereby facilitate the easing of call rates below the Bank (and refinance) rate. The Reserve Bank announced that scheduled commercial banks' cash in hand would be eligible for CRR compliance between December 1, 1999 and January 31, 2000 to mitigate any possible difficulties that may arise out of the Year 2000 transition in order to ensure that liquidity conditions would not be under any stress. This was reflected on the sources side by repos (Rs.4,752 crore at face value) during the week ended December 3, 1999. The average inter-bank call rates eased during December 1999 and January 2000. Money market conditions firmed up with the usual seasonal credit demand picking up in February 2000, especially with the year-on-year scheduled commercial banks' non-food credit growth rate accelerating to 18.4 per cent as on February 25, 2000, on the one hand and the withdrawal of the Y2K facility on the other. This, in turn, resulted in scheduled commercial banks and PDs drawing liquidity support of Rs.6,427 crore from the Reserve Bank. Consequently, the call rates averaged 10.6 per cent during February 2000 exceeding, in the process, the Bank Rate.

3.23 The fourth phase, *i.e.*, March 2000, saw a sharp increase in reserve money by Rs.14,150 crore driven by both domestic and external sources. The Reserve Bank's FCA recorded an accretion of Rs.10,926 crore (adjusted for revaluation) as a result of continued capital inflows. The Reserve Bank's net domestic assets also increased by Rs.3,104 crore (adjusted for revaluation). The usual seasonal credit demand put pressure on money market conditions, which was partly mitigated by the Reserve Bank's incremental credit to scheduled commercial banks and PDs amounting to Rs.4,034 crore. The net Reserve Bank credit to the Centre declined by Rs.4,501 crore.

3.24 Unlike in the 1980s, when the reserve money was largely determined by the automatic monetisation of the Centre's fiscal deficit, capital inflows influenced the course of reserve money in the 1990s. The increasing market orientation of monetary policy in order to manage liquidity and ensure orderly conditions has also imparted a degree of volatility to the monetary base. The year-on-year month-end reserve money growth rate has, therefore, recorded a high degree of volatility, with the co-efficient of variation working out to 39.8 per cent during the 1990s as compared with 30.1 per cent during the 1980s.

Trends during the First Quarter : 2000-01

3.25 Broad money (M_3) recorded a strong growth of 4.7 per cent (Rs.52,061 crore) during the first quarter of 2000-01 as compared with 3.4 per cent during 1999-2000 (up to July 2, 1999) (Appendix Table III.1). The first quarter of 2000-01 which ended on the reporting Friday, June 30, 2000, comprised seven reporting Fridays while the comparable quarter of 1999-2000 which ended on the reporting Friday, June 18, 1999 contained only six reporting Fridays. It would, therefore, be appropriate to compare the June 30, 2000 monetary data with that as on July 2, 1999, which is the seventh reporting Friday of 1999-2000. The year-on-year M_3 growth rate decelerated to 15.2 per cent as on June 30, 2000 from 16.3 per cent (net of RIBs) as on July 2, 1999.

3.26 The sharp increase in the M_3 growth rate during the first quarter of 2000-01 may partly be explained by the impact of end-March 2000 bulge in deposits, which largely took place in the first reporting fortnight of fiscal 2000-01 (ending April 7, 2000), as there was a gap of a whole week between the last reporting Friday (March 24) of 1999-2000 and the balance sheet date (March 31). Reflective of this, aggregate deposits increased by 4.5 per cent (Rs.41,749 crore) during 2000-01 (up to June 30, 2000) as compared with 2.3 per cent in the corresponding period of 1999-2000. Currency with the public, however, decelerated to 4.7 per cent (Rs.8,922 crore) during 2000-01 (up to June 30, 2000) from 8.0 per cent during 1999-2000 (up to July 2, 1999), partly reflecting the slackening of cash demand on account of subdued agricultural activity since the latter half of 1999-2000. On the sources side, net bank credit to Government increased by 6.5 per cent (Rs.28,912 crore) during the first quarter of 2000-01 as compared with the increase of 7.3 per cent during 1999-2000 (up to July 2, 1999). Bank credit to commercial sector accelerated to 3.5 per cent (Rs.20,068 crore) during 2000-01 (up to June 30) from 0.5 per cent during 1999-2000 (up to July 2, 1999) driven by a sharp increase in scheduled commercial banks' non-food credit (2.9 per cent).

3.27 Reserve money declined by 2.1 per cent (Rs.5,896 crore) during 2000-01 (up to June 30, 2000) in contrast to the increase of 0.7 per cent during 1999-2000 (up to July 2, 1999), partly reflecting CRR reductions. The net Reserve Bank credit to the Centre recorded a higher increase of Rs.14,412 crore during the first quarter of 2000-01 as compared with that of Rs.11,279 crore during 1999-2000 (up to July 2, 1999). The Reserve Bank's credit to commercial banks and primary dealers declined by Rs.3,936 crore. The Reserve Bank's net foreign currency assets declined by Rs.4,683 crore (adjusted for revaluation) in sharp contrast to the increase of Rs.4,986 crore (adjusted for revaluation) over the same period essentially reflecting net foreign currency sales to authorised dealers.

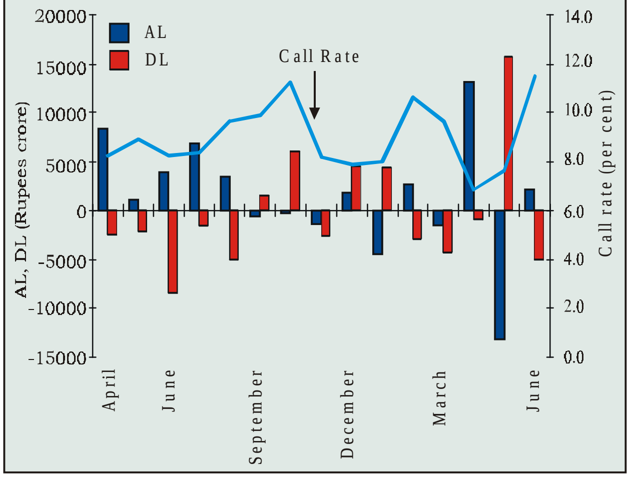
Liquidity Position

3.28 A summary measure of primary liquidity may not be sufficient to capture the multi-dimensional aspects of the Reserve Bank's liquidity management in the context of financial sector reforms and its impact on the short-term interest rate. The management of primary liquidity could be more meaningfully analysed by classifying the Reserve Bank's balance sheet flows according to its autonomous and discretionary components[1] (Box III.4). The offsetting movements of discretionary liquidity (DL) *vis-a-vis* autonomous liquidity (AL) during 1999-2000 bound the movements in the call rate within a narrow range (Chart III.5).

Interest Rates

3.29 The overall liquidity and interest rate conditions in the economy exhibited a marked improvement in 1999-2000. There was a

Chart III.5: Autonomous and Discretionary Liquidity Flows and the Call Rate



substantial decline in the yield on government dated securities in the primary as well as the secondary markets. The movements in short-term interest rates during the year were influenced by the day-to-day liquidity position determined by the combined effects of autonomous and discretionary liquidity. The Reserve Bank cut the fixed repo rate (in two steps of 2 percentage points in March 1999 and one percentage point in April 2000) to 5 per cent and the Bank Rate (in two steps of one percentage point each in March 1999 and in April 2000) to 7 per cent and enhanced liquidity *via* CRR cuts from 11 per cent in early March 1999 to 8 per cent in April 2000. The Reserve Bank also reduced the savings deposit rate by 0.5 percentage point to 4.0 per cent in April 2000, which led to a substantial reduction in the cost of funds of the banking system. Interest rates on bank deposits and loans, which exhibited relative stickiness during the greater part of 1999-2000, declined significantly during April 2000 following the liquidity enhancing measures announced by the Reserve Bank on April 1, 2000 (Table 3.8).

3.30 Responding to monetary policy signals and liquidity enhancing measures, long-term interest rates in all segments of the financial market, *viz.*, the government securities market, credit markets and the private bond market, softened during 1999-2000. Deposit rates as well as prime lending rates (PLRs) of public sector banks declined during 1999-2000. Following the one percentage point reduction in the administered interest rates on Public

1. In the Bank's Annual Report for 1998-99, the discretionary component was referred to as 'policy liquidity'. However, the term 'discretionary' is more appropriate since it indicates the options available for actions, and is not rule-bound.

Box III.4
Short-term Liquidity Management

The autonomous liquidity (AL) component of a stylised central bank balance sheet may be defined as the liquidity generated by regular central banking functions, other than short-term domestic liquidity management, that accrues to the banking system (Table 3.7). This is typically taken to be the sum of the central banks' credit to the Government and the non-bank domestic sector, its net foreign assets and net other assets *minus* currency in circulation. Discretionary liquidity (DL) comprises the liquidity generated by policy action by the central bank in order to modulate domestic liquidity conditions. This would consist of central bank credit to banks, which would club all channels for influencing liquidity in the form of discretionary and stand-by facilities. On an *ex post* basis, the net liquidity (NL) generated by AL and DL would work out to be the change in bank reserves. On an *ex ante* basis, central banks could modulate NL through changes in DL by estimating the gap between the AL flow and the demand for bank reserves.

Table 3.7: Stylised Central Bank Balance Sheet Flows

Liabilities	Assets
L.1 Currency	A.1 Net credit to Government
L.2 Bank Reserves	A.2 Credit to Banks
	A.3 Net Foreign Assets
	A.4 Other Assets (net)
Reserve Money (L.1+L.2)	Reserve Money (A.1+A.2+A.3+A.4)
Memo Items	
1. Autonomous Liquidity (AL) = A.1 + A.3 + A.4 – L.1	
2. Discretionary Liquidity (DL) = A.2	
3. Net Liquidity (NL) = AL + DL = L.2	

Movements in AL and DL track short-term interest rates, given the demand for bank reserves. Clearly, if liquidity conditions remain constant, short-term interest rates should not change. If on the other hand, central bank operations result in a net liquidity deficit (surplus), short-term interest rates would have to increase (decline) in order to clear the market. Thus, central banks can and typically do influence short-term interest rates by modulating DL to meet AL surpluses and deficits, given the demand for bank reserves. The precise compilation of AL and DL would vary across central banks depending on specific operating procedures of monetary policy.

The Reserve Bank modulates DL through a policy mix of changes in cash reserve requirements, open market (including repo) operations and credit to commercial banks and PDs. The changes in cash reserve requirements and open market (and repo) operations with and credit to commercial banks directly affect flows to the banking system. Open market (and repo) operations with non-bank entities (essentially call money market players such as PDs and financial institutions) and credit to PDs indirectly influence the liquidity position of commercial banks. The choice between the different components of DL may be guided by the differential impact they have on interest rates. For example, CRR hikes increase banks' borrowing costs while liquidity absorption *via* repos tend to set the floor for money market interest rates.

The Reserve Bank directly affects the liquidity position through changes in reserve requirements. The critical problem in case of the other DL instruments is that while the Reserve Bank could determine either the price or the potential quantity of the instrument (or at times both), the precise utilisation of the facility depends on other players. In the present methodology, the actual utilisation levels of such discretionary facilities, to functionally represent the entire vector of enabling conditions, in both price and quantity terms, which are influenced by the Reserve Bank's monetary policy initiatives.

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Provident Fund (PPF) and National Saving Certificates (NSC) in January 2000 and General Provident Fund (GPF) in March 2000 and the announcement of monetary policy measures in April 2000, there has been a general reduction in the deposit rates of most public sector banks across all maturities by 50 to 200 basis points. The post-tax return on small saving instruments even after the recent reduction in nominal interest rates, remains considerably higher than that on bank deposits, although the lower effective return on the latter is partly compensated by the liquidity premium and lower transaction costs associated with bank deposits.

3.31 While banks have been given the freedom to offer variable interest rates on longer-term deposits, few have actually shifted over to a variable rate structure. This could be partly due to the strong preference of

Table 3.8: Intra-Year Movements in Interest Rates

(Per cent per annum)

Item	Interest Rates						
1	2	3	4	5	6	7	8
1. Prime Lending Rate*			11.25-12.5 (April 2000)			12.0-13.5 (May 1999)	12.0-14.0 (April 1999)
2. Deposit Rates *							
i) Up to one year			4.0-8.0 (May 2000)	4.0-8.5 (April 2000)		5.0-9.0 (Feb. 2000)	5.0-9.0 (April 1999)
ii) 1-3 years		8.0-10.0 (June 2000)	9.5-10.0 (May 2000)	8.0-10.5 (April 2000)		8.0-10.5 (Feb. 2000)	8.0-10.0 (April 1999)
iii) Above 3 years		9.5-10.0 (June 2000)	9.5-11.0 (April 2000)	9.75-11.0 (Nov. 1999)		10.0-11.0 (June 1999)	10.5-11.0 (April 1999)
3. Treasury Bills							
i) 14-day		8.09 (end-June 2000)	8.87 (end-March 2000)	8.35 (end-Dec. 1999)	8.61 (end-Sept. 1999)	8.61 (end-June 1999)	7.82 (end-March 1999)
ii) 91-day	8.58 (August 2000)	8.91 (end-June 2000)	9.17 (end-March 2000)	9.08 (end-Dec. 1999)	9.46 (end-Sept. 1999)	9.25 (end-June 1999)	8.75 (end-March 1999)
iii) 182-day	9.97 (August 2000)	9.23 (end-June 2000)	9.47 (end-March 2000)	9.86 (end-Dec. 1999)	9.89 (end-Sept. 1999)	9.97 (end-June 1999)	
iv) 364-day	10.29 (August 2000)	9.24 (end-June 2000)	9.93 (end-March 2000)	10.17 (end-Dec. 1999)	10.33 (end-Sept. 1999)	10.33 (end-June 1999)	10.07 (end-March 1999)
4. 10-year Government of India Loan		11.95 $ (end-June 2000)	10.85 + (end-March 2000)	11.65 @ (Oct. 1999)	11.59 (Aug. 1999)	11.99 (April 1999)	12.05+ (end-March 1999)

* Public Sector Banks. + Reserve Bank declared YTM.

@ 10 years, 3 months. $ 10 years, 1 month.

depositors for fixed rate deposits, mostly to insure against the downside interest rate risk. As a result, as at end-March 1999, about 73 per cent of deposits were of a longer-term nature with a maturity of 364 days and above. The ratio rises to 80 per cent in the case of large public sector banks. Consequently, the effective rate of interest on the outstanding deposits of maturities of 364 days and above is as high as 11 per cent as against the rate of 8.0-9.5 per cent on fresh deposits. The relatively high concentration of deposits at a longer maturity and high non-interest operating expenses of public sector banks at 2.5-3.0 per cent of total assets provide the basic reasons as to why lending rates remain relatively rigid. Further, banks have shifted to floating rate loans for working capital, with fixed interest rates applicable only for project finances. When the average interest rate on deposits are weakly sensitive to changing interest rate conditions, the concentration of banks' portfolios towards floating rate loans exerts pressure on the operating margin. This acts as an important constraint for banks' ability to reduce lending rates sufficiently.

3.32 In April 1999, the banks were given freedom to operate different PLRs for different maturities. About 41 scheduled commercial banks, predominantly foreign banks and private sector banks, have so far reported the introduction of tenor linked PLRs. In order to accord more freedom to banks to determine their interest rates, they were allowed to prescribe separate Prime Term Lending Rates (PTLR) on term loans of three years and above since March 1999. While nominal interest rates softened considerably since March 1999, several structural and other factors have constrained downward flexibility in the interest rate structure. The decline in nominal interest

Box III.5
Real Interest Rate

The real interest rate is defined as the difference between the nominal rate of interest and the expected rate of inflation. The real interest rate is not an observed variable. Intuitively, given the expected inflation, the same set of factors that determine the market interest rate also determine the real interest rate. Real interest rates are determined by a conjunction of several factors, such as, (i) productivity and thrift, (ii) the monetary policy regime, (iii) stance of other policies, such as fiscal policy, (iv) investors' risk perception and (v) regulation/ deregulation of capital markets. Central banks generally control short-term nominal interest rates. Given the slow process with which inflation expectations get revised, monetary policy can have a significant impact on the real interest rate although in the long run, evidence suggests that monetary policy is neutral in its effect.

In the Indian case, apart from the above factors, a host of structural factors also influence the real interest rate. The existence of high real interest rates in the credit market partly reflects the structural rigidities in the form of relatively high intermediation cost and non-performing assets. The sensitivity of various interest rates to inflation is weak as structural factors such as the tax rate and relatively low depth of the market have a strong bearing on the interest rate. The system of administered interest rates on certain Government saving instruments such as the small savings and provident funds add to segmented market behaviour leading to a low degree of convergence of rates of return on various financial instruments.

Real interest rates also reflect the availability of lendable resources with respect to the demand for investment. They also have implications for public finances and capital flows. It has been well recognised that there is a vicious circle between interest rates and the fiscal deficit and that fiscal restraint/consolidation accompanied by effective debt management would greatly alleviate the problem of high interest rates.

References

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rates has generally lagged behind the decline in the rate of inflation. Along with reduction in PLR by major public sector banks by up to 50 basis points, banks also revised their PTLR downwards by 0.90-1.0 percentage points between end-March 1999 and end-March 2000. The inflation rate, however, (on the basis of average of weeks) declined by 2.6 percentage points. This has raised the *ex-post* real interest rate in 1999-2000, although on the *ex-ante* basis, that is taking into account expected inflation rather than actual inflation, real interest rates may not seem to have risen sharply (Box III.5).

3.33 While interest rates declined at the longer end reflecting generally manageable liquidity conditions, the undertone at the shorter end of the market, *viz*., in the call money market and in the primary market for Treasury Bills remained somewhat firm (Table 3.9) (for details, refer to Section V).

Table 3.9: Short-term Money Market Rates

(Per cent per annum)

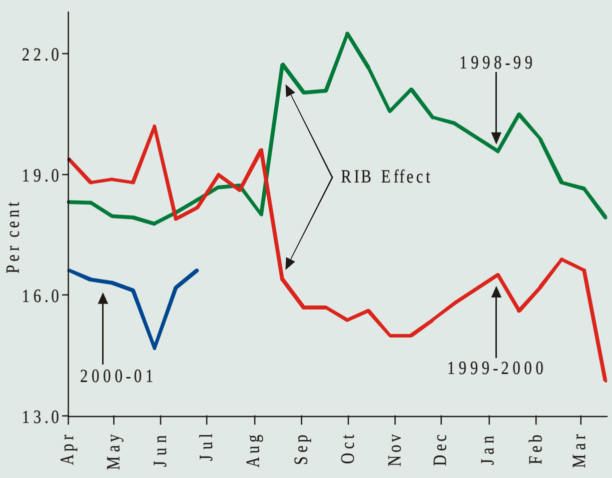
	Call	14-day	91-day	182-day	364-day
1	2	3	4	5	6
Average					
A. 1998-99	8.15	7.79	8.56	..	10.67
B. 1999-2000	9.09	8.38	8.97	..	10.09
Difference (percentage points)	0.94	0.59	0.41	..	– 0.58
Range					
A. 1998-99	1.0-35.0	5.47-9.39	7.17-10.05	..	7.97-10.72
Difference (percentage points)	34.0	3.92	2.88	..	2.75
B. 1999-2000	2.5-35.0	7.30-8.87	8.37-9.46	9.31-9.89	9.31-10.33
Difference (percentage points)	32.5	1.57	1.09	0.58	1.02

COMMERCIAL BANK SURVEY

3.34 Aggregate deposits of scheduled commercial banks decelerated to 13.9 per cent (Rs.99,319 crore) in 1999-2000 from 19.3 per cent (16.3 per cent, excluding RIBs) in 1998-99 (Table 3.10 and Appendix Table III.3). The fortnightly average year-on-year increase in bank deposits was also lower at 17.0 per cent during 1999-2000 than 19.5 per cent in 1998-99 (Chart III.6). As indicated earlier, deposit expansion during 1999-2000, measured on March 31 basis increased, but at Rs.1,16,416 crore was nonetheless lower than the projected estimate of Rs.1,18,500 crore in the April 1999 monetary and credit policy statement. Besides this factor, time deposit growth was impacted by the savers' favourable expectation of returns from mutual funds, particularly as a result of tax concessions extended to these funds in the Union Budget 1999-2000 and the reduction in the interest rates on bank deposits.

3.35 Time deposits grew by 15.0 per cent (Rs.89,376 crore) for the year as against 20.3 per cent in 1998-99; it was a reflection of the large net inflows to mutual funds amounting to Rs.21,971 crore as against Rs.3,611 crore in the preceding year. It also reflects to an extent the lack of speedy action on the part of the banks to compete for funds through interest rate adjustments. On a year-on-year basis, resources mobilised/total lendable resources of nine all-India financial institutions, Life Insurance Corporation, General Insurance Corporation and Unit Trust of India increased by 8.8 per cent (Rs.18,602 crore) to Rs.2,29,349 crore as at end-March 2000. The growing preference for market related financial instruments, both by savers and investors, and the recent deceleration in bank deposit growth while indicating the rising importance of non-bank sources of funds in the economy has implications for the future direction of intermediation (Box III.6). In this context, the issue of conversion of specialised financial institutions into either banks or non-banks assumes importance.

Chart III.6: Fortnightly Year-on-year Growth Rate in Aggregate Deposits



3.36 Bank credit recovered with the revival in industrial activity during 1999-2000 growing by 18.2 per cent (Rs.67,121 crore) in 1999-2000 as compared with 13.8 per cent in 1998-99. The increase in bank credit during 1999-2000 was also markedly higher than the average of 15.6 per cent during the 1990s (up to 1998-99). The expansion in food credit by Rs.8,875 crore during 1999-2000 was more than double of Rs.4,331 crore during 1998-99. The conventional non-food bank credit showed a higher order of expansion of 16.5 per cent (Rs.58,246 crore) in 1999-2000 as compared with an increase of 13.0 per cent in the previous year. On an average basis too, the year-on-year month-end non-food credit growth rate was higher at 15.4 per cent than 14.4 per cent during 1998-99 (Chart III.7).

3.37 The increase of 3.5 percentage points in non-food credit growth over 1998-99 largely reflected the increased demand for funds as industrial activity picked up. The share of incremental credit in incremental deposits increased sharply to 67.6 per cent in 1999-2000 as against an average of about 40 per cent during 1996-97 to 1998-99.

3.38 Scheduled commercial banks' non-SLR investments expanded by Rs.12,441 crore in 1999-2000 as compared with Rs.15,921 crore in 1998-99 (Table 3.3). Consequently, banks' non-SLR investments decelerated to 25.7 per cent during 1999-2000 from 49.0 per cent during 1998-99. Nonetheless, the total flow of funds from scheduled commercial banks to the commercial sector (*i.e.*, non-food credit and non-SLR investments) grew by 17.7 per cent (Rs.70,687 crore) as compared with 16.4 per cent during 1998-99. The order of growth in resource availability was more or less consistent with the projected increase of about 18 per cent set in the April 1999 monetary and credit policy statement.

Box III.6
Financial Disintermediation

Financial disintermediation refers to a movement from an institution-based financial system to an essentially market-based system of mobilisation and allocation of financial resources. This process is associated not only with a departure from bank-based intermediation to non-bank based intermediation but also with a tendency of corporates to access savings directly through deposits, commercial paper, *etc.*, and through the organised market for equity and debentures. This transformation is facilitated by the introduction of a whole array of mutually competing financial instruments with varied degrees of liquidity, riskiness and returns. While at the one end, 'money-like' instruments like units of mutual funds, bonds with call and put options and other stock-exchange traded instruments compete with traditional monetary assets such as bank deposits; on the other end, deep discount bonds, zero coupon bonds, and bonds with very long maturity period compete with traditional contractual saving instruments.

The nature, extent and efficiency of disintermediation varies across countries. While in the UK and the USA, markets play a critical role in the financial system, other economies such as Germany and Japan have essentially a bank-based financial system. There has not been a polarity between institutions and markets and the former has played a critical role in the development of the latter.

The financial sector reform process undertaken in India since the early 1990s has ushered in deregulation of the financial system, development of the capital market, promotion of the growth of non-bank financial institutions (FIs) and encouragement of private sector participation. There has not only been a gradual decline in the term deposit rates of banks, but also a general decline in interest rates across all the financial markets including the cut in interest rates of government administered small saving schemes. While there has been a greater degree of convergence of the pre-tax rates of return in the recent past, the post-tax returns on different financial saving instruments remained mis-aligned, with bank deposits probably worst-off on this count. However, bank deposits score on the liquidity account and retain their dominance in the portfolio of household financial saving. The FIs have been increasingly provided freedom to manage their assets and liabilities and determine the quantum of resources they need to mobilise and deploy and set interest rates on sources and uses of funds. For example, in the April 2000 monetary policy measures, term deposit rates of FIs were freed. Simultaneously, the Reserve Bank has strengthened its regulatory and supervisory standards with a view to preventing systemic problems. Certain categories of NBFCs were given freedom in the early phase of the post-reform period to determine their own interest rates but with a view to preventing adverse selection by households, the free interest rates on public deposits of NBFCs were regulated again with a cap of 16 per cent since January 1998.

The financial disintermediation process in India presents a mixed picture. As a share of GDP, while aggregate bank deposits increased marginally from 40.3 per cent in 1990-91 to 41.7 per cent in 1999-2000, that of bank credit declined from 24.3 per cent to 22.4 per cent. In the case of non-banking financial companies (NBFCs) (*albeit* with some broadening of the coverage), the regulated deposits grew from Rs.17,372 crore as at end-March 1994 to Rs.53,116 crore as at end-March 1997 and the exempted deposits moved up from Rs.19,587 crore as at end-March 1993 to Rs.63,742 crore as at end-March 1997. However, thereafter, there has been a decline. The public deposits, a component of regulated deposits, declined from Rs.20,792 crore as at end-March 1996 to Rs.18,178 crore as at end-September 1999. The new capital issues by non-government public limited companies, which had spurted from Rs. 6,193 crore in 1991-92 to Rs.26,417 crore in 1994-95, plummeted to Rs.3,138 crore in 1997-98 recovering partly to Rs.5,153 crore during 1999-2000. The net resources raised by mutual funds, which had moved up sharply from Rs.1,000 crore in 1985-86 to Rs.13,021 crore in 1992-93, fell to Rs.3,611 crore in 1998-99. The recent tax concessions, however, led to a recovery in the net inflow of resources of mutual funds to Rs.21,971 crore in 1999-2000. The development financial institutions (DFIs) have been increasingly offering bonds with flexible features leading to development of an active secondary market for debt instruments. The resources mobilised by these institutions have increased by 8.8 per cent to Rs.2,29,349 crore as at end-March 2000.

Thus, the unfolding of financial sector reforms resulted in a sharp rise in NBFC deposits, new public issues and resources mobilised by mutual funds in the immediate post-reform years (1992-93 to around 1996-97). However, the disintermediation process dampened in the more recent years, with a decline in public deposit mobilisation by NBFCs, a poor net inflow into mutual funds and a sharp decline in new capital issues by non-government public limited companies. Barring the tax-concession induced sharp net inflow into mutual funds in 1999-2000, the overall scenario does not still favour the view of financial disintermediation in motion. On a year-to-year basis, the post-tax return, risk factors and liquidity have together impacted on the portfolio allocation of household financial saving with bank deposit growth exhibiting heightened volatility during the post-reform period. However, such volatility could also be partly attributable to volatile capital inflows, which gathered momentum during the post-reform period. There is thus no firm and conclusive evidence in favour of financial disintermediation.

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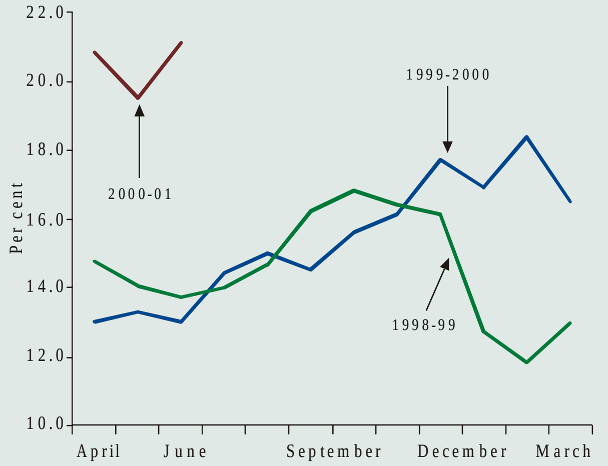
Chart III.7: Month-end Year-on-year Non-food Credit Growth Rate



3.39 An analysis of the trends in non-food gross bank credit of select scheduled commercial banks suggests that the pick-up in non-food credit spanned almost all the sectors with the exception of agriculture and small-scale industries (Appendix Table III.4). Credit to the priority sector recorded an increase of Rs.17,236 crore during 1999-2000 as compared with an increase of Rs.15,104 crore in the previous year. It reflected, *inter alia*, the widening of the scope of the priority sector to include (i) direct housing loans up to Rs.10 lakh in urban and metropolitan areas, (ii) subscription to bonds issued by the National Housing Bank (NHB) and Housing and Urban Development Corporation (HUDCO) exclusively for financing of housing irrespective of the loan size per dwelling unit, (iii) micro credit extended by banks to individual borrowers whether directly or through any intermediary, (iv) credit to NBFCs for on-lending to small road and water transport operators and to units in tiny industries and (v) investment in venture capital. While credit extended to small-scale industries (included under priority sector) declined to Rs.3,330 crore from Rs.4,975 crore during 1998-99, that to medium and large industries increased sharply to Rs.16,783 crore from Rs.12,986 crore during 1998-99. Loans to other sectors recorded a rise of Rs.13,383 crore as compared with the increase of Rs.8,560 crore during 1998-99. Sectors such as housing, consumer durables, NBFCs, loans to individuals against shares/debentures/bonds, real estate, tourism related credit and non-priority sector personal loans exhibited a higher order of increase during 1999-2000, reflecting the banking sector's recent thrust towards financing the services sector and consumer loans.

3.40 Reflecting industrial recovery and increased demand for funds from the banking sector, the gross bank credit to the industrial sector increased by Rs.20,113 crore during 1999-2000 as compared with Rs.17,961 crore in the previous year (Appendix Table III.5). The industry-wise distribution of gross bank credit reveals that out of 26 industries, only two industries exhibited a negative growth in credit as against seven in 1998-99. Credit to engineering and petroleum industries exhibited a sharp turnaround during 1999-2000 while credit to chemicals, dyes, paints, *etc.*, food processing, cement, automobiles, construction, computer software and export related industries such as gems and jewellery, exhibited a substantial rise during 1999-2000 as compared with 1998-99. On the other hand, credit to electricity, iron and steel, vegetable oils (including *vanaspati*) and infrastructure and other industries was lower while that to mining, tobacco and tobacco products and tele-communications declined in 1999-2000.

3.41 Notwithstanding the pick-up in credit growth, banks sharply increased their investments in government securities by 24.7 per cent (Rs.55,239 crore) in 1999-2000 as against 19.4 per cent in 1998-99. The share of banks' incremental investments in government paper to incremental deposits jumped to 55.6 per cent in 1999-2000 from 31.4 per cent in 1998-99 and the share of lending to government in the overall deployment of resources by scheduled commercial banks was substantially higher at 42.9 per cent than 35.1 per cent in 1998-99. Currently, the banking system holds government and other approved securities of around 34.5 per cent of its net demand and time liabilities as against the requirement of 25 per cent. The excess SLR holdings by banks amounted to about Rs.85,000 crore as at end-March 2000. Banks' preference for government securities, despite a reduction in the stipulated SLR to the statutory minimum of 25 per cent was prompted by the higher capital adequacy requirement of 9 per cent and the prospect of reaping capital gains in the context of a decline in the market yields of government securities. This could, however, have implications for the interest rate spread of the banking system given the relative rigidity in the cost structure of funds mobilised by banks.

3.42 The liquidity enhancing monetary policy measures and a sharp increase in non-deposit resources enabled banks to finance incremental credit disbursals and investments. The Reserve Bank augmented liquidity of the banking system by about Rs.13,000 crore during 1999-2000. This was manifested in the reduction in the balances with the Reserve Bank by Rs.6,129 crore as against an increase by Rs.5,850 crore in 1998-99 (Table 3.10). Secondly, banks' 'other' demand and time liabilities increased by 30.6 per cent (Rs.18,369 crore) as against an increase of 28.7 per cent in 1998-99. Thirdly, banks' 'other' non-bank borrowings (primarily borrowings from the money market) increased by Rs.1,594 crore as against a decline of Rs.139 crore in 1998-99.

Trends in Utilisation of Refinance

Export Credit Refinance

3.43 During 1999-2000, the outstanding aggregate export credit of scheduled commercial banks increased from Rs.36,827 crore as on March 26, 1999 to Rs.40,460 crore as on March 24, 2000 and further to Rs.41,958 crore as on June 2, 2000 (Appendix Table III.6). However, as a percentage of net bank credit, it declined from 10.1 per cent as on March 26, 1999 to 9.3 per cent as on March 24, 2000 and increased to 9.5 per cent as on June 2, 2000. The export credit refinance limits of banks increased from Rs.7,269 crore (23.5 per cent of outstanding export credit eligible for refinance of Rs.30,945 crore) as on March 26, 1999 to Rs.10,579 crore (30.6 per cent of outstanding export credit eligible for refinance) as on March 24, 2000 and further to Rs.11,506 crore (32.0 per cent) of outstanding export credit (for working out refinance limit) as on June 2, 2000. With call rates hovering over the Bank Rate (also export credit refinance rate) of 8 per cent

Table 3.10: Select Liabilities and Assets of Commercial Banks: 1998-99 and 1999-2000

(Rupees crore)

	Last Reporting Friday of March			1999-2000		1998-99	
	2000	1999	1998	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8
Liabilities							
L.1 Deposits	8,13,344	7,14,025	5,98,485	99,319	13.9	1,15,540	19.3
L.2 Other Borrowings	2,734	1,140	1,279	1,594	139.8	-139	-10.9
L.3 Other Demand and Time Liabilities	78,442	60,073	46,679	18,369	30.6	13,394	28.7
L.4 Net Inter-Bank Liabilities	10,390	10,418	8,045	-28	-0.3	2,373	29.5
L.5 Borrowings from the RBI	6,491	2,894	395	3,597	124.3	2,499	632.7
Total (L) (L.1 to L.5)	**9,11,401**	**7,88,550**	**6,54,883**	**1,22,851**	**15.6**	**1,33,667**	**20.4**
Assets							
A.1 Food Credit	25,691	16,816	12,485	8,875	52.8	4,331	34.7
A.2 Non-food Credit	4,10,267	3,52,021	3,11,594	58,246	16.5	40,427	13.0
A.3 Non-SLR Investments	60,822	48,382	32,461	12,441	25.7	15,921	49.0
A.4 Investments in Government Securities	2,78,456	2,23,217	1,86,957	55,239	24.7	36,260	19.4
A.5 Investments in other Approved Securities	30,488	31,377	31,748	-889	-2.8	-371	-1.2
A.6 Balances with the RBI	57,419	63,548	57,698	-6,129	-9.6	5,850	10.1
A.7 Cash in Hand	5,330	4,362	3,608	968	22.2	754	20.9
Total (A)	**8,68,473**	**7,39,723**	**6,36,551**	**1,28,751**	**17.4**	**1,03,172**	**16.2**
(A)/(L) (%)	95.3	93.8	97.2				

during the greater part of 1999-2000, utilisation of export credit refinance was quite substantial, except in December 1999 and January 2000. The daily average utilisation of export credit refinance by banks on a fortnightly basis ranged between Rs.4,106 crore (47.9 per cent of limits) and Rs.9,152 crore (92.0 per cent of limits) during 1999-2000. As on June 2, 2000, the daily average utilisation of export credit refinance was Rs.9,189 crore (79.9 per cent of limits).

Collateralised Lending Facility (CLF) and Additional Collateralised Lending Facility (ACLF)

3.44 Utilisation of CLF/ACLF continued to be low despite occasional spurts in call money rates in August and October 1999. During April - October 8, 1999, daily average utilisation of CLF ranged between Rs.5 crore (0.3 per cent of limit) and Rs.476 crore (36.2 per cent of limit) whereas the daily average utilisation of ACLF ranged between Rs.6 crore (0.5 per cent of limit) and Rs.110 crore (8.4 per cent of limit). The removal of stipulation of the cooling period, effective October 6, 1999, imparted some impetus to utilisation of CLF/ACLF. The daily average utilisation of CLF and ACLF during the fortnight ended March 24, 2000 was Rs.629 crore (47.8 per cent of limit) and Rs.40 crore (3.1 per cent of limit), respectively. Further, the average utilisation of CLF and ACLF during the fortnight ended June 2, 2000 was Rs.488 crore (37.2 per cent of limit) and Rs.2 crore (0.2 per cent of limit), respectively. With the introduction of the Liquidity Adjustment Facility (LAF), with effect from June 5, 2000, ACLF was replaced by variable rate repo auctions with same day settlement (Box I.1).

Bank Credit to Priority Sector

3.45 The aggregate outstanding priority sector advances of public sector banks increased from Rs.1,07,200 crore (43.5 per cent of net bank credit) as on the last reporting Friday of March 1999 to Rs.1,27,807 crore (43.6 per cent of net bank credit) as on the last reporting Friday of March 2000 and was 3.6 percentage points higher than the stipulated target of 40 per cent. The advances to the agricultural sector by public sector banks at 15.8 per cent on that date was 2.2 percentage points lower than the sub-target of 18 per cent of net bank credit. Advances to the weaker sections amounted to 7.2 per cent as against the stipulated target of 10 per cent of net bank credit. Private sector banks increased their priority sector credit from Rs.14,295 crore in March 1999 to Rs.14,747 crore in September 1999 and adhered to the priority sector target of 40 per cent as at end-September 1999. However, they faced a substantial shortfall in extending credit to agriculture (8.7 per cent of net bank credit as against the stipulated 18 per cent). The outstanding advances by foreign banks to the priority sector increased from Rs.8,270 crore (37.1 per cent of net bank credit) to Rs.9,699 crore (34.5 per cent). As against the sub-targets of 10 and 12 per cent for SSI and exports, respectively, credit extended by foreign banks to these sectors amounted to 10.2 and 22.5 per cent of net bank credit. While 66 per cent of priority sector advances of foreign banks were directed towards export credit, the bulk of the public sector banks' priority sector advances was accounted for by agriculture (36.1 per cent) and small-scale industries (35.8 per cent).

Trends during the First Quarter: 2000-01

3.46 Aggregate deposits of scheduled commercial banks increased by 4.6 per cent (Rs. 37,081 crore) during the first quarter of 2000-01 as against the rise of 2.1 per cent during the comparative period of 1999-2000 (up to July 2, 1999). Bank credit increased by 4.4 per cent (Rs.19,303 crore) with food credit and non-food credit rising by Rs. 7,491 crore and Rs. 11,812 crore, respectively. The pick-up in non-food credit in the first quarter of this year, in contrast to a decline of 1.0 per cent during 1999-2000 (up to July 2, 1999), indicated continuity in the industrial recovery and the effect of the sharp increase in the fortnight ended April 7, 2000. Scheduled commercial banks' investments in government securities decelerated to 6.5 per cent from 9.8 per cent in 1999-2000 (up to July 2, 1999). The acceleration in non-food credit off-take and high, *albeit*, lower growth in investments in government securities were facilitated by the reduction in CRR announced in April 2000.

PRICE SITUATION

3.47 According to the new series of Wholesale Price Index (WPI) (Box III.7), introduced with effect from April 1, 2000, the annual rate of inflation measured on a point-

Box III.7

Working Group on the Revision of Index Numbers of Wholesale Prices in India (Base: 1993-94 = 100)

The Working Group for the Revision of Index Numbers of the Wholesale Prices in India (Chairman: Prof. S.R. Hashim), after conducting a comprehensive review of the existing database and methodology, has introduced a new series of wholesale price index (WPI). The base of the new series of WPI has been shifted to 1993-94 from the series with 1981-82 as the base year. The basic rationale of conducting a revision exercise of the WPI was to advance the base year to a more recent period so as to update the old commodity price vector and its weighting pattern thereby capturing the structural transformation process of the economy.

The new series considered only commodity producing sectors and has followed the same sectorisation as the previous series, *viz.*, "primary articles", "fuel, power, light and lubricants" and "manufactured products". The only change in the classification system is the elimination of the category "other miscellaneous manufactures" under "manufactured products" with *pro rata* distribution of the weight among the remaining items in manufacturing.

The new series has covered 435 items in the commodity basket with 98 primary articles, 19 fuel group items and 318 manufactured products. The number of price quotations in the revised series is spread out to as many as 1918 quotations. The average number of price quotations per item, thus, works out to 4.4 for the revised series.

For preparation of the weighting diagram, the methodology adopted in the old series has been followed for the new series. The weighting distribution has been designed by excluding the services from the total value of transactions of the economy and then adopting a "from above" approach where the weights of the major groups were imposed from outside and then depending on the sample concerned, the weights within a group were parametrically imposed. This approach was adopted to avoid sample bias in cases of discrepancy of sample commodity-wise proportionality from the census figures. The weights of the items are based on the value of transactions which consist of (i) value of estimated marketed surplus in the case of agricultural commodities and value of products for sale in the case of non-agricultural products, (ii) total value of imports, including import duties and (iii) total value of excise duty. Weights have been assigned on the basis of the entire wholesale transactions in the economy. The value of transactions of non-selected commodities has been assigned to the selected items on a *pro rata* basis.

The comparative picture of the weighting diagrams of the previous, the existing and the revised series are presented in Table 3.11.

Table 3.11: Weighting Diagram of the WPI Series

(per cent)

Items	1993-94 Series	1981-82 Series	1970-71 Series
1	2	3	4
All Commodities	100.00	100.00	100.00
Primary Articles	22.02	32.29	41.66
Fuel, Power, Light and Lubricants	14.23	10.66	8.45
Manufactured products	63.75	57.04	49.87

The revised series like the earlier series is based on ex-factory/ex-mine prices in respect of manufactured items. In the case of agricultural commodities, however, the prices as quoted in primary markets are used. The mixture of ex-factory (inclusive of excise duty) and wholesale prices are used in the compilation of the index of manufactured items. There is no change in the system of collection of price data, which is mostly through correspondence.

There is no change in the method of compilation of the index in the new series. It is calculated on the principle of weighted arithmetic mean according to the Laspeyere's formula, which has fixed base weights operating through the entire life span of the series. In order to maintain continuity in the index series, the Working Group has continued to use the arithmetic conversion method to provide a linking factor between the new and the outgoing series, since it is operationally most convenient.

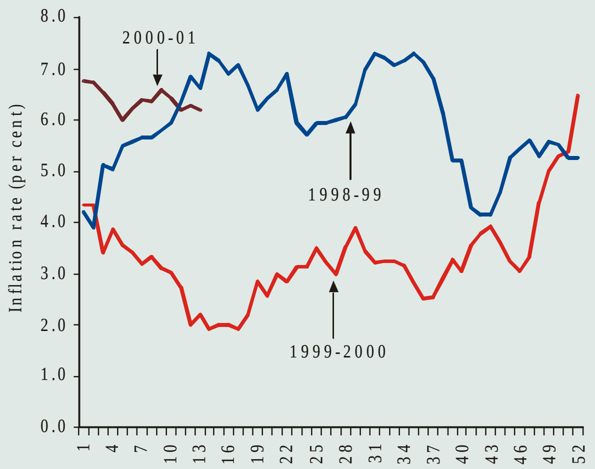
The average inflation rate, as per the new series, shows some difference from that measured on the basis of the old series. According to the new series, the average rate of inflation works out to 7.1 per cent during the period 1994-95 to 1998-99 as compared with 7.4 per cent as per old series. During 1999-2000, the average inflation rate, as per the new series, is slightly higher at 3.3 per cent than that of 3.0 per cent as per the old series. During the period 1994-95 to 1999-2000, manufacturing inflation works out to be 5.7 per cent in the new series, the same as that of 5.7 per cent in the old series, reflecting the lower manufacturing prices in the recent past. There are, however, differences between the new and old series in the case of primary articles and the fuel group. The average inflation rate of primary articles is placed higher at 8.0 per cent during 1994-95 to 1999-2000 according to the new series than 7.7 per cent as per the old series. The fuel group inflation at 8.3 per cent in the new series is also higher than that of 8.1 per cent in the old series, during 1994-95 to 1999-2000.

Reference

1. Government of India (1999), *Report of the Working Group on the Revision of Index Numbers of Wholesale Prices in India*, Ministry of Commerce and Industry, Office of the Economic Adviser, New Delhi.

to-point basis, during 1999-2000, remained consistently below the rates of inflation in 1998-99 for 48 weeks moving in the range of 1.9 per cent to 5.3 per cent in 1999-2000 as compared with the range of 4.2 per cent to 7.3 per cent in 1998-99. The rate of inflation picked up above 5 per cent in the first three weeks of March 2000, before closing the year at 6.5 per cent as against 5.3 per cent in 1998-99[2] (Chart III.8). The significant spurt in inflation in the last month of 1999-2000 was accounted for by the revision of prices of electricity (15.1 per cent) and urea N content (14.0 per cent) in the third week of February 2000 and prices of kerosene (100.9 per cent), liquified petroleum gas (30.2 per cent) and aviation turbine fuel (18.2 per cent) on March 22, 2000. Excluding the price increases of the above administered items, the inflation rate works out to 2.6 per cent for 1999-2000. Notwithstanding the year-end spurt, the low order of inflation during the major part of

Chart III.8: Week-to-week Annual Inflation Rate (WPI)



2. It may be noted that the provisional inflation rate on point-to-point basis for 1999-2000, as per old index (base: 1981-82 = 100) was significantly lower at 3.7 per cent than the revised rate of 6.5 per cent, as per the new index (base: 1993-94 =100). The difference between the two indices was primarily accounted for by the revision in the prices of fuel items, electricity and urea, which could not be captured in the price quotations for the compilation of the price index under the old base. The difference in the weighting pattern and commodity basket between the two series also contributed to this divergence.

1999-2000 led to the decline of the average rate of inflation (on a weekly basis) to the low of 3.3 per cent in 1999-2000 as against 5.9 per cent in 1998-99 and the average of 9.0 per cent during 1990-91 to 1997-98 (Tables 3.12 and 3.13 and Appendix Table III.7).

3.48 The inflation rates at the retail level, as measured by the annual variations in the Consumer Price Index for Industrial Workers (CPI-IW), on a point-to-point basis, by and large, moved in tandem with the WPI inflation. The CPI recorded an inflation rate of 4.8 per cent in 1999-2000 as against 8.9 per cent in 1998-99 with the month to month annual rate of inflation ranging between zero per cent in November 1999 and 8.4 per cent in March 1999. The steep deceleration in consumer inflation was reflected in the average (monthly) inflation rate for the year, which moved down to 3.4 per cent in 1999-2000 from 13.1 per cent in 1998-99.

3.49 An analysis of WPI at the disaggregated level indicates that, on an average basis, fuel, power, light and lubricants recorded the highest price increase of 9.0 per cent (3.2 per cent in 1998-99) reflecting the revision of diesel prices, in October 1999, the hike in the price of electricity in the third week of February 2000 and the substantial increase in the prices of kerosene, liquified petroleum gas and aviation turbine fuel in the last week of March 2000. Within the fuel group, the inflation rates of mineral oils and electricity accelerated to 11.8 per cent and 7.5 per cent, respectively, in 1999-2000 from 3.1 per cent and 3.4 per cent in 1998-99. The primary articles group witnessed a moderate order of increase in prices of 1.1 per cent in 1999-2000 as compared with 12.0 per cent in 1998-99. Within the primary articles group, cereals recorded double digit rate of inflation of 17.8 per cent in 1999-2000 as compared with 9.0 per cent in 1998-99. On the other hand, prices of fruits and vegetables, raw cotton and oilseeds declined by 16.9 per cent, 11.7 per cent and 10.2 per cent, respectively, in 1999-2000 in contrast to increases of 29.8 per cent, 7.4 per cent and 15.8 per cent in 1998-99.

3.50 Manufactured products, both on an average as well as on a point-to-point bases, showed the lowest order of increase in inflation since 1982-83. The average inflation in the case of manufactured products decelerated to 2.7 per cent in 1999-2000 from 4.4 per cent in

Table 3.12: Main Inflation Indicators

(Per cent)

Item	1999-2000	1998-99	1990-91 to 1997-98	1980-81 to 1989-90
1	2	3	4	5
1. WPI - All Commodities				
a) Point-to-point basis	6.5	5.3	9.4	7.5
b) Average basis	3.3	5.9	9.0	8.0
2. CPI - Industrial Workers				
a) Point-to-point basis	4.8	8.9	10.1	8.9
b) Average basis	3.4	13.1	9.8	9.1

Note: Data is based on the new base (1993-94 = 100) from 1994-95 onwards.

1998-99. On a point-to-point basis, the inflation rate of manufactured products fell to 2.4 per cent in 1999-2000 from 4.9 per cent during the previous year. The deceleration in the inflation rate, on an average basis, in the case of manufactured products was primarily contributed by the decline in the prices of edible oils, cotton textiles and cement to 12.3 per cent, 0.3 per cent and 1.9 per cent, respectively, in 1999-2000 as against the increases of 22.8 per cent, 1.7 per cent and 1.5 per cent in 1998-99. Besides, sugar, *khandsari* and *gur*, iron and steel and machinery and machine tools also exhibited very low inflation rates of 1.6 per cent, 1.3 per cent and 0.1 per cent, respectively, in 1999-2000 as compared with the increases of 14.2 per cent, 2.3 per cent and 0.6 per cent in 1998-99 (Appendix Table III.7).

3.51 The average increase in the administered prices was 8.9 per cent in 1999-2000 as compared with 3.0 per cent in 1998-99 (Table 3.14). This was primarily led by a sharp increase in the prices of mineral oils, electricity and urea N content. Excluding the administered items, the annual average inflation rate fell to 2.1 per cent as against the actual of 3.3 per cent. Chart III.9 shows V shaped price trends in administered commodities between 1997-98 and 1999-2000. Administered prices of fuel and electricity were revised to a high level in 1997-98 and fell in 1998-99, before returning in 1999-2000 to the average levels witnessed during 1994-95 to 1996-97.

3.52 An analysis of the weighted contribution of major commodity groups to the WPI indicates that the fuel group contributed 41.4 per cent of the overall inflation rate in 1999-2000 as compared with a low share of

Table 3.13: Frequency Distribution of Annualised Inflation Rates @
(Base : 1993-94 = 100)

Range of Annualised Inflation Rate (Per cent)	Number of Months		
	1999-2000	1998-99	1997-98
1	2	3	4
2.1 - 3.0	4	—	—
3.1 - 5.0	7	2	9
5.1 - 7.0	1	8	3
7.1 - 9.0	—	2	—
Memo Items			
Average (per cent)	3.3	5.9	4.4
Median (per cent)	3.2	6.0	4.2
Standard Deviation (per cent)	0.9	0.9	0.7

@ Month-wise (Average of weeks).

Table 3.14: Hike in Administered Prices (Average basis)

(Per cent)

Item	Weight	1999-2000	1998-99	1997-98	1994-95 to 1996-97
1	2	3	4	5	6
1. Coal Mining	1.753	3.8	2.7	18.7	5.7
2. Mineral Oil	6.990	11.8	3.1	12.7	7.3
3. Electricity	5.484	7.5	3.5	13.7	10.2
4. Urea N Content	2.156	7.7	1.6	9.2	7.2
Administered Items	**16.383**	**8.9**	**3.0**	**13.2**	**8.0**
Memo Item					
Inflation Rate (Change in WPI)	3.3	5.9	4.4	8.4	

8.3 per cent in 1998-99. The share of primary articles in the overall WPI inflation receded to 8.1 per cent in 1999-2000 from 46.6 per cent in 1998-99 while that of manufactured products rose from 45.2 per cent to 49.9 per cent over the same period (Table 3.15 and Appendix Table III.8).

3.53 The rate of inflation in terms of the point-to-point variation in the Consumer Price Index for Industrial Workers (CPI-IW) recorded an increase of 4.8 per cent in 1999-2000 as compared with an increase of 8.9 per cent in 1998-99. On an average basis, CPI-IW showed an inflation rate of 3.4 per cent in 1999-2000, much lower than that of 13.1 per cent in 1998-99. The overall deceleration in CPI-IW reflects the subdued movement in the price of food products emanating from the bumper foodgrains production, better management of the Public Distribution System and improved supply position of essential items like edible oils and sugar through imports, which quelled the inflationary expectations in respect of primary articles. As a result, the annualised monthly inflation rates measured by CPI-IW and WPI showed a larger degree of convergence in 1999-2000 than in the preceding year (Appendix Table III.9 and Chart III.10). The differential moved in the range of (-) 2.8 per cent to 4.6 per cent in 1999-2000 as compared with the range of 3.2 per cent to 12.4 per cent in 1998-99. Within the consumer inflation, prices of pulses and products, oils and fats, condiments and spices and vegetables and fruits recorded sharp drops, in line with the comparable counterparts in the wholesale prices. However, the consumer inflation of meat, fish and eggs and fruits and vegetables remained above the wholesale prices of these groups (Chart III.11).

Table 3.15: Contribution of Major Groups to Inflation (Average Basis) (Base: 1993-94 = 100)

(Per cent)

Item	1999-2000	1998-99	1990-91 to 1997-98	1980-81 to 1989-90
1	2	3	4	5
Primary Articles (22.03)	8.1	46.6	34.1	33.2
Fuel Group (14.23)	41.4	8.3	14.7	12.6
Manufactured Products (63.75)	49.9	45.2	51.4	54.2
All Commodities (100.0)	100.0	100.0	100.0	100.0

Note: Figures in parentheses indicate relative weights.

Chart III.9: Hike in Administered Prices (Average Basis)

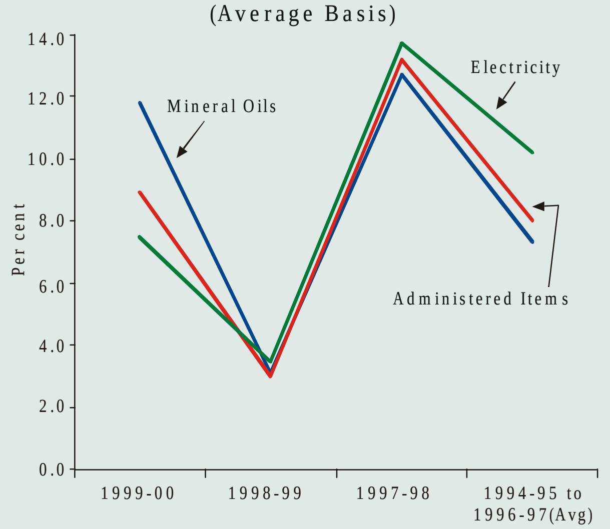


Chart III.10: Monthly Annual Variation (Point-to-point basis) in CPI-IW and WPI

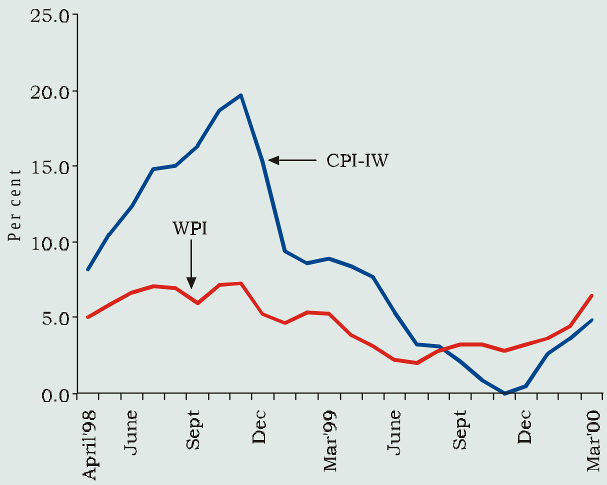
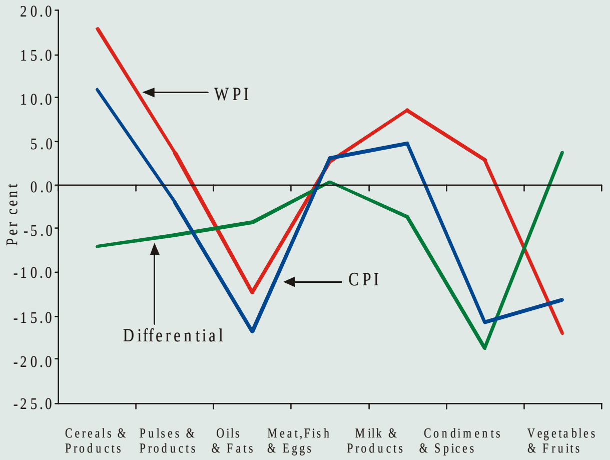


Chart III.11: Variations in Sub-groups of CPI and WPI and their Differential for 1999-2000 (Average Basis)



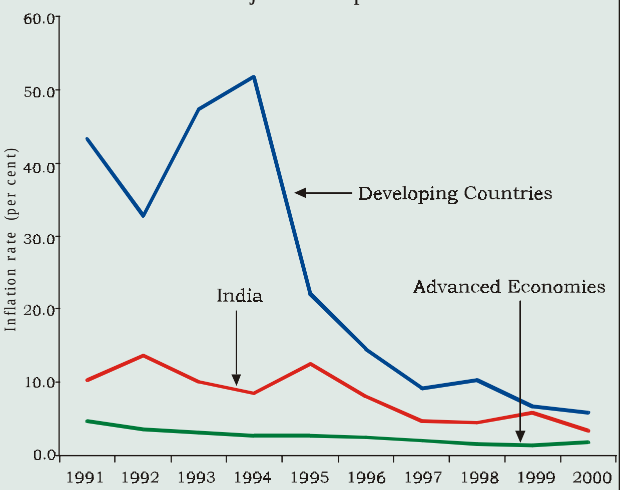
3.54 The frequency distribution of the consumer price inflation based on centre-wise data available for 70 cities across India showed that the price deceleration was common to all centres. Out of 70 centres, 3 centres reported negative inflation, 50 registered under 5.0 per cent inflation and the remaining recorded inflation within the range of 5.0 per cent to 9.9 per cent. The rate of inflation never exceeded the double digit level in any of the centres as against 58 centres, which had reported double digit inflation, in 1998-99.

3.55 The recent trends in the inflation rates have brought to focus a number of aspects of management of prices in India. First, the inflation rate in the past two years (1998-99 and 1999-2000) has moved in a cyclical fashion, reflecting the larger role of agricultural supply cycles on the price situation. Secondly, the delayed revision of administered prices has added a certain degree of uncertainty to the inflation situation. Both these factors have blurred the role of demand side factors in the inflation process. Thirdly, the steady decline in manufacturing sector inflation, a result mainly brought about by internal restructuring and technological upgradation in industry, indicates, *inter alia*, the growing importance of a competitive industrial sector in sustaining improvement in the price situation. Fourthly, the Indian inflation rate has remained lower than the average inflation rate for developing economies in the 1990s. However, the substantial decline in the inflation rate of the developing economies during the second half of the 1990s has narrowed the differential with the rate obtained in India[3] (Chart III.12).

Trends during the First Quarter: 2000-01

3.56 The year-on-year rate of inflation, as measured by WPI, during the first quarter of 2000-01, increased due to the one time hike in the prices of electricity and urea N content and fuel items effected in February and March 2000, respectively, and also the rise in the

Chart III.12: Inflation Rate (WPI) in India *vs* Major Groups of Countries



3. The rate of inflation is based on the wholesale price index on a financial year basis for India and on the consumer price index for other countries.

prices of primary articles. The rate of inflation was high at 6.8 per cent as on April 1, 2000 and remained above 6.0 per cent till end-June 2000. Among the major groups of WPI, the fuel group exhibited the maximum increase of 26.8 per cent as at end-June 2000 as compared with an increase of 3.0 per cent a year ago and the primary articles group increased to 4.4 per cent from a marginal increase of 0.1 per cent as at end-June 1999. The inflation rate of manufactured products further dipped to a low order of 1.8 per cent as compared with 2.9 per cent a year ago. Within the primary articles group, milk, eggs, fish and meat, fibres and fruits and vegetables contributed to a higher order of increase. In the case of the fuel group, the price increase of major components like mineral oils and electricity was high at 41.8 per cent and 15.1 per cent, respectively, as at end-June 2000 as compared with increases of 1.8 per cent and 5.3 per cent a year ago. In the case of the manufactured products group, mainly edible oils, cement and chemicals and chemical products brought down the overall inflation rate of the group (Appendix Table III.7). The weighted contribution of the fuel group to the overall price rise as at end-June 2000 was maximum at 65.7 per cent as compared with 20.7 per cent as at end-June 1999. The shares of primary articles and manufactured products were 17.1 per cent and 17.2 per cent, respectively, as at end-June 2000 as compared with 1.4 per cent and 78.1 per cent a year ago. The CPI-IW, on a point-to-point basis, showed an increase of 5.2 per cent as at end-June 2000 as compared with 5.3 per cent as at end-June 1999.

Core Inflation

3.57 The concept of core inflation has gained importance in the monetary policy framework of several countries in recent years. Core inflation provides a measure of long-term inflation movements in the economy when various types of supply shocks or administered price changes produce fluctuations in the price index. Thus, the core inflation essentially captures the underlying cost and demand conditions which affect inflation when output is at its normal level.

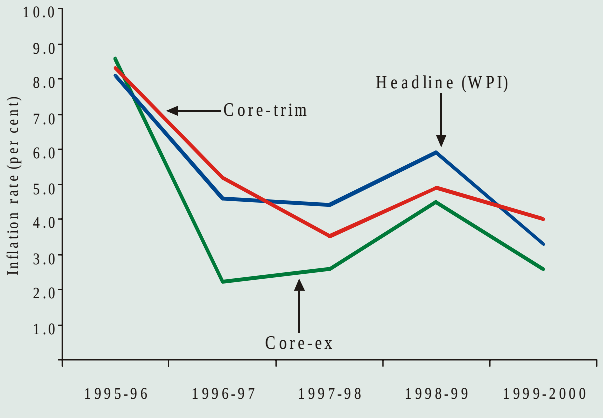
3.58 Core inflation is estimated in several ways. Of them, the two frequently used approaches, *viz.*, the exclusion principle, through which relatively volatile commodity prices are excluded from the inflation rate and the limited influence estimators like the trimmed mean method[4], through which only a certain part of the skewness in actual commodity prices is removed, are employed to derive the core inflation for India. The inflation targeting countries have been monitoring the core inflation rate by excluding certain commodities from the headline price index.

3.59 The empirical work regarding the estimates of core inflation is of recent origin in India, with few estimates available. It needs to be recognised that estimates of core rate of inflation are sensitive to factors such as the commodity basket and the weight structure. The measure of core inflation for the Indian economy could be worked out by an index constructed after excluding the commodities which are significantly influenced by supply shocks and administered prices from the WPI. By these criteria, the commodities excluded constitute about 38 per cent of the total weight of the WPI. The core inflation measured by the exclusion criteria is estimated to have declined to 2.6 per cent during 1999-2000 from 4.5 per cent in 1998-99. However, given the large number of commodities that were to be excluded from the WPI following the criteria of sensitivity to supply shocks and administered price controls, the core inflation measured on this basis may not reflect a true measure of inflation.

3.60 An alternative estimate is provided by the weighted trimmed mean method, which considers all commodities but removes only the fixed percentage of skewness of inflation from the WPI basket[5]. Chart III.13 provides the annual trends in the actual inflation, as measured by the WPI, and the two alternative core measures of inflation for the Indian economy during 1995-96 to 1999-2000. The

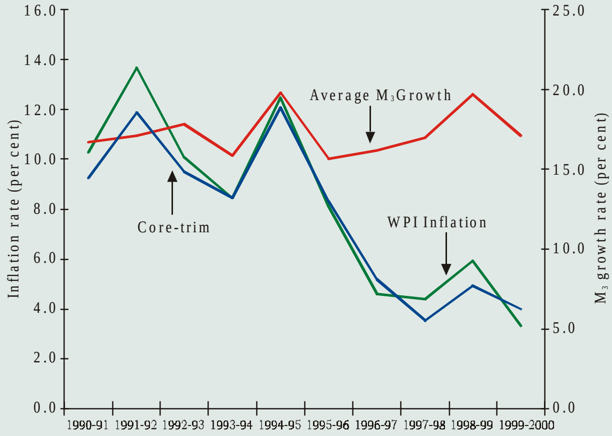
4. The weighted trimmed mean method excludes a fixed percentage of data points from the top and bottom tails of the inflation distribution across commodities. By this principle, an equal percentage of points of the inflation rate on either side, ordered by the weight of the commodity basket, are removed from the actual inflation rate.
5. This alternative estimate of core inflation is generated by using the 20 per cent weighted trimmed mean method. By these criteria, 10 percentage points of inflation on either side ordered by the weight of the respective commodities is removed from the actual inflation.

Chart III.13: Headline and Core Inflation Measures : 1995-96 to 1999-2000



Core-ex : Core inflation based on exclusion principle.
Core-trim : Core inflation based on weighted trimmed mean method.

Chart III.14: Actual and Core (Core-trim) Inflation Measures and Monetary Growth : 1990-91 to 1999-2000



core inflation measured by the weighted trimmed mean method (20 per cent trimmed mean) also showed a substantial decline in underlying inflation during the past two years. It declined to 4.0 per cent in 1999-2000 from 4.9 per cent in 1998-99.

3.61 Chart III.14 gives the trends in the annual average M_3 growth, actual inflation and core inflation as measured by the weighted trimmed mean method. The core inflation indicates a closer co-movement with M_3 growth than that of the actual inflation, particularly in the years of significant supply shocks. Both core and actual inflation diverged significantly from the M_3 growth in the years immediately following the second half of the 1990s. It must, however, be emphasised that these are very preliminary results and further work, therefore, is needed both on the methodology and on the utility of the concept for purposes of formulation of monetary policy.

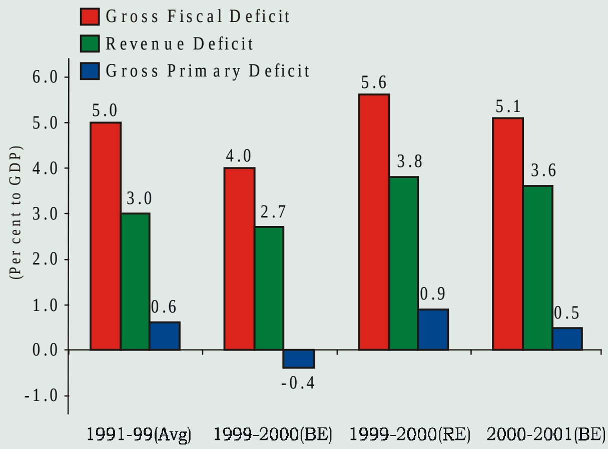
IV GOVERNMENT FINANCES

4.1 During 1999-2000, fiscal management in the economy continued to be constrained by high fiscal deficits of both the Central and State Governments. Central Government finances came under pressure from both revenue shortfall and expenditure overrun, while State Government finances turned sharply adverse in order to meet the recurrent expenditure requirements mainly on account of recent pay revisions. The large market borrowing by the Central Government, above the budgeted level, on account of the rise in fiscal deficit posed a severe challenge. The Reserve Bank had to face the dilemmas in managing debt and monetary management operations to ensure an appropriate interest rate environment in the economy, keeping in view the incipient industrial recovery. The government bond market remained relatively stable with the yield curve moving down during the year and the maturity profile of government debt was considerably lengthened.

CENTRAL GOVERNMENT FINANCES : 1999-2000

4.2 The stress in the finances of the Central Government during 1999-2000 was partly due to unanticipated expenditures on account of national defence, the unprecedented cyclone in Orissa, the residual impact of the Fifth Pay Commission along with the provision of special fiscal assistance to States in the light of the Eleventh Finance Commission's recommendations. The overall expenditure (revised estimates), as a result, exceeded the budget estimates by 7.0 per cent. There was also a significant shortfall in tax collections and divestment proceeds. Revenue receipts in 1999-2000 fell short of the budgeted target by 1.8 per cent. Consequently, almost all the major deficit indicators such as the gross fiscal deficit, revenue deficit and primary deficit of the Central Government exceeded the budget estimates by a significant margin (Chart IV.1). The gross fiscal deficit[1] (GFD) increased to

Chart IV.1: Major Deficit Indicators of the Centre (Excluding States' share in small savings)



Rs.1,08,898 crore (5.6 per cent of GDP) in the revised estimates, as against the budget estimate of Rs.79,955 crore (4.0 per cent of GDP) (Appendix Table IV.1). The revenue deficit at Rs.73,532 crore (3.8 per cent of GDP) exceeded the budget estimate by Rs.19,385 crore and formed almost two-thirds of the gross fiscal deficit. The primary balance recorded a deficit of 0.9 per cent of GDP in contrast to the projected surplus of 0.4 per cent of GDP in the budget estimates.

4.3 During 1999-2000, the net market borrowing of the Central Government (including 364-day Treasury Bills) at Rs.73,077 crore exceeded the budgetary projections by Rs.15,616 crore (27.2 per cent). The gross market borrowing of the Central Government amounted to Rs.99,630 crore in 1999-2000 as against Rs.93,953 crore in 1998-99 (Appendix Table IV.9). The Reserve Bank's support to the market borrowing programme by way of private placements/devolvements of dated securities and devolvement of 364-day Treasury bills at Rs.29,267 crore in 1999-2000 was lower than Rs.39,777 crore in 1998-99. The initial subscription was offloaded through net open market sales amounting to Rs.30,861 crore. The Reserve Bank's initial subscription was high in the first quarter and subsequently

1. Exclusive of States' and UT's share of small savings.

declined by the fourth quarter of 1999-2000 (Table 4.1 and Chart IV.2).

4.4 The net Reserve Bank credit to the Central Government moved in a totally different direction from that of the fiscal deficit. The net Reserve Bank credit to the Central Government, after closure of accounts, declined by Rs.5,587 crore during 1999-2000, recording a surplus for the first time since 1977-78. Throughout 1999-2000, the net Reserve Bank credit to the Centre remained well below that of 1998-99, except in April and September 1999. The agreed limits of Ways and Means

Table 4.1: RBI's Initial Subscription to Borrowings of Central Government

(Rupees crore)

Quarters	Subscription to Treasury Bills					Sub-scrip-tion to dated secu-rities	Total initial subscription to Borro-wing of Central Govern-ment (6+7)	OMO pur-chases	OMO sales	Net RBI credit to Central Govern-ment ✱ +
	14-day	91-day	182-day	364-day	Total					
1	2	3	4	5	6	7	8	9	10	11
1997-98										
First Quarter (April-June)	0	169	—	0	169	5,884	6,053	0	1,956	4,038
Second Quarter (July-September)	0	50	—	0	50	1,143	1,193	0	107	-7,731
Third Quarter (October-December)	0	244	—	0	244	0	244	467	1,530	7,192
Fourth Quarter (January-March)	0	627	—	0	627	6,000	6,627	0	4,488	12,914
1998-99										
First Quarter (April-June)	74	245	—	347	666	14,000 (10,000)	14,666	0	262	15,162
Second Quarter (July-September)	2,190	2,200	—	615	5,005	4,205 (0)	9,210	0	9,033	1,856
Third Quarter (October-December)	331	345	—	30	706	12,000 (12,000)	12,706	0	9,080	13,663
Fourth Quarter (January-March)	209	224	—	580	1,013	8,000 (8,000)	9,013	0	11,294	11,800
1999-2000										
First Quarter (April-June)	185	281	0	275	741	21,000 (21,000)	21,741	0	18,637	8,205#
Second Quarter (July-September)	421	481	290	1,417	2,609	2,500 (2,500)	5,109	50	7,193	3,510
Third Quarter (October-December)	183	473	154	575	1,385	3,500 (3,500)	4,885	2,141	3,567	7,572
Fourth Quarter (January-March)	346	288	201	0	835	0 (0)^	835	4,754	8,409	-5,587
2000-01										
First Quarter (April-June)	339	449	150	1,000	1,938	6,961	8,899	5	2,030	14,412

– Not applicable. # upto June 18, 1999.

✱ Variation over the end-March position.

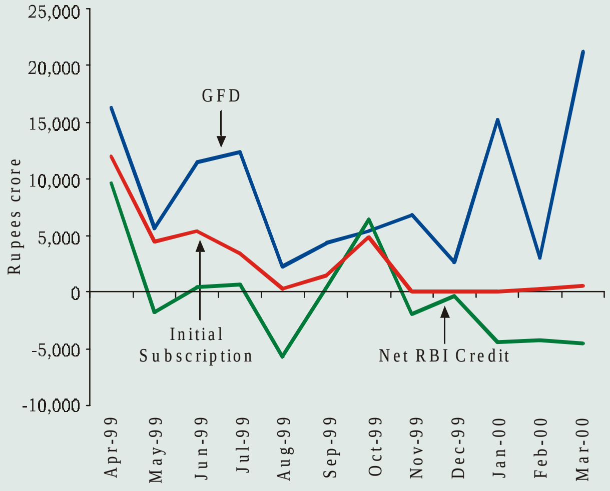
\+ Column 8, 9 and 10 will not add up to variation in net RBI credit to the Central Government (Col.11) which is the sum of change in the RBI's holdings of Government of India dated securities, Treasury Bills and rupee coins and loans and advances from the Reserve Bank to the Centre, adjusted for changes in the Centre's cash balances with the Reserve Bank.

Note: The figures in brackets refer to private placements with the Reserve Bank.

Advances (WMA) for the first and second halves of 1999-2000 remained the same as in the previous year, *i.e.*, Rs.11,000 crore (April-September) and Rs.7,000 crore (October-March), respectively. The average utilisation of WMA came down from Rs.7,318 crore in the first quarter to Rs.4,225 crore in the second quarter, rose to Rs.5,818 crore in the third quarter and moved down to Rs.3,414 crore in the fourth quarter. The year-end outstanding WMA was placed at Rs.982 crore as against Rs.3,042 crore as on March 31, 1999 (Table 4.2). During the fiscal year, the Government took recourse to overdraft on a few occasions up to a maximum of seven consecutive working days and the maximum amount of overdraft was Rs.3,582 crore.

4.5 Revenue expenditure at Rs.2,53,036 crore was higher by Rs.16,049 crore than the budget estimates, accounting for nearly 81 per cent of increase in total expenditure. Expenditure pressures emanated mainly from increase in interest payments (Rs.3,425 crore), defence (Rs.2,409 crore), pensions (Rs.4,173 crore) and short-term assistance (provisions for extended WMA) to States (Rs.3,000 crore). Direct capital outlay of the Central Government at Rs.25,184 crore in the revised estimates was higher by 3 per cent, with a large part of it incurred on defence. Non-defence capital outlay rose by 3.1 per cent over the budget estimates. However, the Annual Plan outlay in the revised estimates, at Rs.96,310 crore, fell short of the budget estimates by Rs.7,211 crore. The cut back in the Plan outlay was necessitated mainly due to fall in the contribution of internal and extra budgetary resources of public sector enterprises (Rs.6,872 crore).

Chart IV.2: Monthly Trend in GFD and RBI's Initial Subscription to Central Government Borrowings (1999-2000)



4.6 The shortfall in the Annual Plan outlay during 1999-2000 reflects the structural constraint posed by the growing non-Plan expenditure. Interest payments formed the largest component of government expenditure accounting for 40.8 per cent of non-Plan expenditure. This share has gone up from 23.7 per cent in the 1980s to 36.3 per cent in the 1990s. The non-interest, non-Plan expenditure,

Table 4.2: Loans and Advances and Net RBI Credit to the Centre@

(Rupees crore)

Period	Loans and Advances from RBI*			Net RBI Credit to Centre		
	2000-2001	1999-2000	1998-99	2000- 2001	1999-2000	1998-99
1	2	3	4	5	6	7
Quarterly Average						
First Quarter (April-June)	9,137	7,318	9,411	8,434	8,349	6,121
Second Quarter (July-September)	8,143 #	4,225	4,134	18,792#	7,398	11,543
Third Quarter (October-December)		5,818	3,325		7,859	14,471
Fourth Quarter (January-March)		3,414	4,797		2,536	17,985
Fiscal Year Average $		5,025	5,204		6,034	12,668
End-March		982	3,042		-5,587	11,800

@ As per RBI records. # Up to August 11, 2000. (-) Indicates surplus.

* Represents outstanding Ways and Means Advances from RBI. The limits on WMA for the first half (April-September) and for the second half (October-March) are Rs.11,000 crore and Rs.7,000 crore, respectively.

$ Average of all fortnightly reporting Friday figures and the end-March figures, after the closure of Government accounts on the other hand, grew by a lower order of 12.6 per cent in the 1990s as compared with 19.4 per cent in the 1980s.

4.7 Revenue receipts during 1999-2000 at Rs.1,79,504 crore in the revised estimates were lower by Rs.3,336 crore than the budget estimates. This was mainly due to fall in the tax revenue, while non-tax revenue recorded modest growth. The tax-GDP ratio of Centre (gross) was projected at 8.8 per cent in the budget estimates while the realisation as per revised estimates stood at 8.7 per cent as against 8.2 per cent in 1998-99. Revenue collection from customs and excise duties turned out to be below the budget projection. It was attributed to very low growth in the dollar value of non-oil imports and partly due to lower taxable value of excisable items, and lower excise rates on such items. In respect of taxes on income other than corporation tax (net to Centre), collections improved from Rs.9,923 crore in the budget estimates to Rs.10,132 crore in the revised estimates, almost double that of Rs.5,755 crore during 1998-99. On the other hand, corporation tax at Rs.29,915 crore, showed a decline of Rs.935 crore in 1999-2000 over Rs.30,850 crore in the budget estimates.

4.8 There was a decline in the overall tax buoyancy in the 1990s as compared with the 1980s. The fall in the overall tax buoyancy is on account of a sharp decline in the indirect tax buoyancy from 1.15 in the 1980s to 0.83 in the 1990s, partly reflecting a progressive reduction in the import duty rates and rationalisation of excise duty structure, as part of the tax reform programme. Though the buoyancy in direct taxes improved, it did not translate itself into a rise in the overall tax buoyancy as the proportion of direct tax revenue in the total tax revenue was small. A sustained decline in tax buoyancy implies that the taxable base is rising at a disproportionately lower rate than the growth in GDP. It would, if unaccompanied by a commensurate adjustment in expenditure, tend to push up Government borrowings and the level of public debt, perhaps at a higher rate than the growth in GDP.

4.9 During 1999-2000, the problem of resource mobilisation was exacerbated by a large shortfall in the proceeds from disinvestment. Compared to the estimate of Rs.10,000 crore, the actual realisation was Rs.2,600 crore. The net market borrowings at Rs.77,065 crore exceeded the budget estimates by Rs. 19,604 crore and accounted for 71.0 per cent of GFD. Other liabilities (small savings, provident funds, *etc.*) and external assistance financed the remaining gap (Appendix Table IV.4).

Central Government Budget : 2000-01

4.10 The budget for 2000-01, formulated against the backdrop of a large slippage in the fiscal position, accorded high priority to curbing expenditure growth and bringing about structural changes in the composition of expenditure. Both the revenue deficit and fiscal deficit are budgeted to be brought down to 3.6 per cent and 5.1 per cent of GDP, respectively, from 3.8 per cent and 5.6 per cent in 1999-2000 (revised estimates). The primary deficit is also budgeted lower at 0.5 per cent of GDP than 0.9 per cent in the previous year. The medium-term strategy underlying the budget is to place the economy on a high growth path of 7 to 8 per cent with a view to reducing poverty significantly within the next decade. Towards these objectives, the budget has adopted a seven-fold strategy: *viz.*, strengthening the foundations of the rural economy, developing knowledge based industries, strengthening and modernising traditional industries, removing infrastructure bottlenecks, according high priority to human resource development with special emphasis on the poorest and weakest sections of the society, strengthening the country's role in the world economy through rapid growth of exports, higher foreign investment and prudent debt management, and establishment of a credible framework for fiscal discipline.

4.11 The focus of fiscal reform underlying the budget is on further strengthening expenditure management, restructuring public sector enterprises and strengthening tax reforms through restructuring and rationalisation of both direct and indirect taxes. The measures proposed in the budget towards expenditure management include scrutiny of the existing schemes using zero based budgeting technique, limiting the creation of jobs and fresh recruitment in the Government to minimum essential needs, redeployment of surplus staff and introduction of voluntary retirement scheme (VRS), adopting cost-based user charges to reduce subsidies wherever feasible and earmarking a portion of the disinvestment proceeds for debt redemption. For medium-term management of the fiscal deficit, the budget has proposed to introduce an institutional mechanism in the nature of a Fiscal Responsibility Act. The main elements of Government policy towards the public sector would be to restructure and revive potentially viable public sector units (PSUs) and close down the unviable/sick PSUs. The Government has proposed to raise resources from the market against the security of assets of the closed PSUs and use these funds to provide adequate safety net for workers. A fresh impetus to the programme of disinvestment and privatisation of PSUs is also proposed.

4.12 The tax measures proposed in the budget rest on the principles of stability, economic growth, rationalisation and simplification to strengthen the ongoing reform process. On the indirect tax front, the budget proposes to introduce a single rate Central Value Added Tax (CENVAT). The existing three *ad-valorem* rates of basic excise duty, *viz*., 8, 16 and 24 per cent would, accordingly, converge into a single rate of 16 per cent CENVAT with MODVAT benefits. In addition to 16 per cent CENVAT, the budget also proposes three rates of special excise duties *viz*., 8, 16 and 24 per cent, which will not be generally modvatable. The rate structure of custom duties is further rationalised by reducing the number of custom duties rates from 5 to 4, with the tax rate structure consisting of 35 per cent, 25 per cent, 15 per cent and 5 per cent. The peak rate of basic custom duties is reduced from 40 to 35 per cent.

4.13 In the sphere of direct taxes, the measures initiated are more towards rationalisation and simplification. The existing tax rates of personal income tax have been retained while the surcharge has been increased to 15 per cent for non-corporate tax payers having total taxable income above Rs.1,50,000 per year mainly for revenue considerations. The important steps towards rationalisation of direct taxes include the enhancement of the rate of tax on dividends distributed by domestic companies from 10 per cent to 20 per cent, raising of tax rates on income distributed by debt oriented Mutual Funds and UTI from 10 per cent to 20 per cent, withdrawal of interest tax of 2 per cent borne by banks and financial institutions and the proposal for phasing out income tax exemptions scheme available to export earners over a period of 5 years. To begin with, income tax exemptions available to exporters under the relevant legal provisions would be phased out over a period of five years – 20.0 per cent in each year – starting with 2000-01 followed by a phase-wise reduction of 20 per cent in every subsequent year till they reach zero level. The one-by-six scheme introduced for better tax compliance has been further extended from the existing 54 cities to an additional 79 cities. In order to induce growth in some preferred sectors, the budget also provides for certain sector-specific concessions. These measures include the continuation of special tax benefits on investment in the housing sector granted during the previous budget for two more years, the special tax treatment to Venture Capital Funds by way of application of 'pass through' principle and the full exemption on income from Investor Protection Funds with Stock Exchanges.

4.14 Revenue receipts for 2000-01 estimated at Rs.2,03,673 crore show a rise of Rs.24,169 crore (13.5 per cent) over the revised estimates for 1999-2000. Of the incremental revenue receipts, about 82 per cent will be contributed by taxes (Rs.19,740 crore) and the remaining through non-tax revenue (Rs.4,429 crore). The gross tax revenue estimated at Rs.2,00,288 crore in 2000-01 is higher by 17.8 per cent than that of Rs.1,69,979 crore in 1999-2000. This includes additional resource mobilisation of Rs.6,904 crore expected mainly from corporation tax (Rs.5,000 crore), union excise duties (Rs.1,433 crore) and income tax (Rs.880 crore). The tax-GDP ratio is accordingly expected to improve to 9.2 per cent in 2000-01 from 8.7 per cent in 1999-2000. Non-tax receipts are estimated to increase by Rs.4,429 crore (8.4 per cent) to Rs.57,464 crore. Major components of non-tax receipts showing an increase over the revised estimates for 1999-2000 are interest receipts (Rs.2,577 crore), dividends and profits (Rs.1,893 crore) and the net profit transfer from the Reserve Bank (Rs.1,700 crore). Capital receipts estimated at Rs.1,34,814 crore would show a rise of Rs.10,580 crore (8.5 per cent) over the revised estimates of 1999-2000 (Rs.1,24,234 crore). Receipts from disinvestment are estimated to increase by Rs.7,400 crore over the revised estimates for 1999-2000.

4.15 Total expenditure during 2000-01 has been proposed at Rs.3,38,487 crore showing an increase of 11.4 per cent which is higher than 8.7 per cent recorded in 1999-2000 but lower than the average rate of 16.1 per cent during 1991-92 to 1998-99. Aggregate expenditure as a percentage to GDP is estimated at 15.5 per cent in 2000-01, close to that of 15.6 per cent in 1999-2000. The revenue expenditure budgeted at Rs.2,81,098 crore would show a rise of Rs.28,062 crore over the previous year. Within the revenue expenditure, the non-Plan expenditure, estimated at Rs.2,28,768 crore, would account for 81.4 per cent. The major non-Plan revenue expenditures which show high increases are interest payments (Rs.9,841 crore), defence expenditure (Rs.4,788 crore) and non-Plan grants to States/UTs (Rs.11,094 crore) (Appendix Table IV.2). Taken together, these three major heads account for nearly 70 per cent of total non-Plan revenue expenditure and absorb about 78 per cent of revenue receipts. Interest payments would pre-empt 49.7 per cent of revenue receipts in 2000-01 as against 50.9 per cent in 1999-2000 and 46.6 per cent during 1991-92 to 1998-99. Major and minor subsidies together at Rs.22,800 crore in 2000-01 would show a decline of Rs.2,892 crore, mainly due to reduction in food and fertiliser subsidies. Capital expenditures are estimated to grow by 13.2 per cent in 2000-01 as against a decline of 18.2 per cent in 1999-2000. Within the capital expenditure, the capital outlay is budgeted to increase by 30.7 per cent, while loans and advances would fall by 4.1 per cent. A large part of the capital outlay (54.5 per cent) would be accounted for by defence which at Rs.17,926 crore would rise by 41.9 per cent in 2000-01 compared with 25.9 per cent in 1999-2000. Total defence expenditure, proposed at Rs.58,587 crore shows a rise of 20.8 per cent in 2000-01 constituting 2.7 per cent of GDP as compared with 2.5 per cent in 1999-2000.

4.16 The total Central Plan outlay at Rs.1,17,334 crore for 2000-01, shows an increase of 21.8 per cent over the revised outlay of Rs.96,310 crore in 1999-2000. In terms of sectoral allocation, infrastructure sectors have been accorded the highest priority, with the share of energy being pegged at 25.4 per cent, communications at 16.6 per cent, social services at 17.5 per cent and transport at 17.9 per cent.

4.17 The budget has placed the gross fiscal deficit at Rs.1,11,275 crore in 2000-01 as against Rs.1,08,898 crore in 1999-2000. Of this, borrowing from the market (comprising normal, short-term, medium and long-term borrowings) net of repayment is proposed at Rs.76,383 crore which is marginally lower by Rs.682 crore (0.9 per cent) than that in the revised estimates of 1999-2000. The share of market borrowings in the gross fiscal deficit of the Central Government is budgeted to decline to 68.6 per cent in 2000-01 from 70.8 per cent in 1999-2000. The contribution of other liabilities would rise from 25.2 per cent to 31.4 per cent in 2000-01.

STATE GOVERNMENT FINANCES[2]

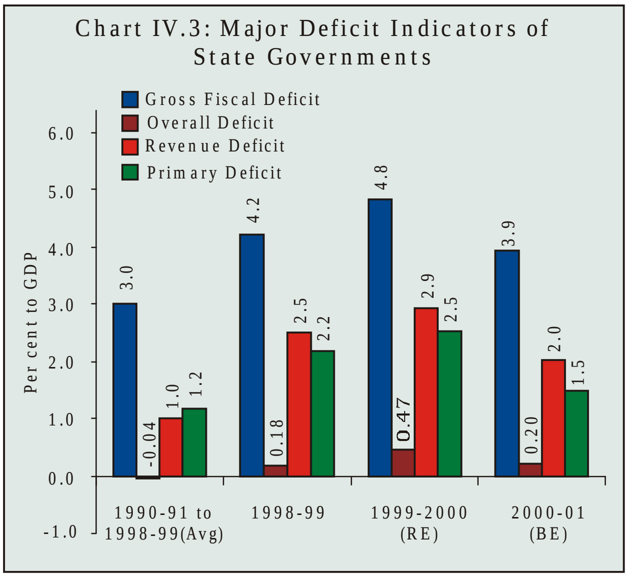
Budgetary Operations of the State Governments: 1999-2000 and 2000-01

4.18 The revised estimates available for twenty-four States for 1999-2000 reveal significant stress in State finances. The consolidated fiscal deficit of States in the revised estimates for 1999-2000 stood at 4.8 per cent of GDP, representing an increase of 0.9 percentage point over the budget estimates and 0.6 percentage point over that of 4.2 per cent in the accounts of 1998-99 (Chart IV.3 and Appendix Table IV.5).

4.19 The slippage of 0.9 percentage point in GFD was on account of mainly expenditure overruns (0.7 percentage point) exacerbated by revenue shortfall (0.2 percentage point). The revenue deficit for 1999-2000 overshot its projected level by 42.0 per cent to Rs.56,815 crore (2.9 per cent of GDP) accounting for almost 92 per cent of the rise in GFD. The primary deficit at Rs.49,110 crore (2.5 per cent of GDP) suffered a serious deterioration from the budgeted level of Rs.31,658 crore (1.6 per cent of GDP) in 1999-2000.

4.20 A major aspect of the fiscal imbalance is the mounting pressure arising out of higher

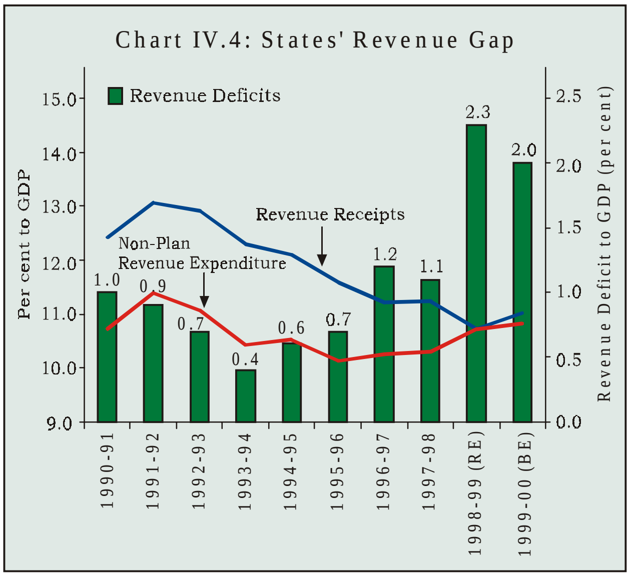
2. Excludes data for the Governments of Tripura and Arunachal Pradesh, but includes States that have presented Vote-on-Account budgets, *viz.*, Andhra Pradesh, Orissa, Bihar and Manipur.



expenditure obligations in relation to the resource raising capabilities. This is reflected in a sharp deviation between the actual expenditure *vis-a-vis* the budget projections. For instance, during 1999-2000, revenue expenditure overshot the budget estimates by 4.8 per cent while revenue receipts fell short by 2.0 per cent from the budget estimates. The principal components which triggered the expenditure overrun were miscellenous general services (55.8 per cent), interest on market loans (38.9 per cent), additional expenditure on natural calamities (80.3 per cent) and compensation and assignments to local bodies (34.4 per cent). The consolidated revenue expenditure of twenty-four States showed a growth of 23.4 per cent in 1999-2000 over the previous year. The major component which has contributed to the excessive growth in revenue expenditures has been non-Plan expenditure. This segment of expenditure which mainly comprises wages and salaries, pensions and interest payments constitutes around 82.0 per cent of revenue expenditure and absorbs a major portion of revenue receipts causing a persistent rise in the fiscal deficit (Chart IV.4).

4.21 In their budgets for 2000-01, several States have proposed policies towards expenditure compression and downsizing of Government and resource augmentation to contain the deficits. Accordingly, both the revenue deficit and fiscal deficit are budgeted lower at 2.0 per cent and 3.9 per cent of GDP, respectively, than 2.9 per cent and 4.8 per cent in 1999-2000 (revised estimates). Thirteen States have proposed Additional Resource Mobilisation (ARM) measures to yield Rs.2,424 crore through fresh tax and non-tax measures. Revenue receipts during 2000-01, inclusive of ARM, are budgeted to rise by 13.1 per cent as against 21.9 per cent in 1999-2000. As the States are moving towards reforms in domestic trade taxes, there is a possibility of some initial loss of revenues due to introduction of VAT and rationalisation of other taxes. In view of this, the States' tax receipts are budgeted to show a marginal deceleration to 18.1 per cent from 18.7 per cent in the previous year. However, the States' share in Central taxes is expected to be higher by 13.7 per cent in 2000-01 than that of 12.7 per cent in the previous year on account of the *interim* award of the Eleventh Finance Commission.[3]

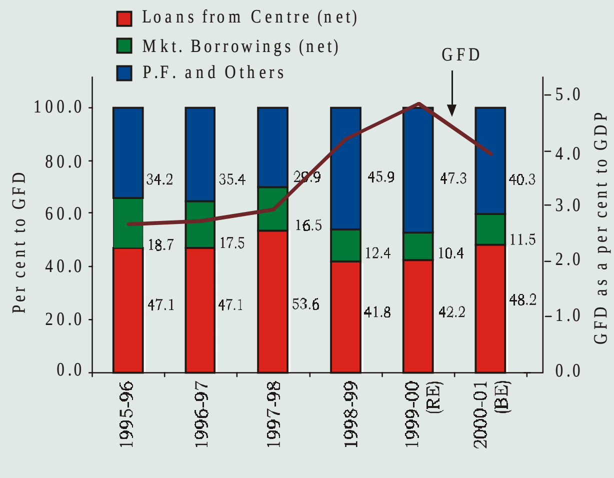
4.22 On the expenditure front, given its committed nature, the non-developmental expenditures would rise by 13.5 per cent in 2000-01 on top of the rise of 27.4 per cent in 1999-2000 and would account for 36.0 per cent of the budgeted aggregate disbursements. These expenditures comprise committed items



3. The Eleventh Finance Commission, in its *interim* report has recommended the States' share of the net proceeds of divisible income tax to be 80 per cent and 52 per cent of basic excise duties, as against 77.5 and 47.5 per cent respectively, proposed by the Tenth Finance Commission. In the final report submitted on July 7, 2000, the Eleventh Finance Commission recommended that the share of States in the net proceeds of all Union taxes and duties would be 29.5 per cent.

like interest payments, administrative expenditures and pensions. The rising interest burden and pension outgo would pre-empt 32.2 per cent of revenue receipts in 2000-01, as compared with 31.7 per cent in 1999-2000. Concomitantly, developmental expenditures are budgeted to decelerate to 2.4 per cent in 2000-01, as compared with the previous year's growth of 20.5 per cent. This would result in reduced flow of resources towards States' capital outlays and social sectors. The proportion of overall borrowings being utilised on the capital outlay has been budgeted at 38.5 per cent in 2000-01, as compared with 29.8 per cent in 1999-2000, significantly lower than 47.7 per cent during the 1990s. The share of social and economic expenditures in total disbursements has declined from 65.7 per cent, on an average, during the 1990s, up to 1998-99, to 59.3 per cent in 1999-2000 and is budgeted to decline further to 58.3 per cent in 2000-01.

Chart IV.5: Major Financing Items of States' GFD

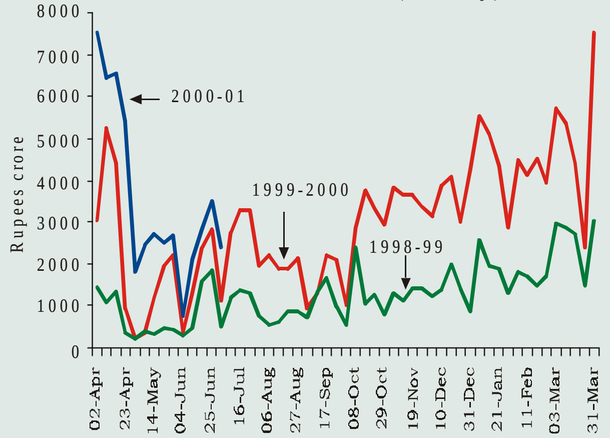


4.23 Notwithstanding the States' efforts in containing the revenue deficit and fiscal deficit during 2000-01, the budgeted size of the overall resource gap (Rs.85,971 crore against Rs.94,383 crore in 1999-2000) remains high. The revenue deficit is projected to absorb 51.1 per cent of the resource gap in 2000-01. On the financing front, the States depend to a large extent on loans from the Centre. The net loans from the Centre are projected to finance 48.2 per cent of the GFD during 2000-01 as compared with 42.2 per cent in the previous year (Chart IV.5 and Appendix Table IV.8). Besides the net loans, the States have been taking larger recourse to 'other liabilities' in financing the growing expenditures. These liabilities mainly comprising provident funds and small savings, have risen from Rs.6,253 crore in 1990-91 to Rs.44,669 crore in 1999-2000. These are budgeted lower at Rs.34,621 crore in 2000-01. The net receipts from provident fund and small savings have risen from Rs.3,069 crore in 1990-91 to Rs.17,117 crore in 1999-2000, and are budgeted lower at Rs.14,599 crore in 2000-01.

4.24 In this context, it is important that the resources accruing to the public accounts are invested in a manner that is consistent with the objectives of capital preservation, risk minimisation and return maximisation. The State Governments are encouraged to access the market up to a maximum of 35 per cent (with a minimum of 5 per cent) of their allocated borrowings and are accorded the flexibility with regard to the timing and maturity. The rates at which a State would raise finances from the market would, in the event, depend on the perception of the participants especially the institutional investors, regarding the relative financial strength of individual States.

4.25 The States have recognised the macroeconomic implications of the fiscal problem and some of them have in fact taken several policy initiatives to stabilise their finances. These measures, *inter alia*, include the setting up of Consolidated Sinking Fund for retiring public debt, the setting of ceiling on guarantees to place a cap on contingent liabilities and the establishment of guarantee redemption funds. The States of Assam, Karnataka and Maharashtra have recently presented White Papers detailing the fiscal health of the States in 2000. The States of Andhra Pradesh, Arunachal Pradesh, Goa, Maharashtra, Mizoram, Nagaland and West Bengal have taken initiatives for setting up of Consolidated Sinking Funds to help retire debt repayments. The States of Gujarat and Karnataka have prescribed limits on guarantees, while Rajasthan has proposed the setting up of a Guarantee Redemption Fund. As an important budgetary measure, States have begun to focus on expenditure management through setting up of expenditure reforms committees. Some States have adopted decentralisation as the main policy plank through which expenditure moderation would be achieved. Several States have initiated measures for reduction in non-merit subsidies, through better targeting and revision of user charges. On the resource mobilisation front, States have set the stage for introducing VAT through an agreement to impose uniform level of sales tax. It is important to note that the financial health and management of State level public sector undertakings have been a cause for concern. To address this issue, Maharashtra has proposed to set up a Board for Financial and Managerial Restructuring. Finally, to enhance transparency in their budgetary practices, several States have published summary critical fiscal indicators in their budgets for 2000-01 along the lines of the document entitled '*Budget at a Glance*' presented by the Centre.

Chart IV.6: Outstanding WMA and Overdrafts to State Governments (Weekly)



Note: The relevant date of weeks specified pertain to 1999-2000; for other years it relates to corresponding weeks.

Ways and Means Advances

4.26 The Ways and Means Advances (WMA) are extended by the Reserve Bank to alleviate any temporary mismatches between receipts and payments of the State Governments. Any amount drawn in excess of WMA is an overdraft. The fiscal stress experienced by the State Governments has had an impact on their liquidity management, leading to higher and frequent recourse to WMA and overdrafts. Recognising their difficulties, the Reserve Bank had enhanced with effect from March 1, 1999 the limits of WMA by Rs.1,450.6 crore to Rs.3,685.0 crore from Rs.2,234.4 crore. Notwithstanding this enhancement, the State Governments continued to frequently resort to WMA and overdrafts, thereby indicating that they remained under stress during 1999-2000 (Chart IV.6). The aggregate outstanding level of WMA and overdrafts of States from the Reserve Bank, as a result, was placed higher at Rs.7,519 crore (including overdraft of Rs.4,093 crore) as on March 31, 2000 than that of Rs.4,818 crore (including overdraft of Rs.2,931 crore) in the corresponding period of the previous year. During 1999-2000, nineteen State Governments resorted to overdrafts as against sixteen in 1998-99. Two State Governments could not clear their overdrafts with the Reserve Bank within the stipulated time limit and consequently the Reserve Bank had to stop payments on their behalf.

4.27 As on June 30, 2000, the aggregate outstanding WMA of the State Governments amounted to Rs.2,387 crore, including overdraft amounting to Rs.78 crore as compared with the aggregate outstanding WMA of Rs.2,972 crore, including the overdraft of Rs.306 crore as on June 30, 1999. During fiscal 2000-01 (up to June 30, 2000) eighteen State Governments resorted to overdrafts with the Reserve Bank and two State Governments could not clear their overdrafts with the Reserve Bank, and payments on their behalf had to be suspended.

COMBINED BUDGETARY POSITION OF THE CENTRE AND STATES

4.28 The combined gross fiscal deficit of Centre and States increased to 9.9 per cent of GDP (Rs.1,93,471 crore) during 1999-2000 as against the budget estimate of 7.4 per cent of GDP (Rs.1,48,581 crore), and 8.9 per cent of GDP (Rs. 1,56,928 crore) in 1998-99. The combined revenue deficit rose sharply to a peak of 6.7 per cent of GDP in 1999-2000, accounting for 67 per cent of GFD. The gross primary deficit of the Government sector deteriorated from 3.7 per cent of GDP in 1998-99 to 4.2 per cent of GDP in 1999-2000.

4.29 In 2000-01, owing to the refocused attention on fiscal rectitude by both the Central and State Governments the combined GFD, revenue deficit and primary deficit are placed lower at 8.6 per cent, 5.6 per cent and 2.9 per cent of GDP, respectively, as against 9.9 per cent, 6.7 per cent and 4.2 per cent in 1999-2000 (Table 4.3). The improvement in the deficit indicators is expected to be realised partly through larger revenue mobilisation proposed both in the budgets of the Centre and States and partly through the containment in the growth of expenditure. Revenue receipts are projected to grow by 10.3 per cent reflecting improvement in direct tax collections, while non-tax receipts are budgeted to decline by 12.8 per cent. The combined revenue and capital receipts are budgeted to grow at 6.6 per cent as compared with 19.3 per cent in 1999-2000, while the combined expenditure is budgeted to rise by 5.6 per cent in 2000-01 as against 20.4 per cent in the previous year (Appendix Table IV.6).

4.30 Expenditure allocation across various sectors shows that growth in non-developmental expenditure has outstripped that of developmental expenditure (Chart IV.7). While the combined developmental expenditure is budgeted to increase by 2.3 per cent in 2000-01, the non-developmental expenditure

Chart IV.7: Expenditure of Central and State Governments

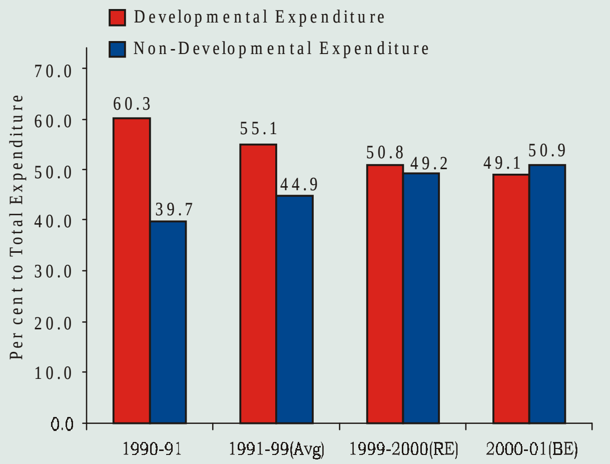


Table 4.3: Measures of Deficit of the Central and State Governments as proportion to GDP*

(Per cent)

Year	Gross Fiscal Deficit	Revenue Deficit	Gross Primary Deficit
1	2	3	4
1990-91	10.0	4.5	5.3
1991-92	7.4	3.6	2.4
1992-93	7.4	3.4	2.3
1993-94	8.3	4.3	3.3
1994-95	7.1	3.7	1.9
1995-96	6.6	3.2	1.6
1996-97	6.4	3.6	1.3
1997-98	7.3	4.1	2.2
1998-99#	8.9	6.3	3.7
1990-99 (Average)	7.7	4.1	2.7
1999-2000 (RE) #	9.9	6.7	4.2
2000-01(BE) #$	8.6	5.6	2.9

RE Revised Estimates. BE Budget Estimates.

* The combined deficit indicators have been worked out after netting out the inter-Governmental transactions between the Centre and States. As such these figures will not be equal to the total deficits as worked out separately for the Centre and for the States. Details of the adjustments in respect of each deficit indicator are given in the note below.

Data in respect of State Governments are provisional and relate to the budgets of 24 States including the National Capital Territory of Delhi.

$ Worked out on the basis of the implicit nominal GDP underlying the Budget Estimates of Central Government GFD/GDP ratio of 5.1 per cent of 2000-2001.

Notes: 1. Combined GFD is the GFD of the Central Government *plus* GFD of the State Governments *minus* net lending from the Central Government to State Governments.

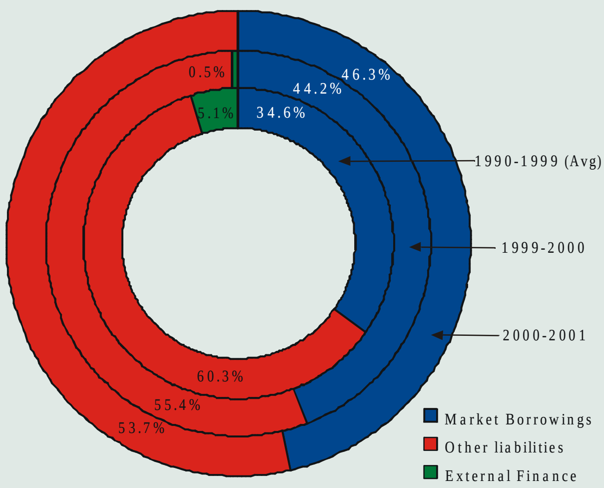
2. Revenue deficit is the difference between revenue receipts and revenue expenditures of the Central and State Governments adjusted for inter-Governmental transactions in the revenue account.

3. Gross primary deficit is defined as combined GFD *minus* combined interest payments.

including others shows an increase of 12.1 per cent. The share of developmental expenditure in total expenditure of the Government sector has been showing a decline since the beginning of the 1990s; it fell from 60.3 per cent in 1990-91 to 50.8 per cent in 1999-2000. The budget estimates for 2000-01 place the share of developmental expenditure still lower at 49.1 per cent. Expenditure on social sectors is budgeted to decline by 1.0 per cent in 2000-01 in contrast to a rise of 22.3 per cent in the previous year. Consequently, the social sector expenditure as a proportion of GDP would decline to 7.1 per cent in 2000-01 from 8.0 per cent in 1999-2000 and the average of 7.2 per cent during 1991-99.

4.31 With the growing size of the combined fiscal deficit, the Government sector's draft of resources from domestic saving has increased significantly in recent years. The share of market borrowings in total resources for financing fiscal deficits of Centre and States rose to 44.2 per cent in 1999-2000 from 19.7 per cent in 1990-91 while the shares of other liabilities and external borrowings have seen a commensurate decline (Chart IV.8). The overall debt servicing burden of the Government sector has increased to 5.7 per cent of GDP in 1999-2000 from 4.7 per cent in 1990-91. For the current fiscal 2000-01, according to the Reserve Bank records, net market borrowings of the Central and State Governments are placed at Rs.87,383 crore as compared with Rs.85,482 crore in 1999-2000.

Chart IV.8: Financing of Combined GFD of Centre and States



Market Borrowings

Central Government

4.32 The net market borrowings of the Central Government at Rs.73,077 crore during 1999-2000 exceeded the budgeted target by 27 per cent. At this level, the gross market borrowing, as per Reserve Bank records, amounted to Rs.99,630 crore as against Rs.93,953 crore during 1998-99. Of the total gross borrowings, mobilisation through dated securities amounted to Rs. 86,630 crore, while short-term borrowings (364-day Treasury Bills) amounted to Rs.13,000 crore (Appendix Table IV.9). During 1999-2000, the Reserve Bank's initial support to the Central Government borrowing programme by way of private placement/devolvement of dated securities and devolvement of 364-day Treasury Bills amounted to Rs.29,267 crore (29.4 per cent of the primary issues) as against Rs.39,777 crore (42.3 per cent) during 1998-99. The initial subscription from the Reserve Bank, however, was relatively low during 1999-2000 due to the strong increase in the demand for Government securities by banks, financial institutions and mutual funds. The subsequent absorption of securities by the Reserve Bank could be offloaded through open market operations to the tune of Rs.30,861 crore. This was made possible due to easy liquidity conditions and positive market sentiment.

4.33 The debt management operations were successful in stabilising the interest rates and in influencing the maturity pattern of the debt issues towards medium to long duration. The borrowing cost of the Central Government was stabilised at a relatively low level as reflected in the weighted average interest rate of the dated securities at 11.77 per cent in 1999-2000 as against 11.86 per cent in 1998-99 (Table 4.4). The yield on 10-year and 20-year bonds declined whereas at the short-end of the market, interest rates had hardened for most part of the year.

4.34 The Union Budget for 2000-01 has placed the net market borrowing of the Central Government at Rs.76,383 crore, higher than the amount raised, as per RBI records, at Rs.73,077 crore in 1999-2000. Together with the maturing dated securities and repayment of 364-day Treasury Bills, the gross market borrowing requirement of the Central Government will rise to Rs.1,17,704 crore from

Table 4.4: Weighted Average Coupon Rates/Cut-off Yields on Central and State Government Dated Securities

(Per cent per annum)

Year	Central Government Securities		State Government Securities	
	Range	Weighted Average	Range	Weighted Average
1	2	3	4	5
1993-94	12.00-13.40	12.63	13.50	13.50
1994-95	11.00-12.71	11.91	12.50	12.50
1995-96	13.25-14.00	13.75	14.00	14.00
1996-97	13.40-13.85	13.69	13.75-13.85	13.83
1997-98	10.85-13.05	12.01	12.30-13.05	12.82
1998-99	11.10-12.60	11.86	12.15-12.50	12.35
1999-2000	10.72-12.45	11.77	11.00-12.25	11.89

Source: Reserve Bank of India records.

Rs.99,630 crore in 1999-2000. During 2000-01 (up to August 10, 2000), gross market borrowings amounted to Rs.63,183 crore as against Rs.56,130 crore in 1999-2000.

State Governments

4.35 During 1999-2000, the net market borrowings of the State Governments were placed at Rs.12,405 crore as against Rs.10,700 crore in 1998-99. Together with repayments, the gross borrowings amounted to Rs.13,706 crore in 1999-2000 as against Rs.12,114 crore in 1998-99. The State Governments mobilised a gross amount of Rs.13,706 crore through pre-announced issues (Rs.12,906 crore) and auctions (Rs.800 crore). In tandem with the falling coupon rates on medium-term loans of the Central Government, the coupon rate on State Government loans of 10 year maturity also witnessed a steady decline from 12.50 per cent in February 1999 to 12.25 per cent in April 1999 and further to 11.00 per cent by March 2000. Auction-based borrowings were undertaken by a few States (Andhra Pradesh, Tamil Nadu and Karnataka) to raise a part of their market borrowings. These States gained by way of lower cut-off yield (11.08-11.77 per cent) than the pre-announced coupon rate (12.25 per cent in April, 1999) on securities of the same maturity. According to the Reserve Bank records, the net allocation of market borrowings to States during 2000-01 is provisionally placed at Rs.11,000 crore (gross Rs.11,420 crore). During fiscal 2000-01, in the first *tranche* on April 25, 2000, States mobilised Rs.5,838 crore (notified amount Rs.4,369 crore) through the issue of 10-year State Development Loans at a pre-announced coupon of 10.52 per cent, which is 48 basis points lower than the coupon offered on the loan issued in March 2000. Furthermore, as a part of their market borrowing programmes, four States viz. Andhra Pradesh, Maharashtra, Tamil Nadu and West Bengal raised Rs.1,220 crore with issuance of 10 year State Development Loan through auction. The cut off yield ranged between 11.70 per cent (Maharashtra and Tamil Nadu) and 11.80 per cent (Andhra Pradesh and West Bengal). The amount devolved on the primary dealers against their underwriting commitments aggregated to Rs.264.63 crore. During the current fiscal so far, i.e., up to August 12, 2000 the State Governments had mobilised Rs.7,058 crore under their gross market borrowings.

DOMESTIC PUBLIC DEBT

Debt Position of Central Government

4.36 The high level of fiscal deficit of the Central Government has led to steady accumulation of debt, as reflected in the rise in the debt-GDP ratio from 50.6 per cent as at end-March 1999 to 52.9 per cent as at end-March 2000. The debt-GDP ratio of the Central Government is estimated to rise further to 54.1 per cent as at end-March 2001. At this level, the stock of domestic debt is expected to grow at a rate of 15.4 per cent in 2000-01 as against 16.6 per cent in 1999-2000. A high overhang of domestic debt poses significant challenges for debt management from two major considerations. First, it leaves little flexibility for the debt management authority to minimise the borrowing cost in the face of continuous increases in bond supply. This may lead to an increase in the interest rate premium on fresh borrowings and therefore, hardening of yields. Secondly, a high stock of domestic marketable debt can raise future interest rate uncertainty and shift the market preference for short-term paper. As a result, there could emerge a problem of concentration of debt towards the shorter end, leading to bunching of redemptions and roll-over problems. The maturity profile of Central Government loans as on March 31, 2000 indicates large repayment liabilities, ranging between Rs.27,000 crore to Rs.31,000 crore, falling due during the next five years (2001-2002 to 2005-2006) (Table 4.5). To obviate the difficulties arising from bunching of repayments at the short end, a large part of the Central Government borrowings was placed at the longer end of maturity during 1999-2000. In fact, all borrowings in 1999-2000 were above 5-year maturity, ranging between 5 to 20 years and about 65.0 per cent of the borrowing was through issuance of bonds above 10-year maturity. The weighted average maturity of market loans during 1999-2000 increased to 12.6 years from 7.7 years in 1998-99. Nevertheless, the overall maturity profile of the marketable debt remained skewed towards the shorter and medium end of the market (Chart IV.9).

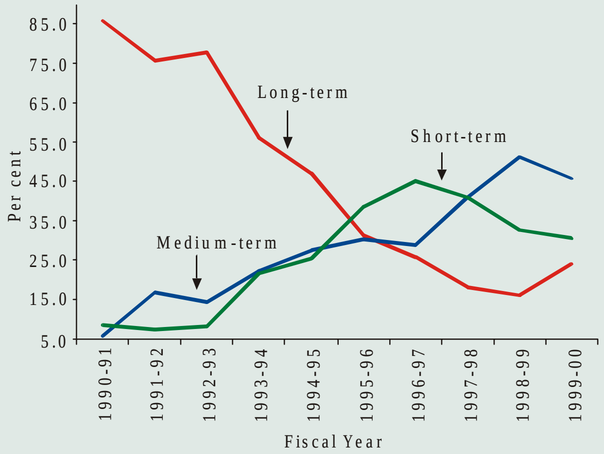
Table 4.5: Repayment Schedule for Market Loans of the Central and State Governments issued up to end-March 2000 P

(Rupees crore)

Year	Central Government	State Governments
1	2	3
2000-2001	28,321	420
2001-2002	28,260	1,446
2002-2003	28,263	1,789
2003-2004	31,252	4,145
2004-2005	31,159	5,123
2005-2006	27,473	6,274
2006-2007	29,394	10,308
2007-2008	30,151	7,797
2008-2009	30,223	14,396
2009-2010	26,195	16,265
2010-2011	21,109	2,569
2011-2012	8,610	3,349
2012-2013	1,755	—
2013-2014	15,691	—
2014-2015	15,588	—
2015-2016	4,173	—
2016-2017	11,630	—
2017-2018	—	—
2018-2019	12,632	—

P Provisional. – Nil

Chart IV.9: Maturity Distribution of Outstanding Marketable Debt of Central Government



4.37 In the Indian context, the debt-dynamics turned more adverse in the 1980s as the debt-GDP ratio witnessed rapid growth from 43.9 per cent in 1981 to 58.7 per cent in 1991, stemming from a sharp rise in primary deficit. The fiscal adjustment measures initiated in 1991 contained the growth in primary deficits and hence accumulation of debt especially during the initial years of reforms. The resurgence of primary deficits since 1997-98 has, however, led to a reversal of the declining trend in the debt-GDP ratio, raising concerns about the sustainability of public debt in near future (Table 4.6).

Debt Position of State Governments

4.38 The combined outstanding debt of State Governments as a percentage to GDP rose to 21.4 per cent as at end-March 2000 from 19.4 per cent as at end-March 1999. The debt-GDP ratio of State Governments is projected to

Table 4.6: Alternative Indicators of Fiscal Sustainability of Central Government

(Per cent)

Year	PD/GDP	Domestic Debt/GDP	IP/RR	R(Debt)	R(ML)	R(GDP)
1	2	3	4	5	6	7
1990-91	4.3	52.9	39.1	8.65	11.41	17.23
1991-92	1.6	51.5	40.3	9.09	11.78	15.17
1992-93	1.3	50.9	41.9	9.38	12.46	14.45
1993-94	2.7	50.1	48.7	9.72	12.63	21.72
1994-95	1.4	48.3	48.4	9.72	11.91	17.54
1995-96	0.9	47.0	45.4	9.82	13.75	17.04
1996-97	0.5	45.6	47.1	10.39	13.69	15.23
1997-98	1.5	47.7	49.0	10.22	12.01	11.28
1998-99	2.0	47.3	52.1	10.45	11.86	16.29
1999-2000	0.9	49.9	50.9	10.69	11.77	10.62

PD = Primary Deficit,
R(Debt) = Implicit nominal interest rate on total debt,
IP/RR = Interest payments as ratio to revenue receipts,
R(ML) = Weighted average nominal interest rate on market loans based on primary market,
R(GDP) = Nominal GDP growth rate.

increase further to 22.7 per cent by end-March 2001. The consolidated outstanding debt of States remained at an average of 19.3 per cent of GDP during the 1990s. As the nominal stock of debt has recorded a high rate of growth of 16.0 per cent on an average during the 1990s, there are serious concerns about the long-term sustainability of State finances. Given the fact that the States face a hard borrowing constraint, any significant rise in the public debt burden may have adverse implications for resource allocation to some of the critical social sectors. The ratio of States' marketable debt to GDP increased from 2.4 per cent in the 1980s to 3.2 per cent in the 1990s. The interest rate on market borrowing of State Governments increased from 11.50 per cent in 1990-91 to 12.35 per cent in 1998-99, but declined to 11.89 per cent in 1999-2000.

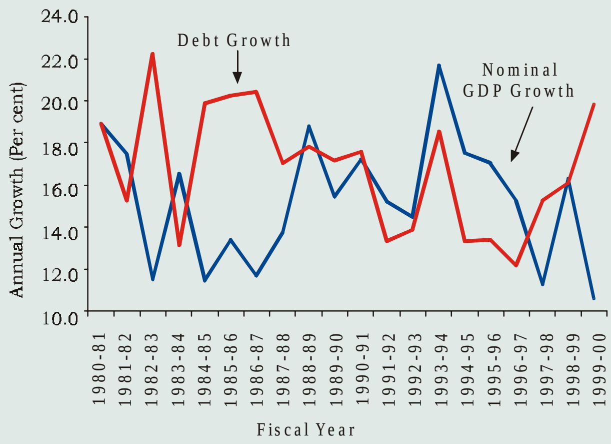
4.39 The share of debts owed to the Centre in the States' total outstanding debt amounted to 58.3 per cent in 1999-2000 as against the average of 63.3 per cent in 1990-99. With accumulation of huge repayment commitments and interest charges on such loans, the net transfer of resources from the Centre to States has been shrinking. This is reflected in the fact that net transfer of resources from the Centre to States as ratio to gross transfer has declined from 78 per cent in 1990-91 to 73 per cent in 1999-2000.

4.40 Despite the implicit limits on the debt raised through market loans and loans from the Centre, the States' debt in recent years has been growing at a rapid pace on account of higher borrowings from other sources, *e.g.*, loans from banks and other financial institutions and drawals from public accounts, especially the State provident funds. During 1999-2000, the outstanding loans from banks and other institutions grew at the rate of 63 per cent and public account liabilities by 28 per cent, together accounting for 25 per cent of the States' total outstanding debt as at end-March 2000 as against 22 per cent as at end-March 1999. Management of these liabilities, apart from marketable debt, assumes crucial importance in ensuring sustainability of States' debt position.

Combined Debt

4.41 The nominal stock of domestic debt of the combined Government sector has been growing at a rate of about 16 per cent during the later part of the 1990s. The higher growth in domestic debt than that in nominal GDP growth has led to steady debt accumulation to 60.7 per cent of GDP by end-March 2000. The debt growth remained below the nominal GDP growth during the first half of the 1990s and the debt growth has generally exceeded the nominal GDP growth since 1997-98 with an exception to 1998-99 (Chart IV.10). As high levels of public debt have deleterious effects on macro-economic stability, the need for reducing the fiscal deficit and debt to sustainable levels through, institution of policy oriented fiscal rules is widely felt. There are some well recognised fiscal policy rules and legislations incorporating specific targets or ceilings or conditionalities. Such legislation, apart from achieving fiscal sustainability, brings about greater fiscal transparency and accountability, provides enhanced flexibility in the conduct of monetary policy and promotes prudent fiscal behaviour. This would be best facilitated if the debt stability condition, which suggests that the output growth rate should exceed the interest rate, is met.

Chart IV.10: Nominal Debt Growth-GDP Growth Crossover



4.42 The public debt of the Government may be viewed from the perspective of the developments in Governments' quasi-fiscal activities, unfunded liabilities (*viz.*, liabilities arising from unfunded public pension or insurance schemes) and contingent liabilities (*viz.*, loan guarantees, exchange rate guarantees, deposit insurance *etc.*). From the viewpoint of prudent long-term fiscal management, the pension and provident funds need to be fully funded and managed on the principles of well established market practices (Box IV.1). Since the estimates on the hidden

Box IV.1
Pension Funds

The primary objective of pensions is to assure the employees about receipt of a certain income during their old age. In the developed countries, the pension amount is worked out on the basis of pay-as-you-go principle in which the benefits are defined and the current worker pays for the current retired and retirees. The intergenerational transfers have been justified, *inter alia*, on equity consideration. The World Bank has recommended a three-pillar approach to pensions. The first pillar is a mandatory, publicly managed system which would be financed through taxes and would ensure a means-tested minimum guaranteed pension. The second pillar is also a mandatory system but managed privately. It would be fully funded through personal savings whose investments are regulated. The third pillar is a voluntary and fully funded system and investments are not regulated. The second and third pillars are based on a defined contribution principle having tighter link between the contributions and benefits which requires the maintenance of individual accounts.

Of late, pension funds are receiving focused, worldwide attention and several reform measures are being suggested. The current interest in pension funds is due mainly to three reasons. First, the public pension system in its present form is unsustainable because of the deteriorating dependency ratio (on account of elongated life span, especially after superannuation), the increasingly generous benefits for past and current retirees, and the slow down in real wages growth (which has increased the ratio of average retirement benefit to average wage). Secondly, the real return on the contribution made by the participants to the scheme is lower than that available from other forms of investment. In this context, reforms of pension schemes in Latin American countries, especially Chile, have shown that, when invested in capital market, the returns were higher. Besides, over the generations, the pensions in real terms to the retirees have been declining. In the USA, the first generation retirees had earned an average inflation adjusted annual returns of about 35 per cent, while the subsequent generations had earned returns of 4 to 11 per cent. Thirdly, some economists have found that the schemes tend to reduce the savings of the individuals and that the Governments tend to spend more thereby reducing its saving. On this reasoning, it is argued that the emphasis of the reform measures should be on closer linkages between contributions and benefits (defined contribution principle), funding of the schemes, individual accounting, and liberal pattern of investment with stress on capital market instruments. As for pension funds in developing countries, it is usually suggested that they should be permitted to invest abroad because of the benefit of global portfolio diversification (this would

(Contd.)

(Concld.)

compensate possible adverse effects of high volatility in the domestic capital market in the face of low risk tolerance of pensioners) and the doubtful beneficial externalities for financial development domestically. However, there could be regulation on external exposure at the initial stages due to the high fiscal costs of moving from unfunded to fully funded schemes.

While there is a general consensus on the unsustainability of the public pension schemes in the present form, and on the acute transitional difficulties in moving from a programme based on pay-as-you-go principle to funded principle, there is dissent in respect of other aspects. The contention that diversified investment (in capital market instruments) of pension funds would yield higher return is based mainly on the past experience of equity premium which could be misleading for two reasons. First, even if it is materialised, it would be a compensation for the risk and hence risk-adjusted premium is unlikely to be different. Secondly, the infusion of pension funds, which would be substantial in any country would by itself reduce the equity premiums. Besides, the fundamental forces underlying equity premium are complex and may materially deviate in future from the past pattern. As for the impact on aggregate saving, it is impossible to predict with certainty any direction because individuals and Governments may react to reform in a range of potentially off-setting manner. For instance, funded pension schemes could promote aggregate savings only when (a) the schemes are mandatory, (b) tax exemption on pension returns are limited to low savers, and (c) borrowals against the accumulated mandatory pension assets are discouraged.

In India, the Union Ministry of Social Justice and Empowerment had commissioned in 1998 a study to suggest concrete measures which the Government could consider the implementation of old age pension schemes for currently young workers. The report of the project, called Old-Age Survivor and Income Security, has suggested a defined contribution scheme, based on Individual Retirement Account. Analogous to the suggestion elsewhere, it has recommended investment, in varying degrees, in the capital market.

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subsidies/quasi-fiscal activities are not readily available, it is difficult to measure their definite impact on fiscal policy. Secondly, the impact of unfunded liabilities arising from pension obligations to employees in the public sector has been significant. The outstanding liabilities of the Central and State Governments against the State and public provident funds, insurance and pension funds and special deposits of non-Government provident funds amounted to Rs.1,68,617 crore in 1997-98 as against Rs.60,753 crore in 1990-91. Thirdly, Central and State Governments are providing guarantees for promoting economic activities, which are presently estimated at around 9 per cent of GDP (Table 4.7). Although from the accounting viewpoint, guarantees do not form part of the public debt, such contingent liabilities could pose constraints on Governments in working out future fiscal strategies in the event of default. The Governments have recognised the concerns arising from these developments. For the medium-term management of fiscal deficit, the Union budget for 2000-01 proposed to bring about an institutional mechanism embodied in a Fiscal Responsibility Act (Box IV.2). Similarly, recognising the need to contain growth in guarantees to prudent levels, some State Governments have already placed a limit/ceiling on guarantees.

Box IV.2
Fiscal Responsibility Legislation

Fiscal policy rules tend to be heterogeneous and complex and vary across countries in terms of target variable, institutional coverage, method of implementation, trigger mechanisms and penalty clauses. Like any other rule-based policy, fiscal policy rules can also be outlined in terms of stringency, precision and enforcement of the statutory instrument. Compliance can be deemed at both *ex ante* (budget approval) and *ex post* (budget execution) levels, subject to well defined penalties.

There are universally recognised fiscal policy rules, broadly conforming to three types – balanced-budget or deficit rules, borrowing rules and debt or reserve rules. The deficit rules focus upon the balance between revenues and expenditures, while the borrowing rules place a restriction on the borrowing of government from the Central Bank. The debt rules place a limit on the stock of gross (or net) Government liabilities as a proportion of GDP, and the reserve rules target the stock of reserves of extra budgetary contingency funds. A country may follow all or some of these rules.

Rules are country-specific. Most have judicial sanctions for non-compliance as a penalty (financial, judicial or reputational). The countries which have imposed a budget rule are Argentina, Brazil, Canada, the European Union, Germany, New Zealand, Switzerland and the United States. The EU and New Zealand follow a debt ceiling rule. The EU and New Zealand, thus, have both budget and debt rules.

In India, while there is a long history of established accounting practices, auditing system and public scrutiny of Government revenue and expenditure programmes, the enforcement mechanism for ensuring fiscal discipline is generally weak. Although the fiscal policy is committed towards reducing the fiscal deficit and debt to a sustainable level such a commitment is not backed by specific legislative provisions that would ensure compliance and enforcement by the Government. Some of the recent fiscal innovations, have, nevertheless, gone to minimise the adverse consequences of monetisation of the fiscal deficit and promote better co-ordination of fiscal and monetary policies. For example, the formal agreement between the Government of India and Reserve Bank of India in 1997 to abolish the system of automatic monetisation of fiscal deficit through issue of *ad hoc* Treasury bills and to replace it with the limited facility of ways and means advances from the Reserve Bank falls in this category. The other recent fiscal policy initiatives towards promoting transparency and accountability relate to greater degree of disclosure and dissemination of information on fiscal health, and subjecting fiscal policy to a higher degree of market discipline and developing informal mechanisms, such as the recently established expenditure commission, to ensure higher order of fiscal discipline. It is in this context that the Budget for 2000-01 aiming towards the medium-term management of the fiscal deficit has stressed that fiscal policy would be strengthened through the 'support of a strong institutional mechanism embodied in a Fiscal Responsibility Act' (*Union Budget, 2000-01*).

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Guarantees/Contingent Liabilities of Governments

4.43 The guarantees given by the Central Government in nominal terms rose from Rs. 50,575 crore to Rs. 74,606 crore between end-March 1992 and end-March 1999 (Table 4.7). However, in relation to GDP, the outstanding guarantees declined from 8.2 per cent of GDP to 4.2 per cent during the same period. Recognising the importance of funding guarantees, the Union Budget for 1999-2000 has proposed a Guarantee Redemption Fund aimed at promoting transparency and curbing the growth of contingent liabilities. The outstanding State Government guarantees (17 major States) as ratio to GDP stood at 4.7 per cent, at end-March 1999, lower than the level of 6.5 per cent as at end-March 1992. However, the nominal stock of guarantees has witnessed an annual average growth of 11.1 per cent between end-March 1992 and end-March 1999. The latest provisional data available on guarantees show that outstanding stock of guarantees for 17 major States amounted to Rs.90,391 crore as at end-September 1999.

4.44 Apart from the explicit contingent liabilities, State Governments have been issuing letters of comfort to banks/financial institutions, which are in the nature of implicit guarantees and are not included in the present

Table 4.7 : Outstanding Government Guarantees

(Rupees crore)

Year (End-March)	Centre	States*	Total
1	2	3	4
1992	50,575	40,159	90,734
	(8.2)	(6.5)	(14.7)
1993	58,088	42,515	1,00,603
	(8.2)	(6.0)	(14.3)
1994	62,834	48,866	1,11,700
	(7.2)	(5.6)	(12.7)
1995	62,468	48,479	1,10,947
	(6.0)	(4.7)	(10.7)
1996	65,573	52,631	1,18,204
	(5.4)	(4.3)	(9.7)
1997	69,748	63,409	1,33,157
	(4.9)	(4.5)	(9.4)
1998	73,877	73,751	1,47,628
	(4.7)	(4.7)	(9.4)
1999	74,606	83,075	1,57,681
	(4.2)	(4.7)	(8.9)

* Pertains to 17 major States.

Note : Figure in brackets are percentages to GDP.

estimates of guarantees. The letters of comfort are, however, internationally treated as guarantees since these are equivalent to implicit liabilities. Recognising the need to contain guarantees devolving upon State governments, the Technical Committee on State Guarantees (1999) recommended that the Government may eschew the practice of providing letters of comfort and where comfort from a State Government is required, credit enhancement may be provided only through guarantees within the overall limit fixed for the purpose. Since the guarantees provided through this route have important implications from the viewpoint of transparency in the budgetary practices and integrity of the fiscal account, the implicit guarantees provided by the State Governments need to be disclosed in the budget and included in the stock of contingent liabilities.

4.45 Another dimension of State guarantees is the quality of guaranteed loans and the element of risk associated with such guarantees. In order to ensure that the difference in the risk between investment in State Government securities and that in State Government guaranteed bonds outside the market borrowing programme is properly reflected, the Reserve Bank in October 1998 advised the banks that with effect from 2000-01, investments in State Government guaranteed securities outside the market borrowing programme would attract a risk weight of 20 per cent. Furthermore, in case of default in payment of interest/principal of such bonds, banks should assign 100 per cent risk weight for investments in such securities. However, since April 2000, norms have been amended so that risk-weightage would apply only to guaranteed bonds of defaulting entities and not on all the securities guaranteed by that State Government in place of the earlier prescription of assignment of 100 per cent risk weightage on investments in all securities guaranteed by the State Governments. Some State Governments have initiated necessary legislation towards placing a statutory limit on guarantees. Gujarat was the first State to announce such a ceiling on the level of guarantees. Karnataka and Rajasthan have also prescribed a cap on total outstanding Government guarantees while States like Tamil Nadu, Bihar and Nagaland are considering the issue of a ceiling on guarantees. Moreover, since States are encouraged to borrow through auctions from the market, as against the fixed coupon loan system, accumulation of explicit and implicit guarantees could have adverse implications for the interest rate at which they can raise resources from the market.

V FINANCIAL MARKETS

5.1 The recovery of South-East Asian economies and the onset of cautious optimism in international financial markets had a somewhat favourable impact on domestic financial market conditions. Financial markets in India remained orderly during 1999-2000. In general, rates tended to move down during the year, particularly at the long end of the market spectrum.

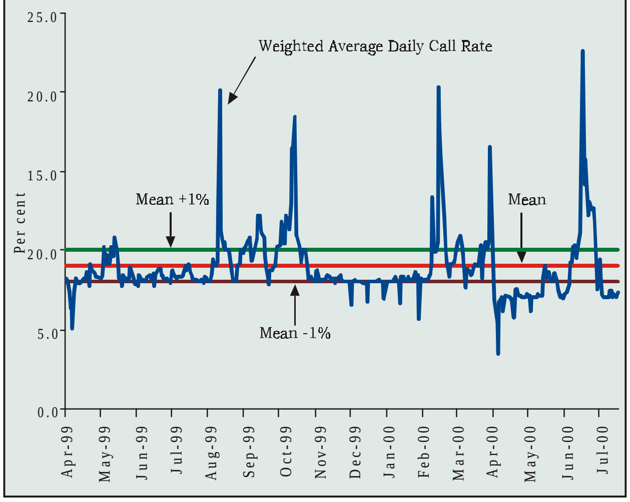
MONEY AND FOREIGN EXCHANGE MARKETS

5.2 The movements in inter-bank call money rates during the first half of 1999-2000 were influenced by short-term developments in the foreign exchange market, the marked appetite for government securities and increased credit to the commercial sector. With the large capital inflows in the second half of the year, the pressures on call money market eased and the market, in general, recorded heightened activity.

Call/Notice Money Market

5.3 The inter-bank call rates ruled steady within a narrow range during 1999-2000 except for bouts of volatility during mid-August 1999, mid-October 1999, mid-February 2000 and end-March 2000, which were primarily attributable to the unanticipated demand for reserves by commercial banks (Chart V.1). The daily peak call rates averaged 9.51 per cent, whereas the daily low rates averaged 8.39 per cent. The average daily call rates were higher at 9.09 per cent than 8.13 per cent in the previous year (Table 5.1).

Chart V.1: Weighted Average Inter-bank Daily Call Money Lending Rates



5.4 The average call rates moved within the range of 8.27-8.94 per cent during April to June 1999. The rates, thereafter, edged up progressively and peaked at 11.26 per cent in October 1999, 326 basis points above the Bank Rate (Table 5.2). Following the measures announced in the mid-term review of monetary and credit policy in October 1999, the liquidity conditions eased markedly with call rates showing a sharp decline of 306 basis points

Table 5.1: Daily Inter-bank Call Money Lending Rates (Summary Statistics)

	1999-2000			1998-99		
	Low	High	Average	Low	High	Average
1	2	3	4	5	6	7
Intra-day Minimum (%)	2.50	6.75	5.01	1.00	12.50	7.56
Intra-day Maximum (%)	13.00	35.00	20.35	5.00	34.00	8.70
Average (%)	8.39	9.51	9.09	3.05	21.75	8.13
SD (%)	1.20	2.67	1.90	1.55	3.11	2.10
CV	0.14	0.28	0.21	0.21	0.36	0.26

Table 5.2: Inter-bank Monthly Call Money Lending Rates

Month	Mean (%)	SD (%)	CV
1	2	3	4
1997-98	**7.85**	**3.93**	**0.50**
1998-99	**8.15**	**1.14**	**0.14**
1999-2000			
April	8.27	1.43	0.17
May	8.94	0.82	0.09
June	8.27	0.28	0.03
July	8.37	0.33	0.04
August	9.67	2.26	0.23
September	9.90	1.11	0.11
October	11.26	2.72	0.24
November	8.20	0.18	0.02
December	7.89	0.39	0.05
2000			
January	8.03	0.55	0.07
February	10.63	3.39	0.32
March	9.68	1.53	0.16
1999-2000	**9.09**	**1.90**	**0.21**
2000-01			
April	6.84	0.88	0.13
May	7.64	0.72	0.09
June	11.51	3.95	0.34

CV Co-efficient of Variation.

to 8.20 per cent during November 1999 and further to 7.89 per cent during December 1999 - dipping below the Bank Rate for the first time during 1999-2000. The Reserve Bank relaxed the norm for CRR calculation and announced a special liquidity enhancing facility for the period December 1, 1999 to January 31, 2000 to enable the market to tide over the unlikely occurrence of the year 2000 related problems.

5.5 After ruling low at 8.03 per cent in January 2000, call rates again shot up during mid-February 2000, primarily due to large positions taken by a few banks while participating in the Reserve Bank's open market sales. The liquidity situation eased from February 21, 2000 after some participants liquidated their positions in the market, following the open market purchases of Treasury Bills and dated securities by the Reserve Bank. Despite the pick-up in credit due to the usual seasonal factors and quarterly advance tax payments, call rates softened to 9.68 per cent in March from 10.63 per cent in February 2000.

5.6 In response to the package of monetary policy measures announced by the Reserve Bank on April 1, 2000, comprising cuts in the CRR, the fixed repo rate and the Bank Rate by one percentage point each, which *inter alia*, injected liquidity to the tune of Rs.7,200 crore, call rates declined sharply to settle around the Bank Rate of 7 per cent. Easy liquidity conditions prevailed till the middle of May 2000 and the call rates moved broadly in a range between the repo rate and the Bank Rate. Issue of Government securities and fluctuations in the currency market brought some hardening in call rates during the second half of the month and the call rates averaged at 7.64 per cent in May 2000. In June 2000, the call money market generally remained tight except in the first week when liquidity conditions eased following the Reserve Bank accepting devolvement of Government securities (on May 30, 2000) to the tune of Rs.4,886 crore. Increased spot sales of foreign currency and the edging up of the inflation rate also contributed to firming up of call rates in June 2000 to an average of 11.51 per cent.

5.7 The volatility in inter-bank call rates, measured by the co-efficient of variation increased moderately in 1999-2000 after declining sharply in the preceding year. This essentially reflected four brief episodes of market pressure, with volatility keeping below 1998-99 levels over the rest of the year (Chart V.1).

5.8 During the first instance between July 31-August 6, 1999, banks aggressively subscribed to the Reserve Bank's OMO, reflecting the market expectation of an interest rate / CRR cut. As banks generally postponed the coverage of CRR requirements for the fortnight July 31 - August 13 to the second week (August 7-13), and failed to anticipate developments such as the auction of government dated securities (Rs.3,000 crore) on August 5 as also the Reserve Bank's OMO / operations in the forex market, the demand for reserves exceeded the supply across all bank groups. Call rates moved up to 25.0 per cent on August 12, 1999 and touched the peak of 35.0 per cent on August 13 (reporting

Friday). The spurt in call rates during this period was more on account of miscalculations in reserve requirements and liquidity management.

5.9 The second instance of volatility was noticed during October 14-16, 1999 when the call rate peaked at 23.0 per cent on October 16, 1999. This was again because of the miscalculation of CRR requirements by some banks and a low level of lending by major lenders in the call market. Consequently, the Reserve Bank resorted to open market purchases for the first time after 1997-98, and restored normalcy to the money market. To improve cash management by banks and thereby to check sporadic volatility in money market rates, a 2-week lag in the maintenance of stipulated CRR by banks was introduced, effective November 6, 1999.

5.10 The third instance of volatility occurred in February 2000. Call rates spurted during mid-February 2000, with the weighted average call rate reaching the February peak of 20.35 per cent on February 16, 2000. The main factor behind the call rate rise was the use of short-term funds to buy Government securities. With a view to cooling the markets the Reserve Bank conducted successive OMO sales on February 15 and 16 and this led to correction in security prices. Subsequently, the Reserve Bank's OMO purchase on February 17 and 18, 2000 in 364-day Treasury Bills and dated securities eased the pressure on call money rates.

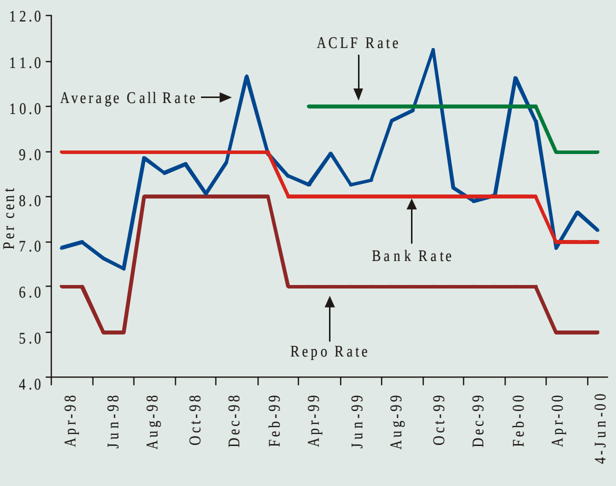
5.11 The fourth instance of volatility during 1999-2000 was towards the end of the financial year, and was associated with the seasonal spurt in credit off-take and advance tax payments, the latter exceeding Rs.10,000 crore. The call rates shot up to 16.52 per cent at end-March 2000, with the turnover in the call money market declining sharply from Rs.35,287 crore on March 30, 2000 to Rs.22,110 crore on the following day. Banks and FIs abstained from lending in the money market on the balance sheet date (March 31, 2000) in order to avoid 100 per cent risk weight on call lendings for capital adequacy purposes. The banks instead parked their surplus resources with the Reserve Bank.

5.12 During the first quarter of 2000-01, the call rates reached an intra- quarter high of 28.0 per cent on June 16, 2000. Non-acceptance of any reverse repo bids by the Reserve Bank resulted in a spike in call rates. Subsequently, the Reserve Bank injected liquidity in the call market through series of reverse repo auctions along with acceptance of devolvements in Treasury Bills to bring the rates to around 7 per cent by the end of June 2000.

5.13 Following the introduction of an Interim Liquidity Adjustment Facility (ILAF) in April 1999, call rates tended to move generally above the Bank Rate on most occasions since the accommodation available from the Reserve Bank was at the Bank Rate. Besides, as the Tier II refinance to banks from the Reserve Bank was available at two hundred basis points above the Bank Rate, an informal corridor seemed to have emerged between the Bank Rate and Tier II refinance rate.

5.14 Call rates, however, ruled within 6-8 per cent during December 1999 and January 2000 and breached briefly the ceiling of the informal corridor in October 1999 and February 2000. Fixed rate repos thus received lukewarm response during 1999-2000 with the average daily outstanding repos declining sharply to Rs.216 crore from Rs.3,713 crore during the previous year. Mirroring the liquidity conditions, repos did not receive any response during six months of the year and exceeded Rs.100 crore in April 1999, December 1999 and January 2000. The liquidity enhancing measures through CRR cuts, refinance to banks and PDs and reverse repo operations with PDs, along with open market purchases at times of spurt in call rates during the year, brought about stability in the market. While CRR cuts injected primary liquidity to the tune of about Rs.11,300 crore, the fortnightly average utilisation of CLF/ACLF and export credit refinance by banks ranged between Rs.3,180 crore and Rs.10,122 crore during April 1999 to May 2000. The drawals from the ACLF were moderate to heavy during August to October 1999 when the call rates ruled high. The weekly average outstanding credit availed by PDs from the Reserve Bank amounted to Rs.3,523 crore during 1999-2000. On the other hand, it was of the order of Rs.687 crore in the preceding year (Chart V.2).

Chart V.2: Inter-bank Call, ACLF, Bank and Repo Rates



5.15 Under tight liquidity conditions, banks could draw upon their CLF and could resort to additional borrowings through ACLF, in case call rates move above the rate at which such facility is available.

5.16 The Reserve Bank, in its April 2000 monetary and credit policy statement, announced the introduction of the Liquidity Adjustment Facility (LAF) effective June 5, 2000. The ACLF to banks and Level II support to PDs were, as a result, replaced by variable reverse repo auctions. Unlike in the ILAF, where rate of interest and amount were fixed, in the LAF both are varied to respond to day-to-day liquidity conditions in the system. The LAF, thus, would not be for purposes of funding financing requirements of eligible institutions. The LAF would impart a greater degree of stability to the short-term money market rates and facilitate the emergence of a short-term rupee yield curve. The refinance rate, *i.e.*, the Bank Rate at which export credit refinance and liquidity support to primary dealers are available, would also help explain the movements in call rates.

5.17 Following the introduction of Liquidity Adjustment Facility (LAF), the call money market firmed up, reflecting liquidity conditions in the money and the foreign exchange markets. The Reserve Bank injected liquidity through a series of reverse repo auctions in June with rates ranging from 9 to 14 per cent. For the first three weeks of the month, reverse repo cut-off rates were kept high in order to dampen speculative arbitrage stemming from the foreign exchange market. The call rates reached an intra-quarter high of 28.0 per cent on June 16, 2000. During the month, the call money rate remained above the reverse repo rate, reflecting unfulfilled market expectations of a lower cut-off to enable the transition from ILAF to LAF. In the second half of the month the call rates moved below the reverse repo cut-off rate (Chart V.3).

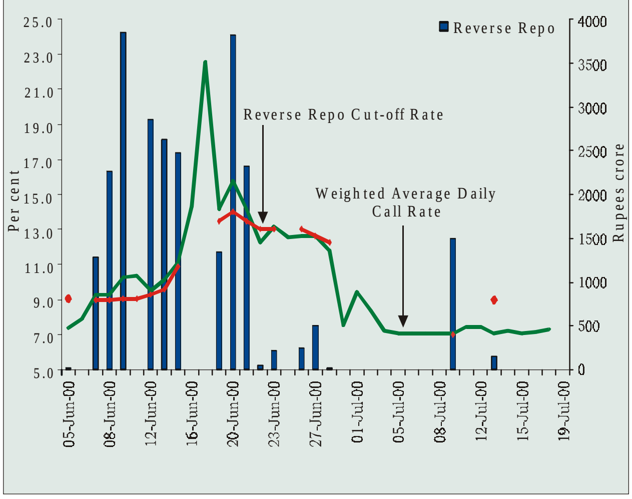
5.18 The average daily turnover in the call money market at Rs.33,882 crore during 1999-2000 was higher than that of Rs.25,956 crore in the previous year reflecting an acceleration in bank credit to the commercial sector and an increase in bank's investment portfolios.

5.19 During 1999-2000, three mutual funds, *viz*., Dundee Mutual Fund, ING Savings Trust and Cholamandalam Cazenove Mutual Fund were permitted to participate as lenders in the call/notice money market. Besides, 9 primary dealers were permitted to both borrow and lend in call / notice money market.

Foreign Exchange Market

5.20 The foreign exchange market generally exhibited stability during 1999-2000 enabled by a turnaround in export growth, an increase in portfolio investment inflows and the continuing restrictions on rebooking of cancelled forward contracts for imports and splitting of forward and spot legs of a committment. The average monthly turnover in the inter-bank foreign exchange market

Chart V.3: Weighted Average Call Money Rates and Reverse Repo Cut-off Rates



declined from US $ 88 billion during 1998-99 to US $ 75 billion during 1999-2000 (Chart V.4). The average monthly total turnover (inter-bank plus merchant) fell from US $ 109 billion in 1998-99 to US $ 95 billion in 1999-2000 although the average monthly merchant turnover at US $ 20 billion was broadly the same as in the previous year. Spot transactions formed the largest chunk (around 55 per cent) of the merchant turnover while the forward segment dominated the inter-bank market accounting for 40 per cent of total inter-bank turnover.

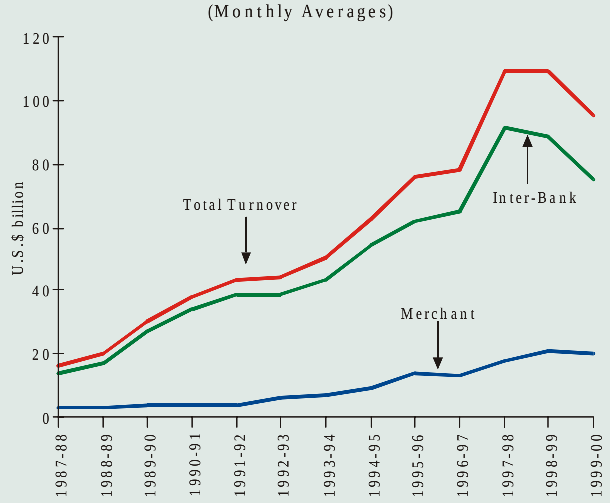
5.21 The average 3-month forward premia ruled sharply lower at around 4.5 per cent than 7.2 per cent during 1998-99. With the spot segment characterised predominantly by excess supply conditions, the forward premia exhibited a decline particularly during the second half of 1999-2000. While call rates oscillated around the mean of 8.7 per cent during June 1998 to March 2000, the forward premia exhibited a downward drift from 10.2 per cent in June 1998 to 7.0 per cent in March 1999 and further to 3.8 per cent in March 2000.

Inter-linkages Among Major Financial Markets

5.22 During the first quarter of 1999-2000, with call rates ruling above the Bank rate, borrowings from the Reserve Bank were substantial. Market participants appeared to have arbitraged between borrowing from the money market and the Reserve Bank to fund their purchases of dated securities through auctions and the open market window. The secondary market yield curve flattened, with declining medium and longer-term rates signalling subdued expectations. The Reserve Bank injected liquidity through a cut in CRR by 0.5 percentage point (Rs.3,250 crore), reverse repos and foreign currency purchases. The pressure on the market eased also because of private placement of dated securities (Rs.21,000 crore) with the Reserve Bank (Table 5.3). The forward premia declined during this period reflecting the easing of domestic interest rates.

Chart V.4: Foreign Exchange Market Turnover

(Monthly Averages)



5.23 The excess demand conditions which characterised the foreign exchange market in June 1999 continued through the second quarter on account of persisting uncertainty in the market. The monthly average exchange rate depreciated to Rs.43.53 in September 1999. To assuage market pressure, the Reserve Bank resorted to net sales amounting to US $ 1,131 million during the quarter. Additionally, the Reserve Bank drained liquidity to the tune of Rs.3,536 crore, as private placement of dated securities (Rs.2,500 crore) with the Reserve Bank was lower than net open market sales (Rs.6,036 crore). The hardening of liquidity conditions was reflected in the rise in call rates and the forward premia to 9.90 per cent and 5.22 per cent, respectively, in September 1999 from 8.27 and 4.99 per cent in June 1999. The turnover in the inter-bank call and forex markets also declined substantially in September while fixed rate repos received no response. The turnover in government dated securities market which exhibited an uptrend up to August 1999, declined substantially during September 1999. The isolated uptrend in the stock market since May continued in the second quarter, facilitated mainly by large FII inflows.

5.24 The forex market returned to stability during the third quarter. As excess supply conditions characterised the foreign exchange market from November 1999, the Reserve Bank activated purchase operations, injecting liquidity to the domestic money market. The forward premia declined substantially to 3.88 per cent in December 1999 from 5.22 per cent in September 1999. Boosted by FII inflows and the improvement in outlook on India by international credit rating agencies, the BSE-Sensex exhibited a rise. The call rates declined substantially during November and December

Table 5.3: Developments in Money, Forex and Securities Markets : April 1999- June 2000

Month	Commercial Banks' Borrowings from the Reserve Bank (Rupees crore)*	Average daily turnover in the Inter-bank Forex Market (US $ mn)	Turnover in Central Govt. Dated Securities Market £ (Rupees crore)	FEDAI Indicative Rate (Rs./ US $)	Net Foreign Currency Sale (-)/ Purchase (+) (US $ million)**	OMO Net Sales(-)/ Purchase (+) (Rupees crore)	Average Repos Outstanding (Rupees crore) @	Liquidity Support to PDs Outstanding (Rupees crore)*	Average daily Turnover in Call/ Notice Money Market (Rupees crore)	Average daily Call Rates (in per cent)	3-Month Forward Premia (in per cent)
1	2	3	4	5	6	7	8	9	10	11	12
1999											
April	5,221	3,974	57,949	42.7250	38	-7,021	1,629	1,882	31,699	8.27	6.06
May	4,960	3,561	64,699	42.7712	975	-7,832	13	4,688	29,915	8.94	5.09
June	3,863	3,429	50,079	43.1355	-157	-3,785	0	4,633	29,445	8.27	4.99
July	2,761	3,666	63,928	43.2850	-363	-8	0	3,650	34,394	8.37	4.27
August	2,771	3,753	78,500	43.4594	-242	-4,841	5	5,394	31,586	9.67	4.54
September	4,204	3,103	41,635	43.5349	-526	-1,187	0	5,498	31,386	9.90	5.22
October	7,342	3,546	51,313	43.4493	-10	-56	25	3,793	33,399	11.26	5.47
November	3,795	3,345	79,810	43.3968	621	-3,500	0	2,009	36,377	8.20	4.59
December	2,553	2,765	72,552	43.4850	351	0	672	1,050	37,482	7.89	3.88
2000											
January	4,448	3,673	85,615	43.5500	170	-70	502	1,824	35,939	8.03	3.27
February	7,451	4,460	1,18,636	43.6136	744	-7,136	0	5,352	36,232	10.63	3.04
March	6,491	4,280	45,857	43.5862	1,648	-9	0	1,877	42,244	9.68	3.83
April	5,068	3,802	79,072	43.6388	368	-41	4,904	5,250	44,687	6.84	2.59
May	10,341	4,781	78,198	43.9829	-897	-1,479	1,761	5,582	39,214	7.64	2.29
June	8,713	5,115	37,602	44.6893	-1,051	-310	2,295	4,136		11.51	3.32

* Outstanding as on last reporting Friday of the month.
£ Based on SGL outright transactions in Government securities in the secondary market at Mumbai. It excludes repo transactions.
** Include spot, swap and forward transactions.
# Dated securities.
@ Cash value.

following the reduction in CRR. The comfortable liquidity situation also enabled a spurt in the turnover in the inter-bank call market; the turnover in the Government dated securities market too recovered to the pre-September level.

5.25 Excess supply conditions in the foreign exchange market continued through the fourth quarter boosted, *inter alia*, by FIIs inflows, which also pushed up the BSE Sensex during January-February 2000 to its peak level. The average daily turnover in the inter-bank foreign exchange market increased to a high of US $ 4,460 million in February 2000 while the forward premia reached the low of 3.04 per cent in February 2000 (Table 5.3). The secondary Government dated securities market, on the other hand, was characterised by excess demand conditions during the fourth quarter. Consequently, inter-bank call rates, borrowings from the Reserve Bank and turnover in Central Government dated securities exhibited a marked rise during February. The Reserve Bank resorted to aggressive sales of dated securities and followed it up subsequently with Treasury Bill purchases to mitigate the pressure on call rates. Call rates declined in March, despite the seasonal (quarterly) advance tax payments and (year-end) spurt in credit off-take.

5.26 During the first quarter of 2000-01, the capital market exhibited bearish sentiment and the BSE Sensex touched an 11-month low of 3831.86 on May 23, 2000 following slowdown of FII investment and decline in international stock markets. The excess demand conditions dominated both the spot and forward segments of foreign exchange market during May and June 2000. With the rupee depreciating from Rs.43.64 per US dollar during April 2000 to Rs.44.28 on May 25, 2000, the Reserve Bank undertook a number of measures including net sales of US $ 1,948 million during May-June 2000 to stabilise the foreign exchange market. The call rates hardened since the middle of May 2000, after ruling easy throughout April

2000. In order to mitigate liquidity mismatches, the Reserve Bank injected liquidity in the call money market through reverse repo auctions.

Other Money Market Segments

Term Money Market

5.27 The volume of transactions in the term money market has picked up substantially in response to policy measures to develop the market segments. During the month of March 2000, the daily turnover of term money transactions ranged between Rs.951 - 1,489 crore as compared with that of Rs.23 - 967 crore in March 1999.

Commercial Bill Market

5.28 There has been some improvement in activity in the market for bill rediscounting during 1999-2000. The outstanding amount of commercial bills rediscounted by commercial banks with various FIs at Rs.758 crore at the end of December 1999 was higher than that of Rs.595 crore during the corresponding period of the previous year. After recording a decline in January 2000, the outstanding amount of bills rediscounted by banks with FIs increased to a level of Rs.735 crore at the end of February 2000 (Rs.515 crore as at end-February 1999). The outstanding amount of commercial bills rediscounted by the commercial banks with FIs subsequently registered a progressive decline and as at the end of May 2000 it amounted to Rs.235 crore as against Rs.629 crore as at end-May 1999.

Certificates of Deposit (CDs) Issued by Banks

5.29 The underlying easy liquidity conditions led to decline in mobilisation of resources through the issuance of certificates of deposit (CDs) during 1999-2000. The outstanding amount of CDs which stood at Rs.14,584 crore as on April 10, 1998 reached the historical low of Rs.872 crore as on May 5, 2000 (Appendix Table V.1). The typical discount rate on CDs with a maturity of 3 months declined from 10.0 per cent in March 1999 to 9.0 per cent in March 2000. Similarly, the typical discount rate on CDs with a maturity of one year also came down from 11.75 per cent to 10.00 per cent. The issuance of CDs in 1999-2000 was largely at the lower end of the permitted maturity period (of 3 months). Improved liquidity conditions also facilitated interest rate deregulation on term deposits (other than CDs), a move which helped banks to undertake short-term liability management at a lower cost. To bring it on par with other instruments such as CPs and term deposits, the minimum maturity of the CDs was reduced to 15 days in April 2000 from 3 months earlier.

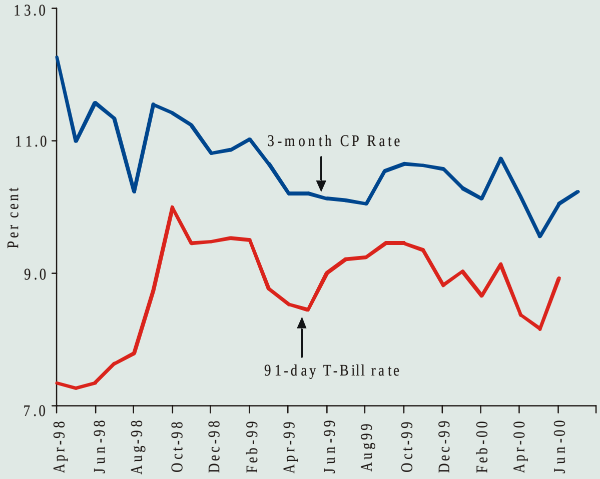
Commercial Paper

5.30 The amount of primary issues of CPs increased substantially during 1999-2000, due to the relatively low discount rates during most part of the year and the turnaround in manufacturing activity. The outstanding amount of CPs which stood at Rs.4,770 crore as on March 31, 1999 increased to touch a record high of Rs.7,814 crore as on January 31, 2000 (Appendix Table V.2). Following some hardening of liquidity conditions, the outstanding amount of CPs declined to Rs.5,663 crore as on March 31, 2000. The cumulative amount of primary issues of CPs during 1999-2000 was Rs.31,126 crore as compared with Rs.24,721 crore in 1998-99. Accordingly, the fortnightly average outstanding amount of CPs during 1999-2000 was much higher at Rs.5,663 crore as compared with Rs.4,770 crore in the preceding year. Manufacturing companies continued to account for bulk of the CP issues.

5.31 Reflecting the liquidity conditions and the declining trend in interest rates in other segments of the money market, discount rates on CPs fell during the first half of the financial year 1999-2000. The weighted average discount rate on CPs declined from 10.58 per cent in the fortnight ended March 31, 1999 to 10.39 per cent in the fortnight ended September 15, 1999. However, following the firming up of call rates, the discount rate rose to 10.96 per cent during the fortnight ended October 31, 1999. Subsequently, with the easing of liquidity conditions, discount rates declined again to reach 10.0 per cent in the first fortnight of February 2000. Discount rates again started rising and were in the range of 10.62 - 10.68 per cent in March 2000. Most of the CP issues, however, were at rates lower than the PLRs of 12.0-13.5 per cent of public sector banks during 1999-2000 facilitating top rated corporate entities to raise funds at rates lower than the PLRs. The market rates for wholesale deposits by way of CDs generally moved in line with the market conditions.

5.32 The interest rate differential between the risk-free yields on Treasury Bills and average effective rate of discount on CPs provides an indicator of the risk premium on CDs. Chart V.5 shows that the differential between the 91-day Treasury Bill rate and the 3-month CP rate declined substantially from an average of 2.6 percentage points during 1998-99 to 1.3 percentage points during 1999-2000 (Box V.1).

Chart V.5 : Cut-off Yields on 91-day T-Bill and CP Rate



Box V.1
Risk Premia and Financial Markets

Financial asset prices reflect not only their intrinsic worth but also a premium for their riskiness. The concept of risk premium is used to express the difference between an uncertain outcome and its certainty equivalent. Risk premium may be defined as a premium that is paid by an economic entity to another in the course of a transaction to obtain insurance against the risk of the price changing adversely during the course of the completion of a transaction or during the period of the contract.

The buyer of the asset demands a premium from the seller if, for example, he faces credit risk (depending on the credit worthiness of the issuer of the asset), or gets exposed to price (market) risk while selling the asset in the secondary market, or faces difficulty in selling the security in the secondary market before maturity (liquidity risk). In regimes where interest rates in the financial markets were regulated and holders of assets held them till maturity, credit risk was the dominant component of risk and other kinds of risks were, by and large, non-existent. However, with the initiation of financial sector reforms, asset prices (interest rates) have been deregulated and are increasingly subject to price/market risk. The price/yield of a security varies from time to time, with the volatility in the return providing an indicator of riskiness. Financial intermediaries such as banks face various other kinds of risks such as (i) gap or mismatch risk, (ii) basis risk, (iii) embedded option risk, (iv) yield curve risk, and (v) reinvestment risk. All assets are not subject to uniform risk and do not have the same source. The nature and degree of risks also vary over time. Therefore, riskiness of an asset is measured with reference to a benchmark security, which is risk free. Since sovereign paper is free of credit risk (and to a large extent, liquidity risk), it is normally used as a benchmark to determine the risk premia. Financial economists have developed various models to determine the risk premia of assets. In respect of bonds, there is evidence to suggest that risk premium on bonds may also be related to risks in the value of collateral assets (*e.g.*, real estate) underlying such bond issues. This shows the linkages between the developments in real estate market and debt market.

According to the Capital Asset Pricing Model, the risk premium depends on two factors – (i) co-variance of the return on a security with the return on a combined portfolio of all relevant securities (market portfolio) and (ii) the premium of the market portfolio over a riskless asset. If the return on the particular security is such that its addition to the portfolio increases the total riskiness of the portfolio, then the price of that security will earn a premium higher than the premium for the market portfolio and *vice versa*. One problem of the CAPM is that it leaves the premium on market risk undefined. The Arbitrage Pricing Theory (APT) of asset prices, on the other hand, allows for more than one factor to influence risk premium. However, the empirical methods in identifying relevant factors are highly complex.

Many financial instruments currently in use are products for hedging of risk. Hedging spurred financial innovations in the last three decades. The first floating rate instrument was issued in 1970 in the Euromarkets. In 1972, the International Monetary Market started the trading of financial futures on foreign exchange. In 1973, the Chicago Board Options Exchange was set up and this enabled the trading of standardised options. In 1982, financial futures in stock market indices were initiated.

A large part of the systemic or market risk premium in financial markets in developing countries arises from inadequate development of financial markets. In India, although forward trading has been practised in cash crops like jute, turmeric and pepper, financial futures

(Contd......)

(........Concld.)

were banned till recently. With the liberalisation of the financial sector and the recent legalisation of futures trading in India, a gradual development of hedging instruments is increasingly in evidence. However, financial instruments are not devices of risk hedging alone. They give market players liquidity, manoeuvrability and convenience as well. The observed differences in the current, expected and forward prices of various instruments may be attributed as much to liquidity premium as to risk premium.

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Mobilisation of Resources by Financial Institutions

5.33 The aggregate amount of resources raised by the financial institutions[1] by way of term money, CDs, term deposits and inter-corporate deposits (ICDs) increased from Rs.6,828 crore as on March 26, 1999 to Rs.7,789 crore as on March 24, 2000 and further to Rs.9,532.5 crore as on May 19, 2000. Instrument-wise patterns indicate that financial institutions preferred ICDs, followed by term deposits, CDs and term money. The outstanding amount of ICDs increased sharply from Rs.3,450 crore as on March 26, 1999 to Rs.5,031 crore as on March 24, 2000. During the first quarter of 2000-01 the outstanding amount of ICDs declined to Rs.4,423 crore (as on May 19, 2000). Similarly, the outstanding amount of term deposits increased from Rs.573 crore as on March 26, 1999 to Rs.677 crore as on March 24, 2000 but declined marginally to Rs.671 crore as on May 19, 2000. The outstanding amount of CDs declined gradually from Rs.1,863 crore as on March 26, 1999 to Rs.1,689 crore as on March 24, 2000. Subsequently, it increased to Rs.2,994 crore as on May 19, 2000. The outstanding amount of term money borrowings by financial institutions decreased from Rs.943 crore as on March 26, 1999 to Rs.392 crore as on March 24, 2000 before increasing to Rs.787 crore as on May 19, 2000.

1. The data pertain to nine all-India financial institutions. These are IDBI, ICICI, IFCI, NABARD, Exim Bank, NHB, SIDBI, TFCI and IIBI.

5.34 Interest rates offered on term money borrowings by financial institutions declined from 12.0 per cent in March 1999 to 10.95 per cent in March 2000 and further to 10.75 per cent in June 2000. The interest rates on CDs issued by financial institutions declined from the range of 12.10 - 13.00 per cent in March 1999 to 9.50 - 9.65 per cent in March 2000 but increased to 10.30-10.50 per cent in June 2000. Interest rates on term deposits moved in the range of 9.00 - 12.00 per cent between March 1999 and March 2000 and in the range of 8.00-10.50 per cent during the first quarter of 2000-01.

Forward Rate Agreements (FRAs)/ Interest Rate Swaps (IRSs)

5.35 The guidelines on FRAs/IRSs were issued on July 7, 1999. The outstanding notional principal of FRAs/IRSs contracts amounted to Rs.4,243 crore as on March 10, 2000 which rose to Rs.5,831 crore as on June 30, 2000. The tenor of deals generally ranged up to 1 year and majority of the contracts used Mumbai Inter-Bank Offer Rate (MIBOR) – as announced by NSE/Reuters – as the benchmark rate. Participants included commercial banks, PDs, FIs and corporates. The activity in this segment of the market has, however, been limited on account of lack of benchmark rates for longer maturities and large spreads in bid – offer rates. Further, the majority of the prospective participants are in the process of putting in place adequate internal control systems for undertaking FRAs/

IRSs and asset-liability management systems which would facilitate identification of mismatches. Effective April 27, 2000, the use of interest rates implied in the foreign exchange forward market as a benchmark has been permitted in addition to the existing domestic money and debt market rates.

Public Deposits with Non-Banking Financial Companies[2]

5.36 Aggregate public deposits of NBFCs, in terms of the survey data as reported by 1,547 NBFCs holding public deposits, stood at Rs. 20,428.93 crore as on March 31, 1999. Deposits with NBFCs as a proportion to those with commercial banks worked out to 2.9 per cent as at end-March 1999.

Housing Finance Market

5.37 Prior to October 1999, indirect housing loans sanctioned by banks to intermediary housing agencies against the direct loan sanctioned / proposed to be sanctioned by the latter were reckoned as part of their housing finance allocation, provided the loan per borrower extended by such intermediary agencies did not exceed Rs.5 lakh and Rs.10 lakh in rural/semi-urban and urban / metropolitan areas, respectively. In order to enhance the flow of resources to the housing sector, effective October 29,1999, banks were advised that housing finance sanctioned by them to the housing finance intermediary agencies would be reckoned for the purpose of achievement of their housing finance allocations, irrespective of the per-borrower size of the loans extended by these agencies.

EQUITY, DEBT AND TERM LENDING MARKETS

5.38 All segments of the capital market witnessed renewed activity during 1999-2000. There were a large number of successful new capital issues in the primary market although the private placement market continued to dominate in terms of resource mobilisation. Responding to the fiscal concessions announced in the Union Budget for 1999-2000, resource mobilisation by mutual funds, particularly by private sector funds, exhibited a turnaround. Activity in the secondary market remained bullish for most part of the year with the BSE Sensex crossing the 6000 mark for the first time in February 2000 and market capitalisation surging to a historical peak.

Primary Market Developments

New Issues Market – Prospectus and Rights Issues

5.39 During 1999-2000, the primary market showed signs of improvement with a significant increase in the number of new capital issues (Table 5.4). While aggregate resource mobilisation through prospectus and right issues at Rs.7,704 crore was lower than Rs.9,365 crore mobilised during the previous year, this was mainly due to a lower order of primary issues by banks and financial institutions in the public sector. There was a substantial fall in the amount mobilised through ‘mega issues’ (Rs.100 crore or above) to Rs.5,994 crore through 16 issues during 1999-2000 from Rs.8,546 crore through 12 issues during 1998-99. For the second consecutive year, non-financial PSUs and Government companies remained absent from the public issues market.

5.40 During 1999-2000, resources mobilised by non-Government public limited companies (private sector) at Rs.5,153 crore through 79 issues registered an increase of 2.8 per cent as compared with Rs.5,013 crore mobilised through 48 issues during 1998-99. The average size of issue by these companies registered a sharp decline to Rs.65 crore from Rs.104 crore in 1998-99. Equity was the most favoured instrument in this category of issues accounting for 69 issues during 1999-2000 as against 33 issues in the previous year. In terms of resource mobilisation, equity issues accounted for Rs.2,753 crore (53.4 per cent) during 1999-2000 as compared with Rs.2,563 crore (51.1 per cent) in the previous year. The share of premium in the total amount mobilised by equity issues increased to 78.8 per cent from 51.7 per cent (Appendix Table

2. Until the reporting year ended March 31, 1997, deposits of NBFCs included the amounts received from the members of public as well as inter-corporate deposits. Subsequently, the definition was modified in January 1998, to reckon the funds received by NBFCs exclusively from members of the public as public deposits. Hence, the quantum of public deposits consolidated and reported in this Report for the year ended March 31, 1999 are not comparable with the regulated deposits data for the earlier years.

Table 5.4: Mobilisation of Resources from the Primary Market*

(Amount in Rupees crore)

Item	1999-2000 P		1998-99	
	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5
A. Prospectus and Rights				
1. Non-Government Public Limited Companies (Private Sector)	79	5,153.3 (2.8)	48	5,013.1 (59.7)
2. Public Sector Undertakings (PSU Bonds)	—	—	—	—
3. Government Companies	—	—	—	—
4. Banks/Financial Institutions (in the Public Sector)	4	2,551.0 (– 41.4)	3	4,352.0 (194.9)
5. Sub Total (1+2+3+4)	83	7,704.3	51	9,365.1
B. Private Placement+				
1. Private Sector	367	19,403.5 (14.2)	180	16,997.7 (84.7)
a) Financial	176	10,875.2	87	12,174.2
b) Non-financial	191	8,528.3	93	4,823.5
2. Public Sector	211	41,855.5 (28.1)	136	32,681.3 (56.4)
a) Financial	119	17,981.3	67	20,382.4
b) Non-financial	92	23,874.2	69	12,298.9
3. Sub-Total (1+2)	578	61,259.0 (23.3)	316	49,679.0 (65.1)
C. Total (A+B)	**661**	**68,963.3** **(16.8)**	**367**	**59,044.1** **(69.9)**

* Including both debt and equity.
P Provisional.
– Nil/Negligible.
\+ Estimates based on information gathered from arrangers, FIs and newspaper reports.
Note: 1. Parenthetic figures represent percentage variations over the previous year.

V.3) reflecting mainly the successful initial public offerings (IPOs) of companies in the information technology (IT) sector. During 1999-2000, there were 32 equity issues by IT sector accounting for Rs.495 crore or 9.6 per cent of total resource mobilisation by the private sector as compared with Rs.39 crore (0.8 per cent) through 4 issues during 1998-99. Resource mobilisation by banks and financial institutions in the public sector, however, registered a decline of 41.4 per cent to Rs.2,551 crore from Rs.4,352 crore mobilised during 1998-99.

Private Placement Market

5.41 The growth of the private placement market further strengthened during 1999-2000 with PSUs relying entirely on this market. The State level undertakings as a group emerged as the largest mobiliser of funds through this route, ahead of all-India development financial institutions. During 1999-2000, resources mobilised by banks, financial institutions and public and private sector companies through private placements increased by 23.3 per cent to Rs.61,259 crore (as against an increase of 65.1 per cent during 1998-99), with the public and the private sectors accounting for 68.3 per cent (Rs.41,856 crore) and 31.7 per cent (Rs.19,404 crore), respectively. Financial intermediaries (both in the public and private sector) accounted for 47.1 per cent (Rs.28,857 crore) of the total resources mobilised through private placement, while non-financial corporate entities accounted for 52.9 per cent

(Rs.32,402 crore). The public sector companies raised resources at interest rates varying between 8.5 per cent (for issues of one-year maturity) and 14.75 per cent (for issues of seven year maturity), while the interest rate for the private sector debt ruled between 9.5 per cent (for issues of nine-month maturity) and 15.25 per cent (for issues of five to seven years maturity).

Mutual Funds

5.42 Resource mobilisation by mutual funds witnessed a sharp turnaround during 1999-2000 after two consecutive years of subdued performance. As against Rs.3,611 crore mobilised during 1998-99, net resource mobilisation by all mutual funds increased more than six-fold to reach a peak of Rs.21,971 crore; the previous peak was Rs.13,021 crore during 1992-93. The spurt in resource mobilisation during 1999-2000 was led by private sector funds which witnessed an inflow of the order of Rs.17,171 crore as against Rs.2,519 crore during the previous year. The Unit Trust of India (UTI) mobilised a net amount of Rs.4,548 crore as against Rs.170 crore during 1998-99. Public sector mutual funds witnessed a net inflow of Rs.253 crore as against Rs.922 crore during the previous year (Table 5.5). Improvement in resource mobilisation by mutual funds was brought about by two significant developments: (i) tax benefits announced in the Union Budget for 1999-2000, particularly those relating to equity oriented schemes and (ii) bullish trends in the secondary market. Attractive returns on the units of mutual funds together with greater flexibility in meeting specific investment objectives have made the mutual funds industry an important institution in the process of financial intermediation in India.

Table 5.5: Net Mobilisation of Resources by Mutual Funds #

(Amount in Rupees crore)

Item	1999-2000 P		1998-99 P	
	No. of Schemes	Amount	No. of Schemes	Amount
1	2	3	4	5
1. Unit Trust of India @	..	4,548.0	84	170.0
2. Public Sector Mutual Funds*	34	252.6	23	922.0
3. Private Sector Mutual Funds	120	17,170.8	76	2,518.7
Total (1 to 3)	**154**	**21,971.4**	**183**	**3,610.7**

\# Net of repurchases/redemptions. P Provisional.

@ Net sales value with premium under all domestic schemes, includes re-investment sales.

.. Not available.

* Sponsored by banks and FIs in the public sector.

Note: Outstanding net assets of all mutual funds, according to SEBI, stood at Rs.1,07,946 crore as at end-March 2000, which was higher by 58.3 per cent as compared with Rs.68,193 crore as at end-March 1999.

Source: UTI and respective Mutual Funds.

Disinvestment in Public Sector Enterprises

5.43 The disinvestment programme of the Government was muted, with the actual proceeds from disinvestments falling far below the targeted amount. PSU equities remained depressed in the secondary market segment, even though the overall market sentiment improved during 1999-2000. As against a target of Rs.10,000 crore during 1999-2000, proceeds from disinvestments fell to Rs.1,647 crore (revised estimates). In the Union budget for 2000-01, the target for disinvestment has been kept unchanged at Rs.10,000 crore. The Disinvestment Commission submitted twelve reports and gave its recommendations for disinvestment for fifty-eight PSUs out of the seventy-one PSUs referred to it. The tenure of the Disinvestment Commission ended in November 1999 and the Government subsequently created a new Department of Disinvestment (*Vinivesh Vibhag*) to establish a systemic policy approach to disinvestment and to give fresh impetus to this programme which will increasingly emphasise strategic sales of identified PSUs.

Euro Issues

5.44 During 1999-2000, resource mobilisation by Indian corporates through Euro issues by way of Foreign Currency Convertible Bonds (FCCBs), Global Depository Receipts (GDRs) and American Depository Receipts (ADRs) registered a significant increase - six issues aggregating Rs.3,487 crore were floated as against three issues aggregating Rs.1,148 crore during 1998-99.

Secondary Market Developments

5.45 During 1999-2000, stock markets witnessed generally buoyant conditions. The year began on a somewhat subdued note mainly due to domestic uncertainties. However, in the first week of May 1999 an uptrend set in and share prices ruled firm until September 1999, driven mainly by large FII inflows. Signs of industrial recovery, improved corporate sector performance and sound macro economic fundamentals also strengthened the market sentiment. After a brief spell of downtrend in September 1999, the stock markets started looking up again in the first week of October 1999 following the formation of a new Government at the Centre and upgrading of India's international credit ratings from 'stable' to 'positive' by the international credit-rating agencies. The BSE Sensex breached the 5000-mark on October 8, 1999.

5.46 The stock markets remained range bound till December 3, 1999 but showed a distinct rise thereafter to close the calendar year above the 5000-mark mainly due to fresh FII buying. The uptrend continued during January-February 2000 with the BSE Sensex crossing the 6000-mark for the first time during intra-day trading on February 11, 2000, enabled, *inter alia*, by the smooth changeover to the year 2000, increased buying by FIIs and passage of important economic reform bills like the Insurance Regulatory Authority (IRA) Bill, the Foreign Exchange Management Act (FEMA) and the Securities Laws (Amendment) Bill 1999. The rally in share prices was broad-based and was particularly driven by a sharp rise in the prices of infotech stocks. The CNX IT Index (Base: January 1, 1996=1,000) consisting of 20 major information technology scrips registered a phenomenal growth of 363.3 per cent during the year 1999-2000 on top of the sharp rise of 311.5 per cent in the preceding year, thereby driving up the P/E multiple of this sector. Although in the recent period (since April 1, 2000) there has been some decline in the P/E multiple of infotech stocks, it still continues to be high. The high P/E multiples in respect of technology stocks are attributed to their large earnings and/or high growth potential.

5.47 The steep decline in the prices of some major infotech scrips in the recent period (the CNX IT Index declined sharply by 47.0 per cent between end-March 2000 and end-July 2000) has raised questions regarding the sustainability of their P/E multiples at high levels in the future. The market remained generally subdued since March 2000 on account of several factors, such as, the slowdown of FII investment, volatility in the foreign exchange market, uncertainty about international oil prices and the bearishness in the international stock markets (especially the NASDAQ) following the hike in interest rate by the US Fed (Chart V.6). The BSE Sensex touched an 11-month low of 3831.86 on May 23, 2000 during intra-day trading. However, it recovered since then and closed at 4279.86 on July 31, 2000 (Tables 5.6 and 5.7).

Chart V.6: Movements in BSE Sensitive Index and Nasdaq Composite Index

5.48 The volatility in the BSE Sensex as measured by the co-efficient of variation

Table 5.6: Important Indicators of Stock Exchange, Mumbai

(Amount in Rupees crore)

Indicators	1999-2000 (April-March)	1998-99 (April-March)	Percentage Variations 1999-2000	Percentage Variations 1998-99
1	2	3	4	5
1. BSE SENSEX				
(i) Average	4,658.63	3,294.78	41.4	– 13.6
(ii) End of the year	5,001.28	3,739.96	33.7	– 3.9
2. Price Earning Ratio @	19.76	12.86	53.7	– 11.4
3. Price-Book Value Ratio @	3.4	2.26	50.4	– 17.2
4. Yield @ (per cent per annum)	1.23	1.82	– 32.4	19.0
5. Listed Companies*	5,889	5,848	0.7	– 0.1
6. Turnover	6,85,028	3,11,999	119.6	50.1
7. Market Capitalisation*	9,12,842	5,42,942	68.1	– 3.1

@ Based on 30 scrips included in the SENSEX and are averages for the year.

* As at end-March.

Source: The Stock Exchange, Mumbai.

increased to 13.2 per cent in 1999-2000 from 11.8 per cent in 1998-99. The dispersion (the range between closing high and closing low) at 2689 was significantly higher than that of 1517 recorded during 1998-99 (Appendix Table V.4).

5.49 The total turnover in BSE at Rs.6,85,028 crore during 1999-2000 registered a sharp increase of 119.6 per cent on top of an increase of 50.1 per cent in the previous year. As against a decline of 3.1 per cent during 1998-99, the market capitalisation of listed scrips at BSE, which is a measure of shareholders' wealth, increased sharply by 68.1 per cent to Rs.9,12,842 crore (Chart V.7). The average price-earning ratio increased to 19.8 during 1999-2000 from 12.9 in the previous year (Table 5.6). The average price-book value ratio based on the 30 scrips (comprising BSE Sensex) increased to 3.40 from 2.26 in 1998-99. The annualised yield based on these 30 scrips, however, declined to 1.23 per cent in 1999-2000 from 1.82 per cent in the previous year.

Chart V.7: Trend in Market Capitalisation

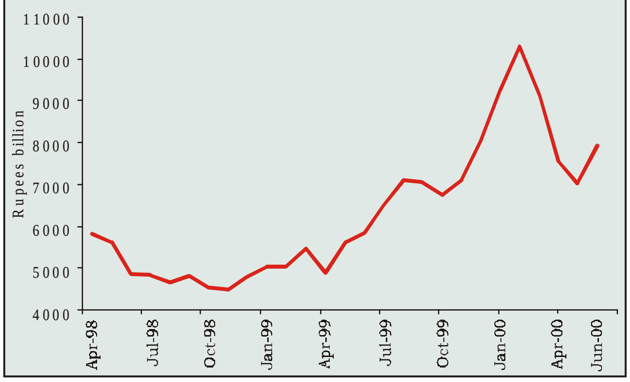

Table 5.7: Important Indicators of National Stock Exchange (Capital Market Segment)

(Amount in Rupees crore)

Indicators	1999-2000 (April-March)	1998-99 (April-March)	Percentage Variations 1999-2000	Percentage Variations 1998-99
1	2	3	4	5
1. S&P CNX Nifty				
(i) Average	1,368.62	954.96	43.3	– 12.2
(ii) End of the year	1,528.45	1,078.05	41.8	– 3.5
2. Turnover	8,39,051	4,14,474	102.4	12.0
3. Listed Companies*				
i) Number	673	645	4.3	5.4
ii) Market Capitalisation	8,50,880	3,35,209	153.8	8.7
4. Permitted Equities*				
i) Number	479	609	– 21.4	– 18.3
ii) Market Capitalisation	1,09,457	1,55,967	– 29.8	– 9.8

* As at end-March.

Source: National Stock Exchange of India Ltd.

5.50 The total turnover in the capital market segment of NSE at Rs.8,39,051 crore registered a sharp increase of 102.4 per cent during 1999-2000 as against 12.0 per cent in the previous year. As at end-March 2000, the number of companies listed at NSE stood at 673 with market capitalisation of Rs.8,50,880 crore as against 645 listed companies with market capitalisation of Rs.3,35,209 crore as at end-March 1999 (Table 5.7).

5.51 The National Securities Clearing Corporation Limited (NSCCL), which handles the clearing and settlement operations of NSE, guarantees settlement on behalf of its clearing members through its Settlement Guarantee Fund (SGF). The size of the SGF increased to around Rs.1,400 crore as on March 31, 2000 as compared with Rs.580 crore as on March 31, 1999. NSE and NSCCL commenced an Automated Lending and Borrowing Mechanism (ALBM) for borrowing and lending of securities in February 1999. NSCCL successfully completed 56 settlements for 11.30 lakh shares amounting to Rs.87.40 crore by end of March 2000.

5.52 The NSE was the first exchange to grant permission to brokers to commence internet based trading services and as on March 31, 2000, 4 members were granted permission to commence internet trading. The NSE incorporated a separate company *i.e.* NSE.IT Ltd. in October 1999 which would service the securities industry in addition to management of IT requirements of NSE. It developed a system of managing the primary issues through a screen based automated trading system.

Foreign Institutional Investors (FIIs)

5.53 Net investments by FIIs turned buoyant during 1999-2000 after remaining generally depressed during 1998-99. The increased FII activity during 1999-2000 resulted in a large net inflow of Rs.9,954 crore as against a net disinvestment of Rs.806 crore during 1998-99. The monthly net FII investment was positive during 1999-2000 (barring September-October 1999) and touched a high of Rs.2,835 crore during February 2000. During April-June 2000-01, net investment by FIIs was Rs.1,564 crore. Cumulative investments by FIIs which stood at Rs.39,226 crore as at end-March 2000 increased to Rs.40,790 crore as at end-June 2000 despite net sales in the month of June. The sharp increase in FII investments during 1999-2000 is reflective of FIIs' positive outlook on the Indian economy. The number of FIIs registered with SEBI stood at 526 as at end-June 2000.

Banks' Investments in Capital Market

5.54 During 1999-2000, banks' direct investment in the capital market instruments declined sharply. Accommodation provided by the scheduled commercial banks to the commercial sector through investments in bonds/debentures/preference shares and equity shares (including loans to corporates against shares to meet promoters' contribution) declined to Rs.11,513 crore during 1999-2000 from Rs.14,378 crore during the previous year. Banks' investments in bonds/debentures and preference shares at Rs.11,071 crore, formed the major portion of investment in capital market instruments.

Progress of Dematerialisation

5.55 The dematerialisation process showed an impressive progress during 1999-2000. The SEBI initially added 96 scrips in two phases to the existing list of 104 scrips for compulsory demat trading by all categories of investors bringing the total number of such scrips to 200, which covered the entire 'A' group securities, as on January 17, 2000. This list was expanded further to 579 by June 26, 2000 and another 632 scrips are being added in two phases to bring the total of scrips in the compulsory demat trading list to 1210 by August 28, 2000. The SEBI also added 140 scrips in two phases to the existing list of 360 scrips for compulsory dematerialised trading by institutional investors bringing the total number of such scrips to 500 with effect from January 17, 2000. This list was expanded further to 978 with effect from June 26, 2000. Effective February 9, 2000, the securities of any company coming out with a public issue are required to be traded compulsorily in dematerialised form for all categories of investors.

Operations of National Securities Depository Ltd (NSDL)

5.56 The National Securities Depository Limited (NSDL) made further progress in expanding its coverage of dematerialised trading during 1999-2000. This is reflected in the substantial increase in the number of companies and depository participants (DPs) during the year. The market value of the dematerialised securities as at end-March 2000 increased sharply to Rs.4,63,385 crore from Rs.1,14,255 crore as at end-March 1999. Ten stock exchanges established connectivity with NSDL for offering trade in demat securities as at end-March 2000. The number of companies which signed up with NSDL to get their securities admitted for dematerialisation reached 918 by end-March 2000 as compared with 375, a year ago. The market capitalisation of these companies at Rs.7,65,875 crore as at end-March 2000 constituted 84 per cent of the total market capitalisation. So far, 821 companies have made available their shares for dematerialisation as compared with 365 in the previous year. The number of DPs operational as at end-March 2000 stood at 124 as against 84 as at end-March 1999, which included all custodians providing services to local and foreign institutions. At present these DPs cater to investors from about 1,425 locations across the country. The number of beneficial owners – institutional and retail – who had opened accounts with DPs, increased sharply to 24,14,306 as on March 31, 2000 from 4,35,960 a year ago.

Central Depository Services (India) Limited (CDSL)

5.57 Central Depository Services (India) Limited (CDSL) is the second depository to be set up in the country by BSE and co-sponsored by State Bank of India, Bank of India, Bank of Baroda and HDFC Bank. It commenced operations on March 22, 1999. As at end-

March 2000, the market value of dematerialised securities amounted to Rs.8,188 crore. Five stock exchanges established connectivity with CDSL for offering trade in demat securities as at end-March 2000 and 765 companies signed up with CDSL to get their securities admitted for dematerialisation. The market capitalisation of these companies stood at around Rs.7,00,000 crore. As at end-March 2000, 680 companies made available their shares for dematerialisation. The number of DPs operational as at end-March 2000 stood at 61. The number of beneficial owners having accounts with DPs of CDSL stood at 28,545 as at end-March 2000.

Debt Market

Wholesale Debt Market – NSE

5.58 During the year 1999-2000, the number of securities listed on wholesale debt market (WDM) segment increased to 843 from 679 in 1998-99, while the number of active securities listed and available for trading in the segment increased to 1412 from 1147 during the same period. The volume of trading nearly trebled to Rs.3,04,216 crore in 1999-2000 from Rs.1,05,469 crore in 1998-99, with the highest volume recorded in February 2000 at Rs.43,186 crore, mainly reflecting the keen interest by market participants in the Government securities market. The average daily traded value increased sharply to Rs.1,035 crore in 1999-2000 from Rs.365 crore in 1998-99. The trend in the trading pattern during 1999-2000 remained almost the same as in the previous year with Government securities and Treasury Bills accounting for the bulk of the trading volume at over 96 per cent of the total trade. The declining trend in the traded volume of corporate debentures continued in 1999-2000, with amounts traded falling to Rs.498 crore from Rs.971 crore in 1998-99. Banks, brokers and PDs accounted for 95 per cent of the total volume. Indian banks accounted for 42 per cent of the trade in 1999-2000.

Term Lending Institutions

5.59 During 1999-2000, financial assistance sanctioned and disbursed by all-India financial institutions (AIFIs) at Rs.1,03,567 crore and Rs.67,066 crore, respectively, registered increases of 26.3 per cent and 19.1 per cent, as compared with 8.6 per cent and 8.5 per cent during 1998-99. The substantially higher growth in both sanctions and disbursements during 1999-2000 was an indicator of improved investment activity. Financial assistance sanctioned by all-India development banks (AIDBs), which accounted for the bulk of the sanctions (84.6 per cent of total sanctions of AIFIs) grew by 22.2 per cent, while their disbursements grew by 16.5 per cent. During 1999-2000, specialised financial institutions increased their disbursements by 61.6 per cent. Many of them are entering into venture capital activity (Box V.2). Investment institutions also recorded a growth of 31.1 per cent in their disbursements (Appendix Table V.5).

Box V.2

Venture Capital

Venture capital (VC) is defined as a form of risk finance provided to enterprises which either because of their size, the stage of development, the degree of leverage or the nature of their business can not raise funds from the capital market or from the banking system. International experience shows that an atmosphere of structural flexibility, fiscal neutrality and operational adaptability are crucial for the growth of VC industry. The avenues for financing also need to be broadened through involvement of pension funds, insurance funds, mutual funds, *etc.* apart from high net worth individuals and 'angel' investors. Besides, infrastructure development through Government support and private management as well as creation of knowledge incubators for supporting R&D efforts are essential prerequisites for the healthy development of VC industry.

Venture capital industry in India is in a nascent stage. Finances in the early years for the industry were provided by DFIs (Development Financial Institutions) by way of easy loans at low rates of interest with emphasis being placed on industrial products and indigenous technologies. Recent success of India in software and information technology and NRI entrepreneurs have generated a lot of public attention and interest in VC industry. India now has the second largest English speaking scientific and technical manpower and is recognised for its globally competitive high technology and human capital. The development of VC funds in India can go a long way in actualising the knowledge base and propagating it into commercial production and

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also help in moving towards a higher level in the value chain.

Recognising the acute need for higher investment in venture capital activities to promote technology and knowledge based enterprises, the SEBI appointed a Committee (Chairman : Shri K.B. Chandrasekhar) to identify the impediments in the growth of the venture capital industry in India and suggest suitable measures. The recommendations of the Committee, *inter alia*, included harmonisation of multiple regulatory requirements into a nodal regulatory system under SEBI, legislative provisions for incorporation of entities such as the Limited Liability Partnership (LLP) and Limited Liability Company (LLC) and provision for preferred stocks, tax pass-through for VC funds, flexibility in investment and exit, facilitating mobilisation of global and domestic resources through hassle-free entry of foreign venture capital investors on the pattern of FIIs and increase in the list of sophisticated institutional investors to invest in VC funds. Besides, it advocated enhancement of limit of investment in ESOP (Employees Stock Option Plan) both by Indian employees in foreign companies and foreign employees in Indian companies apart from allowing swaps under ESOPs schemes of the shares of Indian company with that of a foreign company. The SEBI has since given in-principle approval to the recommendations of the Committee.

Some of the important steps initiated in the recent past to develop venture capital industry in India include : (i) permitting banks to invest in VC funds and to treat such investments as priority sector lending, (ii) making SEBI the single point nodal agency for registration and regulation of both domestic and overseas VC funds and (iii) applying the principle of 'pass-through' in tax treatment to VC funds.

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GOVERNMENT SECURITIES MARKET

5.60 The gross market borrowing of the Central Government amounted to Rs.99,630 crore during 1999-2000. Private placement of government debt with the Reserve Bank combined with open market operations was continued as a strategy for debt and liquidity management. The strategy helped in containing the volatility in interest rates and enabled the Government to raise the required resources. The medium and long-term yields eased steadily during the year from 12.05 per cent in March 1999 (for 10 year bond) to 10.85 per cent in March 2000. The weighted average yield at cut-off price also declined from 11.86 per cent in 1998-99 to 11.77 per cent in 1999-2000.

5.61 The Reserve Bank's initial subscriptions to market borrowing amounted to Rs.29,267 crore, with private placement in dated securities and devolvement of 364-day Treasury Bills placed at Rs.27,000 crore and Rs.2,267 crore, respectively. The Reserve Bank's net open market sales of Government dated securities amounted to Rs.35,369 crore, which was somewhat offset by net purchase operations of Rs.4,508 crore in 364-day Treasury Bills. The total amount of dated securities absorbed by the market, including net OMO sales by the Reserve Bank, amounted to Rs.94,999 crore during 1999-2000. Reflecting the increasing depth, the aggregate volume of transactions, outright as well as repos, in Government securities amounted to Rs.5,35,777 crore in 1999-2000 compared with Rs.2,27,228 crore in 1998-99.

Central Government's Market Borrowing

Dated Securities

5.62 Dated securities aggregating Rs.86,630 crore were issued during fiscal 1999-2000 as against Rs.83,753 crore in 1998-99 (Appendix Table No. V.6). The Central Government entered the market on 21 occasions (including private placements with the Reserve Bank on 8 occasions) in 1999-2000 as against 24 occasions (with private placements on 8 occasions) in the previous year (Appendix Table V.7). The shift from an yield-based to the price-based auction resulted in finer bidding. Out of the 30 loans floated by the Government, only four were fresh issues whereas others were re-issues. The Reserve Bank's subscription to total primary issues (including private placement) amounted to Rs.27,000 crore (31 per cent) as against Rs.38,205 crore (46 per cent) during 1998-99. During 1999-2000, there was no direct devolvement on the Reserve Bank in view of the overwhelming response to auctions, particularly during the second half, when bids received exceeded 200 per cent of the notified amount. About 65 per cent (Rs.56,630 crore) of the total primary issues was raised through securities of above 10-year maturity as against 14 per cent (Rs.11,324 crore) in 1998-99 resulting in the lengthening of the weighted average maturities of outstanding marketable debt to 7.75 years from 7.30 years in 1998-99.

5.63 During 1999-2000, the long-term rates declined notwithstanding a moderate firming up of the interest rates in short-term Government papers such as Treasury Bills. Banks generally exhausted their short-term resources to fund investment in long-term Government securities, which drove down the long-term interest rates. Given the underlying low inflationary expectations and stable call money market conditions and the improvements in liquidity due to consolidation of issues through reissuance, the market participants found the long-term paper to be attractive. As a consequence, the yield curve flattened considerably with the term spread between the 1-year and 10-year security falling from nearly 200 basis points in March 1999 to 92 basis points in March 2000.

5.64 The cut-off yield on the Central Government 7-year bond declined from 11.68 per cent in April 1999 to 11.35 per cent in October 1999 (7 years and 6 months). While the cut-off yield on 10-year bond declined from 12.25 per cent in December 1998 to 11.99 per cent in April 1999 and to 11.59 per cent in August 1999, that on 15-year fell steadily from 12.24 per cent in April 1999 (14 years and 4 months) to 12.14 per cent (14 years and 2 months) and 11.51 per cent (14 years and 10 months) in June 1999 and January 2000, respectively, and further to 10.77 per cent (14 years and 9 months) in February 2000. The yield on the longest maturity bond of 20 years declined from 12.60 per cent in January 1999 to 12.42 per cent in May 1999 (19 years and 5 months) and to 12.05 per cent in October 1999 (19 years and 1 month) (Appendix Table V.7).

Secondary Market Transactions

5.65 The aggregate volume of transactions in Central Government dated securities and Treasury Bills (outright as well as repos) more than doubled to Rs.5,35,602 crore in 1999-2000, from Rs.2,25,674 crore in 1998-99 reflecting the substantial improvement in demand conditions in the Government securities market. As much as 85 per cent (Rs.4,52,861 crore) of the transactions were on outright basis with the balance by way of repos. Most of the secondary market transactions took place in Central Government securities (Appendix Table V.9). Transactions in State Government securities amounted to only Rs.3,632 crore. The turnover in Central Government securities during 1999-2000 amounted to Rs.12,36,678 crore as against Rs.5,30,742 crore in 1998-99 (counting twice the volume of transactions in the case of outright transactions and four times in the case of repos). The outright turnover aggregated Rs.9,05,722 crore as compared with Rs.3,71,954 crore in 1998-99. Thus, the average monthly turnover in Central Government securities aggregated Rs.1,03,056 crore in 1999-2000 as compared with Rs.44,228 crore in 1998-99. The average monthly turnover of outright transactions amounted to Rs.75,477 crore during 1999-2000 as against Rs.30,996 crore in 1998-99. The average daily turnover increased to Rs.3,388 crore from Rs.1,454 crore in 1998-99. The turnover ratio in dated securities (defined as the ratio of total turnover to total outstanding securities) thus increased to 3.2 as on March 31, 2000 from 1.7 as on March 31, 1999. In order to deal with the sharply increasing volume of transactions in the securities market without systemic risks, the Reserve Bank has been operating a system akin to delivery versus payment (D*v*P) in Government securities (Box V.3).

Open Market Operations

5.66 The Reserve Bank used OMO as a part of liquidity management. Open market sales were activated to drain excess liquidity in conjunction with private placement / devolvement operations. The Reserve Bank also resorted to open market purchases of Treasury Bills of varying maturities from PDs to inject liquidity into the market with a view to fine-tuning temporary asset-liability mismatches and stabilising money market rates at the desired level.

5.67 Between early and mid-February 2000, the rally in the prices of Government securities sharply drove down the yields in the range of 47 basis points to 110 basis points across the

Box V.3
Delivery Versus Payments (D*v*P) in Securities Settlement

The securities clearance and settlement process involves three phases – trade execution, trade clearance and settlement. Settlement involves discharge of settlement obligations through the final transfer of securities from the seller to the buyer, and the transfer of funds from the buyer to the seller. The finality of the securities and funds transfers can occur either at different points in time or simultaneously. There are two broad types of settlement systems *viz*., deferred net settlement (DNS) and real time gross settlement (RTGS). In DNS, all claims and counter-claims of participants are accumulated over a specified period of time following which these are netted out (technically, called clearing services) to arrive at multilateral net settlement positions. Each participant sends or receives only the net amount. The RTGS, on the other hand, embodies settlement of any transaction (claims or counter-claims) instantly, *i.e*., on a gross basis thereby completely obviating the need for any clearing arrangement. Both RTGS and DNS have their advantages and disadvantages. While the principle of netting out under DNS greatly reduces the liquidity requirement of the system, participants under RTGS have to maintain sufficient liquidity throughout the trading cycle to honour instantly every claim that is placed against them. However, the possibility of systemic risk arising out of default by any one participant under DNS is almost absent under RTGS. With increasing volume of transactions, both domestically and internationally, the concern over systemic risk has assumed significance and has led to popularity of and advocacy for RTGS the world over.

When the principle of RTGS is applied to the specific context of securities settlement, it is termed as delivery versus payment (D*v*P) system. Operating since 1967, the Federal Reserve Book Entry System in USA, otherwise known as 'Fedwire' was the first D*v*P system meant for settlements in dollar denominated securities of the US Government and other international organisations. Settlement of securities on a D*v*P basis is aimed at reducing risk and increasing efficiency in settlement arrangements. The principal risk, *i.e.*, the risk that the seller of a security could deliver the security but not receive payment or that the buyer of a security could make payment but not receive delivery of the security, is reduced or eliminated in the D*v*P process.

The D*v*P system in securities settlement is not an easy task. The system requires availability of liquidity in large amounts. Consequently, two variants of this model have been developed. Thus, securities may be settled on a gross basis with final transfer of securities from the seller to the buyer occurring throughout the processing cycle, but with funds transfer taking place on a net basis, and the final transfer of funds from the buyer to the seller (payment) occurring at the end of the processing cycle. Some of the clearing systems (*e.g*., TAURUS or Transfer and Automated Registration of Uncertificated Securities, UK) belong to this category.

As regards the second variant, both securities and funds are settled on a net basis, with final transfers of both securities and funds occurring at the end of the processing cycle. This system can eliminate principal risk by ensuring that final transfers of securities (on a net basis) are made if and only if final transfers of funds (on a net basis) are made. Failure of a participant to cover a net funds debit position exposes the system operator or its participants to replacement cost risk and to liquidity risk. A system which does not guarantee settlement may respond to a failed payment by a participant by unwinding some or all of the transfers involving that participant and then recalculating the settlement obligations of other participants. This procedure has the potential to create significant systemic risk. To obviate reliance on unwinding, such a system may impose a variety of risk controls in the form of membership requirements, requirements that net funds debits be fully collateralised, mandatory contributions to a collateral pool and caps on net funds debit positions.

Since D*v*P is preferred for large-volume transactions, many central banks prefer to introduce it in the settlement of Government securities. Central banks have shown interest in acting as both the depository and clearing agency for D*v*P settlement in Government securities for it helps them to utilise the transaction related information for open market operations, pricing Government securities and conducting monetary policy in general.

A D*v*P–like system in Government securities is operating in India, through the subsidiary general ledger (SGL) accounts. It is also planned to adopt the true RTGS model system for Government securities clearance and settlement. The credit support to enable participants to maintain minimum cash balances is proposed to be provided in the form of intra-day liquidity support, which will be extended by the Reserve Bank as a fully collateralised facility. Consequently, the possibility of systemic risk arising out of default by any one participant would be greatly minimised.

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yield curve. The turnover in the secondary market also shot up in February 2000 and was substantially higher than the monthly average during the previous months. In order to arrest the sharp rise in prices, the Reserve Bank undertook a series of open market sales of securities amounting to Rs.3,367 crore on February 15 and 16, 2000. As a consequence, call rates tightened. Since the intention was not to squeeze out liquidity, the Reserve Bank undertook OMO purchases of dated securities and Treasury Bills, which stabilised the long-term yields. Normalcy in the call market was restored by February 21, 2000. In March, however, yields rose as mutual funds and a few banks started booking profits towards the year-end. The yield on 10-year paper rose by 65 basis points from the low of 10.20 per cent reached around February 14 to 10.85 per cent by end-March 2000. The net sales of Government dated securities during 1999-2000 amounted to Rs.35,369 crore as against Rs.26,348 crore in 1998-99. Following easy liquidity conditions prevailing in the months of April and May 2000, the Reserve Bank undertook OMO sales operations of Government dated securities. With no OMO purchases, the sales of Government dated securities during the first quarter 2000-01 amounted to Rs.1,528 crore (Table 5.8).

Table 5.8: Open Market Operations of the Reserve Bank (Dated securities)

(Rupees crore)

Year	Purchase	Sales	Net Sales
1	2	3	4
1994-95	1,561	2,309	748
1995-96	1,146	1,729	583
1996-97	705	11,140	10,435
1997-98	467	8,080	7,614
1998-99	0	26,348	26,348
1999-2000	1,244	36,613	35,369
2000-2001 (up to June 2000)	0	1,528	1,528

5.68 An important aspect of open market operations since fiscal 1998-99 has been the inclusion of Treasury Bills of varying maturities. In order to provide a safety net or exit route for PDs so that they can actively make markets in Treasury Bills, the Reserve Bank commenced purchase of Treasury Bills through OMO with exclusive access to PDs from February 2000. During 1999-2000, there was net purchase of Treasury Bills amounting to Rs.4,509 crore as against the net sales of Rs.3,321 crore in 1998-99. Thus, net aggregate sales through OMO amounted to Rs. 30,861 crore as compared with Rs. 29,669 crore in 1998-99.

Treasury Bills

5.69 At the shortest end, the average cut-off yield on 14-day Treasury Bills rose to 8.23 per cent in 1999-2000 from 7.79 per cent in 1998-99, representing an increase of 44 basis points over the previous year. Similar trends were also observed in respect of the 91-day and 364-day Treasury Bill rates as the average cut-off yields rose by 47 basis points to 9.03 per cent and by 58 basis points to 10.09 per cent, respectively, in 1999-2000. However, the implicit cut-off yields of 14-day, 91-day and 364-day Treasury Bills up to end-June 2000, declined on an average basis to 7.54, 8.46 and 9.21 per cent, respectively.

14-day Intermediate Treasury Bills

5.70 Following the decision to discontinue 91-day tap Treasury Bills with effect from April 1, 1997, the Government introduced a scheme of 14-day Intermediate Treasury Bills to enable State Governments, foreign central banks and other specified bodies with whom the Reserve Bank has an arrangement to invest their temporary surplus funds. The total bills outstanding as at end- March 2000 was Rs.2,383 crore, of which the share of State Governments was 96.18 per cent.

14-day Auction Treasury Bills

5.71 The total issues of 14-day auction Treasury Bills during 1999-2000 amounted to Rs.16,453 crore, of which non-competitive bids aggregated Rs.11,253 crore, representing 68 per cent of the total issues (Appendix Table V.6). The notified amount was Rs.100 crore per auction. The subscriptions of the Reserve Bank aggregated Rs.1,134 crore. The outstanding at the year-end amounted to Rs.325 crore. During fiscal 2000-01, the total issues so far (up to August 7, 2000) aggregated Rs.3,200 crore with the Reserve Bank subscribing to nearly 13.65 per cent of the issues.

91-day Treasury Bills

5.72 A gross amount of Rs.8,155 crore was raised during fiscal 1999-2000 in respect of 91-day Treasury Bills as against Rs.16,697 crore in the previous year. Out of the total gross amount, non-competitive bids aggregated to Rs.2,955 crore accounting for about 36 per cent of the value of the total issues. The notified amount of each auction was kept unchanged at Rs.100 crore and the year-end outstanding amount was Rs.1,520 crore. At times of temporary tight money market conditions, the Reserve Bank, by accepting devolvement in primary auctions ensured that the cut-off yields did not become too volatile. On an average, the cut-off yields on 91-day Treasury Bills were lower than the average call rates by 6 basis points during 1999-2000. During the first quarter of 2000, the implicit cut-off yield of 91-day Treasury Bills on an average basis declined to 8.46 per cent reflecting the policy stance. The Reserve Bank's subscription to these bills accounted for 18.7 per cent (Rs.1,523 crore) of the total issues during 1999-2000 as against 18.1 per cent (Rs.3,014 crore) during the previous year. Reflecting devolvement and net open market purchases, the year-end Reserve Bank's holdings amounted to Rs.288 crore or 19 per cent of the total outstanding bills (Rs.1,520 crore). As against this, in 1998-99, the year-end holdings at Rs.224 crore accounted for about 15 per cent of the outstanding bills (Rs.1,500 crore). During 2000-01 (up to end-June 2000), the total issues of 91-day Treasury Bills amounted to Rs.1,680 crore.

182-day Treasury Bills

5.73 Between May 1999 (since its re-introduction) and August 1999, the cut-off yield on 182-day Treasury Bills varied within the range of 9.31–9.97 per cent. With the relative hardening of cut-off yields, the Reserve Bank accepted devolvement of 182-day Treasury Bills during September and October 1999 which stabilised the rate at around 9.89 per cent. The cut-off yield declined to lower levels since November 1999. In the last auction of February 2000, the Reserve Bank absorbed a large part of the notified amount under its portfolio in the wake of some tightening of money market conditions. Between end-May 1999 and end-March 2000, the cut-off yield on 182-day Treasury Bills declined by 24 basis points. In the first auction in 2000-01 which was held on April 11, 2000, the cut-off yield was lower at 8.53 per cent than the yield of 9.47 per cent in the previous auction on March 29, 2000. The implicit cut-off yield subsequently increased to 9.23 per cent by end-June 2000.

364-day Treasury Bills

5.74 With a notified amount of Rs.500 crore per auction during fiscal 1999-2000, gross mobilisation through issuance of 364- day Treasury Bills was Rs.13,000 crore as against Rs.10,200 crore in 1998-99. Accordingly, the net issues were positive at Rs.2,800 crore as compared with a negative net issue of Rs.6,047 crore in 1998-99. The subscription by the Reserve Bank was Rs.2,267 crore or 17.44 per cent of the value of the total issues.

5.75 The 364-day Treasury Bill market, more or less, reflected the trends seen in the dated securities market, particularly during the second half of 1999-2000. The cut-off yield which opened at 9.97 per cent in the first auction of April 1999 exceeded the 10 per cent mark in May 1999, with the hardening of money market conditions. The Reserve Bank's substantial devolvement during June to October 1999 (excluding August) stemmed the pressure on the 364-day Treasury Bill rates. The cut-off yield ruled around 10.33 per cent during these months. With the easing of money market conditions and with improvement in demand, the cut-off yield showed a gradual decline to 9.31 per cent in the first auction of February 2000, although it steadily rose to 9.93 per cent in the last auction of 1999-2000. Reacting to the liquidity enhancing measures of April 1, 2000, the cut-off yield declined sharply by 64 basis points to 9.29 per cent in the first auction of fiscal 2000-01 and further to 9.09 per cent in the auction of May 7, 2000. The cut-off yield, subsequently, increased to 9.24 per cent in auction of May 31, 2000 and remained constant at this level till the end-June 2000.

Operations of Primary Dealers (PDs)

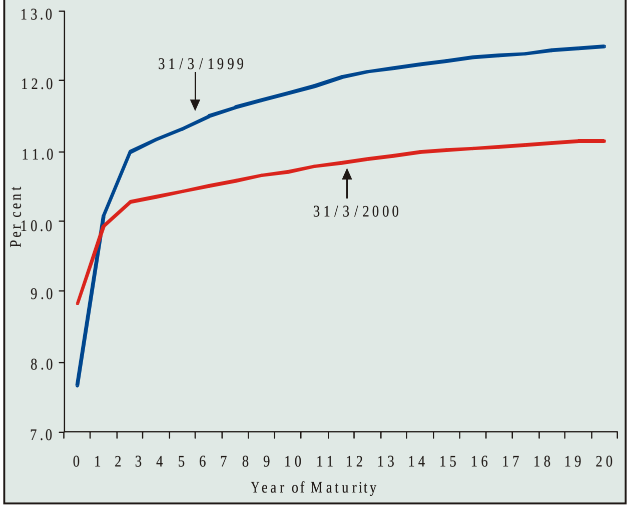
5.76 The number of PDs during fiscal 1999-2000 increased to 15 as on March 31, 2000. In the primary market, 15 PDs together had given a bidding commitment of Rs.22,110 crore in Treasury Bills and Rs.35,034 crore in Central Government dated securities during 1999-2000. However, the bids tendered were higher at Rs.42,317 crore and Rs.71,850 crore, respectively, for Treasury Bills and Government of India dated securities. Of these, the bids accepted were Rs.18,662 crore for Treasury Bills and Rs.32,164 crore for Government of India dated securities, respectively, indicating a success ratio of 43.85 per cent and 42.82 per cent, respectively. As against Rs.97,699 crore offered for underwriting, Rs.50,173 crore were accepted by the Reserve Bank. Total primary purchases including devolvements were Rs.18,786 crore (46 per cent of total) in case of Treasury Bills and Rs.35,011 crore (40 per cent of total) in Central Government dated securities. The devolvement on PDs in total issues amounted to Rs.2,971 crore, of which Rs.2,847 crore were in dated securities, Rs.57 crore in 91-day Treasury Bills and Rs.67 crore in 14-day Treasury Bills. PDs purchased securities in the primary market (excluding devolvement) to the extent of 37.1 per cent of the total issues in Central Government dated securities and 46 per cent of total issues of auction Treasury Bills. In the secondary market PDs achieved a turnover (outright plus repos) of Rs.3,34,471 crore in Treasury Bills and dated securities (representing 31.0 per cent of market turnover), out of which transactions on outright basis amounted to Rs.2,58,074 crore. The average daily net call money borrowings of the PDs aggregated Rs.4,541 crore. A total commission/underwriting fee of Rs.63.49 crore was paid to the PDs during fiscal 1999-2000, as against Rs.80.63 crore in the previous year.

Yield Conditions

5.77 The yield in the secondary market for 10-year paper which was 12.05 per cent as on March 31, 1999, declined through the year to 10.42 per cent at end-February 2000. The yield hardened somewhat in March 2000 and settled at 10.85 per cent on March 31, 2000 (Chart V.8). On a point-to-point basis, the yield for 10-year security declined by 120 basis points between end-March 1999 and end-March 2000. Similarly, at the longest end, the yield on 18-year security (residual maturity) declined to 10.72 per cent at end-February 2000 from 12.44 per cent at end-March 1999 before edging up to 11.12 per cent at end-March 2000. At the short to medium end, 1-year, 3-year and 5-year security rates declined from 10.07 per cent, 11.00 per cent and 11.17 per cent respectively at end-March 1999 to 9.93 per cent, 10.27 per cent and 10.35 per cent at end-March 2000.

5.78 The yield curve moved successively downwards during the year up to mid-February 2000 with the slope rising gently on the maturity axis. After moving up in March 2000, the yield curve once again moved down following the monetary policy changes announced effective April 1, 2000. The yield in the secondary market for 10-year paper declined from 10.85 per cent as at end-March 2000 to 10.27 per cent as on April 11, 2000. Similarly, the yield on 18-year maturity declined from 11.12 per cent as at end-March 2000 to 10.68 per cent as on April 11, 2000. At the short to medium-end 1-year and 5-year security rates declined from 9.93 per cent and 10.51 per cent as at end-March 2000 to 9.29 per cent and 9.90 per cent, respectively, as on April 11, 2000.

Chart V.8: Yield Structure for Central Government Dated Securities



Linkages between the Financial and Real Sector

5.79 The growing inter-linkages among the various segments of the financial sector and their increasing depth and size have implications for the real economy in terms of enhancement of growth and productivity of the economy. In the past few years, a visible change in the role of the financial system has taken place in the Indian economy. The transformation of the financial sector in terms of coverage, product range and efficiency has been necessitated by the changing competitive environment in which the production system is organised and the growing openness of the economy. The success of financial sector reforms, therefore, needs to be evaluated against how the development of financial markets has contributed to an improvement in the investment and growth prospects of the economy (Box V.4).

Box V.4
Financial and Real Sector Linkages

A theoretical debate over the issue of the existence of the inter-linkages between the real and financial sector in promoting economic development has continued at least since the early twentieth century. The first set of empirical evidence on this relationship was provided by Goldsmith (1969), who suggested a rough but positive relationship between the two in the long-run. The more recent literature has taken a functional approach in analysing real and financial sector linkages. According to Levine (1997), the financial system influences real sector activities by its ability to (i) facilitate risk management, (ii) process information for efficient allocation of resources, (iii) exert corporate control, (iv) mobilise savings, and (v) facilitate exchange of goods and services. The importance of each of these factors for the real sector varies across economies. These functions of the financial system have been found to bear close relationship with the rate of capital accumulation and the rate of technological innovation. However, the ability of a financial system to perform each of the above five functions depends on adequate development of both financial institutions and financial markets. Whereas markets are particularly successful in reducing transaction costs, processing information and managing risks in certain cases, financial institutions often have advantages in mobilising savings, exerting corporate control and collecting information.

King and Levine (1993) examined the links between finance and growth in a cross-section of 77 developing countries over the period 1960-89. Using several growth indicators, they found that each financial indicator was positively and significantly correlated with each growth indicator. The study suggested that a country's initial level of financial performance is a good predictor of its economic performance over the next 30 years, even after controlling for income level and other policy variables. Certainly, this and other similar pieces of evidence do not entirely solve the issue of causation. Financial development may predict real economic growth simply because financial systems develop in anticipation of future economic growth. Nevertheless, the empirical evidence on first order relationship between the two is an important policy lesson.

What does such correlation between growth and financial sector development imply for India? In India, the objective of planned economic development could not possibly have been achieved without the development of the financial system. Rapid expansion of the commercial banking sector was one of the important factors in mobilising savings for investment. Development financial institutions (DFIs) played a part in meeting the long-term funding requirement of industry.

In recent years, liberalisation of financial markets featuring deregulation of interest rates and removal of quantitative restrictions on the financial system has led to significant improvement in allocative efficiency of the financial system. Two important financial ratios in the Indian context having a bearing on allocative efficiency are the spread (net interest income as a percentage of total assets) and the intermediation cost (operating expenses to total assets). While the spread in the case of public sector banks has declined from 3.08 per cent in 1995-96 to 2.81 per cent in 1998-99, the intermediation cost has also fallen from 2.99 per cent to 2.65 per cent over the same period. There has also been deepening of financial markets as reflected in the steady growth of turnover in the various segments. The maturing of financial market in terms of depth, size and liquidity has had a significant impact on the household saving in financial assets, which has gone up from 9.3 per cent of GDP in 1992-93 to 10.6 per cent in 1999-2000. The precise impact of financial development on growth is difficult to estimate at the present stage, given the early phase of market development and the simultaneous policy liberalisation in non-financial sectors which would have a joint impact on the various dimensions of growth.

The recent East Asian experience indicates that financial liberalisation *per se* does not guarantee economic growth with stability. Ensuring financial stability is also of central importance to the effective functioning of a market economy. It facilitates rational decision making regarding allocation of real resources through time, thereby improving the climate for saving and investment. Destabilising capital flows, especially if they follow from imperfect sequencing and pace of financial sector reforms in the external sector, can have adverse effect on growth. While capital account liberalisation and large capital movements provide considerable growth benefits, they also bring with them greater potential for volatility in asset prices and financial markets, including forex markets. Such volatility can be aggravated by a weak financial system, leading to severe development problems. This necessitates proper domestic safety nets, putting in place an efficient, prudential regulation and supervision for the entire financial sector, and appropriate monetary, fiscal and exchange rate policies. It is also of utmost importance to be vigilant about domestic and international developments which may impinge on the country's financial relations with the rest of the world.

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VI EXTERNAL SECTOR

6.1 The external sector continued to be comfortable in 1999-2000, notwithstanding a sharp rise in the oil import bill on account of the hardening of international crude oil prices. During the year, India's merchandise exports showed a turnaround partly reflecting the economic recovery the world over. With private transfers and software exports exhibiting continued buoyancy, the current account deficit (CAD) was restricted to 0.9 per cent of GDP in 1999-2000. Strong capital flows led by a renewal in portfolio inflows resulted in an overall balance of payments (BoP) surplus for the fourth successive year. This enabled an increase in foreign exchange reserves by US $ 5,546 million during the year to US $ 38,036 million by end-March 2000.

6.2 There can, however, be no room for complacency. The external situation continues to be characterised by several uncertainties including the outlook for growth in major industrial economies, high oil prices and the evolving domestic situation. Some pressures on the external front have already become evident in the early months of the current fiscal year. It is, therefore, imperative to remain vigilant and provide maximum support to the country's export efforts, both for goods and services, and to foreign direct investment.

BALANCE OF PAYMENTS

6.3 The two major characteristics of the BoP position during 1999-2000, on the positive side, were the turnaround in exports of goods and a pick up in capital inflows. These developments could alleviate the pressures posed by the sharp increase in oil imports and a rise, *albeit* moderate in the non-oil non-gold imports. Thus, although the recovery in exports was sharp, the trade deficit in 1999-2000 turned out to be higher than in the preceding year. With net invisibles posting a higher surplus, the CAD remained broadly at the preceding year's level. Capital inflows, augmented mainly by portfolio investment and non-resident Indian (NRI) deposits, were much above the CAD. Consequently, the BoP recorded an overall surplus of US $ 6,402 million in 1999-2000 (Table 6.1 and Appendix Table VI.1).

Table 6.1: India's Overall Balance of Payments

(US $ million)

Item	1999-2000	1998-99
1	2	3
1. Current Account		
i) Exports, fob	38,285	34,298
ii) Imports, cif	55,383	47,544
iii) Trade Balance	– 17,098	– 13,246
iv) Invisibles, net	12,935	9,208
v) Current Account Balance	– 4,163	– 4,038
2. Capital Account	10,242	8,565
of which:		
i) External Assistance, net	901	820
ii) Commercial Borrowings, net	313	4,362
iii) NRI Deposits, net	2,140	1,742
iv) Foreign Investment, net	5,191	2,412
3. Overall Balance #	6,402	4,222
4. Monetary Movements	– 6,402	– 4,222
5. IMF, net	– 260	– 393
6. Reserves and Monetary Gold (Increase - , Decrease +)	– 6,142	– 3,829

Includes errors and omissions.

Merchandise Trade (as per DGCI&S Data)

6.4 The trade deficit, according to the provisional data released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), worked out higher at US $ 9.6 billion during 1999-2000 than that of US $ 9.2 billion during 1998-99. This was essentially fuelled by a sharp increase in the oil import bill despite the strong recovery in exports after three years (Appendix Table VI.2). India's total exports, at US $ 37.6 billion, recorded an increase of 13.2 per cent during 1999-2000 (over the final export figures of 1998-99), in contrast to the decline of 5.1 per cent during 1998-99. Imports, at US $ 47.2 billion, accelerated to 11.4 per cent during

Table 6.2: India's Balance of Payments : Key Indicators

(Per cent)

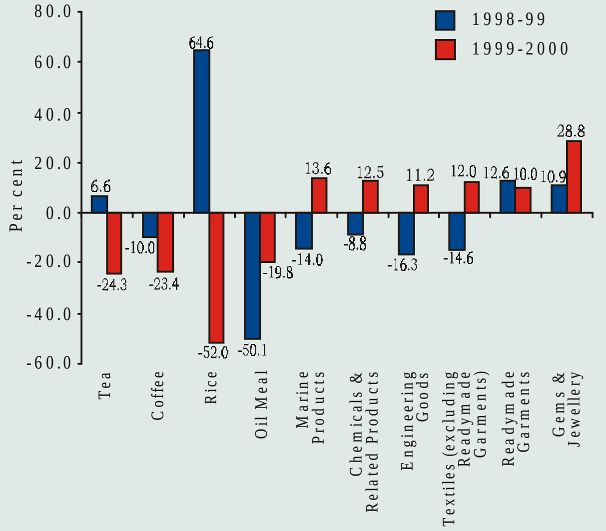
Indicator	1999-2000	1998-99	1997-98	1996-97	1990-91
1	2	3	4	5	6
1. Trade					
i) Exports / GDP	8.5	8.2	8.8	8.9	6.2
ii) Imports / GDP	12.3	11.3	12.6	12.8	9.4
iii) Income Terms of Trade (Base: 1978-79=100)	..	598.5	562.8	519.7	212.2
Annual Growth Rate	..	6.3	8.3	-1.9	0.2
iv) Exports Volume Growth	..	3.4	-6.3	7.2	11.0
2. Invisibles Account					
i) Invisible Receipts / GDP	6.7	6.2	5.7	5.6	2.5
ii) Invisible Payments / GDP	3.9	4.0	3.3	2.9	2.6
iii) Invisibles (net) / GDP	2.9	2.2	2.4	2.7	-0.1
3. Current Account					
i) Current Receipts @ / GDP	15.2	14.3	14.4	14.4	8.5
ii) Current Receipts Growth @	14.2	2.1	6.2	11.1	6.6
iii) Current Receipts @ / Current Payments	93.8	93.2	90.9	91.6	71.5
iv) CAD / GDP	-0.9	-1.0	-1.4	-1.2	-3.2
4. Capital Account					
i) Foreign Investment / GDP	1.1	0.6	1.3	1.6	0.03
ii) Foreign Investment / Exports	13.4	6.7	15.0	17.5	0.6
5. Others					
i) Debt-GDP Ratio	22.0	23.5	24.4	24.7	30.4
ii) Debt-Service Ratio	16.0	18.0	19.0	21.2	35.3
iii) Liability Service Ratio	16.8	19.1	20.0	21.7	35.6
iv) Import Cover of Reserves (in months)	8.2	8.2	6.9	6.5	2.5

@ Excluding official transfers. .. Not available.

1999-2000 from 2.2 per cent during 1998-99. Non-oil imports increased by 2.1 per cent in 1999-2000 as against the increase of 8.0 per cent in the preceding year.

6.5 The exports of manufactured products grew by 14.3 per cent during 1999-2000 in contrast to a decline of 2.8 per cent during 1998-99. The turnaround was seen in respect of all major manufactured items, except leather and leather manufactures. Export growth in the case of gems and jewellery at 28.8 per cent was higher as compared with 10.9 per cent during 1998-99. Exports of engineering goods posted a growth of 11.2 per cent in contrast to the decline of 16.3 per cent during 1998-99. Textile exports, too, recovered to post a growth of 10.9 per cent during 1999-2000 in contrast to a decline of 2.2 per cent during the previous year. The exports of agriculture and allied products, on the other hand, declined by 8.9 per cent during 1999-2000 with a sharp fall in the exports of tea (24.3 per cent), coffee (23.4 per cent) and rice (52.0 per cent) (Chart VI.1 and Appendix Table VI.3).

Chart VI.1: Growth Rates of Exports of Selected Commodities



6.6 The turnaround in export growth during 1999-2000 reflected the buoyancy in world demand, which in turn, could be attributed to a higher growth in world output. The economic recovery was discernible in respect of the countries/regions that are the major destinations for India's exports. In addition, trade policy initiatives and a stable domestic macroeconomic environment have, to an extent, contributed to the export increase.

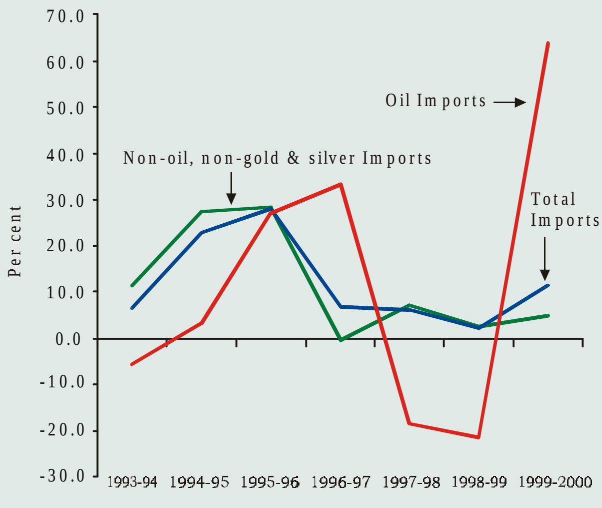
6.7 With regard to the direction of India's exports, exports to the OECD countries grew by 12.5 per cent during 1999-2000, with those to North America increasing by 19.0 per cent. Exports to developing countries of Asia rose by 20.2 per cent and those to Eastern Europe by 23.9 per cent.

6.8 The trends in imports were marked by wide variations across commodity-groups (Appendix Table VI.4). The imports of petroleum, petroleum products and related material increased by 63.8 per cent during 1999-2000 in sharp contrast to a decline of 21.6 per cent during the previous year. The sharp rise in POL imports reflects the increase in international oil prices as also the relative stagnation in domestic oil production, given the predominantly growth-driven consumption behaviour. The increase in oil prices has, however, not posed a serious threat to world economic stability as was the case in respect of the earlier oil shocks (Box VI.1). The sharp increase in the import of pearls, precious and semi-precious stones (43.0 per cent during 1999-2000) could be attributed to the pick up in the exports of gems and jewellery. Fertiliser imports also increased sharply by 28.8 per cent on account of a shortfall in domestic production *vis-a-vis* demand. The imports of certain industrial raw materials and intermediate goods increased during 1999-2000, broadly reflecting the improvement in manufacturing output. Capital goods imports, however, declined by 19.8 per cent during 1999-2000. These imports have remained subdued since 1996-97, reflecting the sluggishness in domestic investment demand coupled with existence of under-utilisation of production capacities. The imports of gold and silver (excluding imports through passenger baggage) declined by 13.2 per cent after recording sharp increases during the past couple of years. These imports, at US $ 4.4 billion, still accounted for 9.3 per cent of India's total imports during 1999-2000. The sharp decline in gold imports reflected a combination of factors such as measures to liberalise bullion trade, the hike in gold import duties and uncertainty in the world gold market during 1999-2000 (Box VI.2). Excluding oil and gold and silver, imports recorded a moderate increase of 4.6 per cent in 1999-2000 as compared with 2.5 per cent in 1998-99, notwithstanding the ongoing elimination of quantitative restrictions on a wide range of imports (Chart VI.2).

6.9 Data on the sources of India's imports showed that imports from the OPEC countries rose by 44.4 per cent during 1999-2000, mainly because of the increase in oil prices. Imports also increased sharply from developing countries in Africa (31.4 per cent) and countries in Eastern Europe (16.3 per cent).

6.10 Present expectations about the continuation of higher growth rates of world GDP during 2000 and 2001 augur well for India's export prospects. The actual export performance would, however, critically depend upon India's competitive strength and the developments in multilateral trading arrangements. While India's trade policy measures undertaken during the recent years are in alignment with the country's multilateral commitments, there are several issues relating to the WTO provisions that have significant implications for India's future export performance (Box VI.3).

Chart VI.2: Growth Rates of India's Imports



Box VI.1
Impact of Petroleum Price Increase on Balance of Payments

The world economy has so far witnessed three bouts of oil price shocks - the first in 1973-74, the second in 1979-80 and the third in 1990. After remaining subdued in the early 1990s and falling substantially between 1996 and 1998, oil prices have risen since January 1999 as a result of production cuts by the Organisation of Petroleum Exporting Countries (OPEC) and higher global demand.

Oil price hikes typically generate cost-push inflation that leads to a fall in output and shifts in the terms of trade. The recent increase in oil prices has come after a sustained ebb in inflation adjusted oil prices. Moreover, the favourable global economic conditions such as unutilised capacity and low underlying inflationary pressure have dampened the adverse impact. But this time around, developing countries may be affected to a greater extent than the developed countries as the share of developing countries in oil consumption is estimated to have risen from 29 per cent in 1973 to 43 per cent in 1999. At the same time, the amount of oil consumed per real dollar of output has fallen by almost one-half in developed countries since the early 1970s due to development of efficient oil conservation techniques, decline in the proportion of heavy industries and the rise of the “new economy” driven by information and technology. A recent study suggests that the tripling of oil prices from US $ 10/barrel to US $ 30/barrel would increase the oil import bill of developed countries by less than one per cent of their GDP (lower than half the terms of trade loss during each of the previous oil shocks). In the case of developing countries, it is estimated that GDP growth would shrink by 0.3 percentage point in 2000 and by a further 0.6 percentage point in 2001, if the oil prices increase from US $ 20 per barrel to US $ 30 per barrel. The maximum incidence of shock will be borne by oil-importing countries with a non-diversified agricultural export base.

India ranks high among developing countries in oil consumption. Total consumption of petroleum products in India worked out to around 89 million tonnes during 1998-99 with an average rate of growth of consumption of 6.3 per cent per year during the 1990s and an income elasticity of about 1.1. Total refinery capacity in India as on March 1999 amounted to 69.0 million metric tonnes per annum (mmtpa) as against the domestic crude oil availability of about 33 mmtpa. With the refining capacity increasing to 103 mmtpa by October 1999, there would be a gap of around 65 per cent in the domestic availability of crude *vis-a-vis* the refining capacity.

Reflecting the increasing domestic demand, India’s oil import bill grew between 1974-75 and 1990-91 over four-fold to US $ 6,028 million (Table 6.3). In terms of severity, the oil shocks had a crippling effect on the BoP, apart from aggravating inflationary pressures and causing output losses. In case of each of the shocks, the trade deficit shot up to high levels, leading to an increase in CAD and loss of foreign exchange reserves.

Table 6.3: Indicators of the Impact of POL Import

(Per cent)

Year	Oil import bill (in US $ million)	Ratio of oil imports/ total imports	CAD/ GDP ratio	CAD/ GDP ratio (excluding oil imports)	Unit crude oil import price (US $ / barrel) @
1	2	3	4	5	6
1974-75	1,457	25.9	1.3	-0.3	11.6
1980-81	6,655	40.8	1.6	-2.2	36.7
1990-91	6,028	21.6	3.2	1.2	23.0
1996-97	10,036	20.5	1.2	-1.4	20.4
1999-2000	10,482	18.9	0.9	-1.4	18.1

@ Calendar-year average. **Note:** (-) indicates surplus.

The rise in the oil import bill during 1999-2000 was, however, absorbed without any undue pressure on the current account deficit. As the demand for non-oil imports was moderate, the adverse impact of the oil price rise on inflation and output was contained by limiting its incidence on consumers. The Indian economy could face the present oil price hike better than in the past episodes. The share of oil imports in the total import bill has fallen since the earlier oil price shocks. Besides, the sharp increase in domestic refinery capacity would enable the substitution of cheaper crude oil imports for costlier finished petroleum products.

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Invisibles

6.11 Invisible transactions remained buoyant with the surplus at US $ 12,935 million in 1999-2000 as compared with US $ 9,208 million during 1998-99 (Appendix Table VI.5). Private transfers from non-resident Indians continued to be an important source of invisible receipts. Remittances from Indians working in the US, UK, South-East Asia and continental Europe have expanded in comparison with the traditional base of the Middle-East.

Box VI.2
Import of Non-Monetary Gold

In value terms, import of gold (including silver) declined by 13.1 per cent to Rs.19,144 crore in 1999-2000 from Rs.22,037 crore. This could be attributed to factors like the sharp decline in imports by non-resident and returning Indians, uncertainty in the international market, arising from speculation about gold sales by European central banks, buoyant conditions in the domestic capital market and introduction of the Gold Deposit Scheme (GDS) in the third quarter of 1999-2000 to reduce dependence on imports.

With a view to reducing the dependence on import of gold as also to mobilising a portion of the privately held stock of gold in the country, the GDS was announced in the Union Budget for 1999-2000 and operationalised by the Reserve Bank of India in October 1999. The scheme seeks to provide depositors an opportunity to earn interest on their idle gold holdings along with the benefits of safety and security of holding without any cost, thereby encouraging investors to move away from physical holding of gold to gold-based financial assets. Banks authorised by the Reserve Bank to deal in gold could devise a scheme in accordance with their infrastructure for managing the scheme, expertise/experience in the gold business and proper risk management systems and their own assessment of the market. The scheme envisages acceptance of gold deposits from resident Indians in the form of ornaments, jewellery, bars, *etc.*, which will be assayed to ascertain the purity of gold. The operation of the scheme would be open-ended, available on tap. There would be a maturity period of 3-7 years with an initial lock-in period to be specified by each bank. Banks would be free to fix their own interest rates in the scheme and would either issue a passbook or bond which would be transferable by endorsement and delivery. The depositors will receive refined gold on maturity. In order to provide requisite incentives to banks to mobilise deposits under the scheme and enable them to offer competitive return to depositors, banks have been exempted from maintenance of CRR on the gold deposits, except for the prescribed minimum CRR of 3 per cent. Rupee loans may be given against collateral of gold deposits. Authorised Dealers permitted to accept gold under the GDS may use exchange traded and over-the-counter hedging products available overseas to manage price risk.

The Reserve Bank has so far granted approval to the State Bank of India (SBI), the Indian Overseas Bank, the Corporation Bank, the Allahabad Bank and Canara Bank for launching of Gold Deposit Schemes. Permission has also been granted to the SBI to set up a joint venture for assaying of gold. The total quantity of gold mobilised under the GDS up to March 2000 amounted to 4.0 tonnes.

Reference

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6.12 Software exports kept up their momentum and rose by 53 per cent to US $ 4,015 million in 1999-2000 on top of an increase of 49 per cent during the preceding year. Indian software companies draw their comparative advantage in the software business mainly on the basis of their cost-effectiveness, international quality and reliability (Box VI.4). In tandem with the liberalisation of current account and technology imports, payments on account of financial services, management services, office maintenance, advertising,

Box VI.3
WTO and India

The World Trade Organisation (WTO), established in January 1995, as of June 30, 2000, has 137 members accounting for more than 90 per cent of world trade. About 30 countries are currently negotiating their accession to the WTO. The WTO deals with many vital areas of economic activity and incorporates enforceable rules and disciplines in these areas. India was a founding member of the General Agreement on Tariffs and Trade (GATT) and is an original member of the WTO.

India embarked upon an economic and trade liberalisation policy since 1991 and has been bringing down accordingly, in recent years, its tariffs gradually to improve competitiveness, as well as in response to the tariff reduction commitments undertaken in the WTO. Similarly, there are many other areas of activity like agriculture, services and intellectual property rights in which India is shaping policies in the light of international obligations.

The Third Ministerial Conference of the WTO held at Seattle during November 30 - December 3, 1999 was expected to launch a new round of negotiations with a view to broaden as well as deepen the scope of WTO rules and disciplines. However, this conference could not arrive at a consensus regarding the subjects for possible negotiations or determine the parameters for conducting negotiations in some critical areas like agriculture. The conference also could not arrive at any decision in the implementation issues and concerns raised by a number

(Contd.) ....

.... *(Concld.)*

of developing countries. The conference witnessed sharp differences among WTO members regarding the introduction of issues like core labour standards and environmental standards into the WTO.

During the preparatory process for the Seattle conference, and subsequent to the Seattle conference, India has been stressing the importance of finding meaningful solutions to the implementation issues and concerns raised by developing countries without linking such a solution to possible future multilateral trade negotiations.

In the area of agriculture, India has highlighted the need for developing countries with predominantly agrarian economies to have sufficient flexibility with regard to domestic support and market access commitments in order to adequately address their concerns relating to food security and rural employment. With regard to tariff rate quotas, which is a predominant feature of international trade in agriculture, India has stressed the importance of making the tariff rate quota administration more transparent, equitable and non-discriminatory in order to allow new/small scale developing countries' exporters to get market access.

In the area of subsidies, India has drawn attention of other members of the WTO to the existing inequities in the Subsidies Agreement and has stressed the need for ensuring that subsidies used for development, diversification and upgradation of industry are treated as non-actionable.

In the area of anti-dumping, India has stressed the importance of avoiding back-to-back anti-dumping investigations and the need for increasing the *de-minimis* levels provided for in different provisions of the Anti-dumping Agreement.

In the area of textiles and clothing, India has highlighted the need for making the integration process commercially meaningful and bringing forward the date for applying growth on growth for stage three. India has also pleaded for avoiding anti-dumping actions against textiles and clothing products, which are already under quota restrictions.

In the area of Sanitary and Phytosanitary Measures and Technical Barriers to trade, India has drawn the attention of the WTO members to the need for international standard setting organisations to ensure the presence and active participation of countries at different levels of development and from all geographical regions, throughout all phases of standard setting.

In the case of the Trade Related Intellectual Property Rights (TRIPs) Agreement, India has made proposals for aligning the patent system in line with the provisions of the UN Convention on Bio-Diversity.

As a crossing issue, India has stressed the importance of making all special provisions operational and legally binding.

In order to address and resolve the implementation issues and concerns raised by developing countries, it has been decided that the General Council of the WTO will hold Special Sessions. A decision has been taken to the effect that in addressing the implementation issues, the General Council will assess the existing difficulties, identifying ways needed to resolve them and take decision for appropriate action. It has also been decided that the process should be completed not later than the Fourth Sessions of the Ministerial Conference.

Negotiations mandated in the area of agriculture and services have already commenced in the WTO. India is actively participating in these negotiations. In the agriculture negotiations, India is currently focusing on large subsidies provided to the agriculture sector by some developed countries resulting in significant distortion of international trade in agricultural products. In the services negotiations, India is currently stressing the need for increasing the participation of developing countries in the services trade and highlighting the progressive character of any liberalisation to be carried out in the next negotiations in line with Article XIX of the Services Agreement.

There are proposals primarily emanating from some developed country members of the WTO to initiate negotiations for a multilateral investment agreement in the WTO. As many countries including India are currently following a transparent and liberal foreign investment regime, India considers that there is no need for a multilateral investment agreement in the WTO involving undertaking of commitments in perpetuity by members. India believes that a binding multilateral investment agreement, which incorporates a pre-establishment national treatment obligation, will take away strategic policy options available to developing countries like India in pursuing their developmental objectives. It is also India's belief that even the present Trade Related Investment Measures (TRIMS) agreement has some adverse impact on the prospects of industrialisation of developing countries.

With regard to the proposal that the core labour standards be studied in the WTO from a trade perspective, India has argued that core labour standards are important by themselves and should continue to be dealt with under the auspices of the International Labour Organisation. India is against the idea of linking trade with core labour standards as well as the idea of adopting a sanctions-based approach to promote core labour standards. India is apprehensive that bringing core labour standards into WTO and thus linking it to trade would result in a situation where core labour standards will be used for protectionist purposes.

Several advanced countries have sought greater integration of environmental issues and trade policy, which implies allowing market access conditional upon fulfillment of certain environmental norms. It needs to be noted that the GATT 1994 contains provisions to address genuine environmental concerns and that certain environmental issues have already been addressed by the agreements within the WTO, *e.g.*, the Agreement on Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS). India has opposed inclusion of environmental issues in trade negotiations as it may encourage trade restrictive measures. Further, as the limited resources of developing countries do not always allow the adoption of large-scale environment friendly technology, India has strongly pleaded for transfer of environmentally sound technology to developing countries at fair terms.

Box VI.4
Trends in Software Exports

Software exports, with an average growth rate of around 50 per cent since 1995-96, have emerged as an important source of India's foreign exchange earnings, contributing substantially to invisible receipts.

Software exports take different forms depending upon the channels through which these are undertaken and are classified broadly into two forms, *viz*., on-site services, and off-site services. Software is developed by software professionals at the clients' site itself in case of the on-site route. In the case of the off-site channel, software services are developed in India and later on exported either in physical form (in floppy diskettes and compact disks) or in non-physical form (through such means as satellites, earth stations and e-mail). The bulk of software exports, however, occur in non-physical form.

Physical software exports are reported as a part of merchandise exports by the DGCI&S, while all software export receipts through the on-site and off-site routes brought into India are reported by Authorised Dealers (ADs) through R-returns and Softex Forms as a supplement to R-returns. Following the recommended accounting practices of the IMF Manual on BoP (5th edition), software exports in physical form are captured under the item "merchandise exports" in the data on India's BoP, while software exports through on-site and off-site routes are recorded under computer services in "miscellaneous receipts" which form part of "non-factor services" under invisibles. Table 6.4 provides the dimensions of growth of Indian software exports since the mid-1990s.

Table 6.4: India's Software Exports

Year	Rupees crore	US $ million	Annual growth*(%)
1	2	3	4
1995-96	2,520	747	53
1996-97	3,900	1,099	47
1997-98	6,570	1,759	60
1998-99	11,064	2,626	49
1999-2000	17,412	4,015	53

* In US dollars.

The National Association of Software and Service Companies (NASSCOM) has devised a format in consultation with the Reserve Bank for collection of information on software exports. While compiling the software exports data in India's BoP, figures provided by NASSCOM are used as a benchmark. Software exports have been separately indicated as part of 'miscellaneous receipts' in a special article in the April 1999 issue of the RBI Bulletin.

Reference

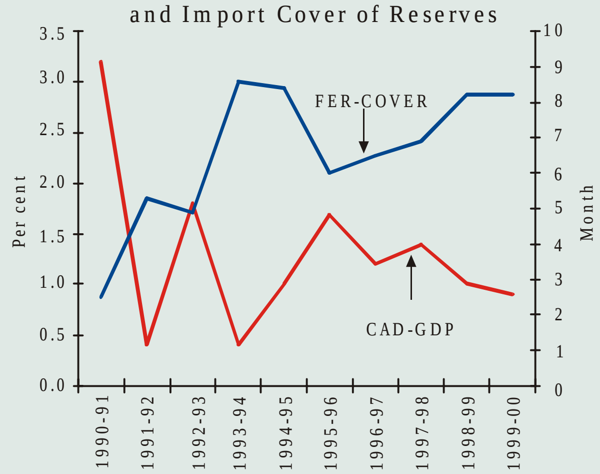
1. Reserve Bank of India, (1999), "Invisibles in India's Balance of Payments", *RBI Bulletin*, April.

royalties, licence fees *etc*. have increased. Consequently, miscellaneous payments increased from US $ 6,161 million in 1998-99 to US $ 6,924 million in 1999-2000. Despite subdued tourism earnings, net earnings in non-factor services increased substantially during 1999-2000 to US $ 3,856 million from US $ 2,165 million in 1998-99. Net income payments increased marginally to US $ 3,559 million during 1999-2000 due to higher interest payments on external liabilities.

Current Account

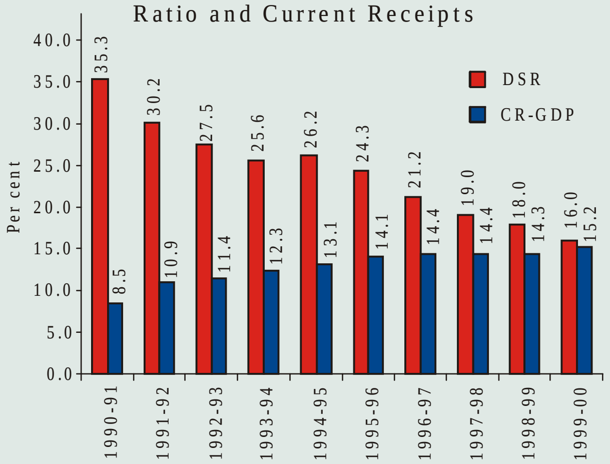
6.13 Despite a sharp rise in import payments, a marked recovery in exports and a buoyant surplus under invisibles helped to contain the current account deficit to US $ 4,163 million (0.9 per cent of GDP) during 1999-2000 as compared with US $ 4,038 million (1.0 per cent of GDP) in 1998-99 (Tables 6.1 and 6.2, Chart VI.3 and Appendix Table VI.1). Current receipts financed 93.8 per cent of current payments in 1999-2000 as against 93.2 per cent in the previous year. The current receipts in relation to GDP, one of the indicators of external sector sustainability, improved to 15.2 per cent during 1999-2000

Chart VI.3: Current Account Deficit and Import Cover of Reserves



CAD-GDP : Ratio of Current Account Deficit to GDP (in per cent) (Left-scale)
FER-COVER : Import Cover of Foreign Exchange Reserves (in months) (Right-scale)

Chart VI.4: Debt Service Ratio and Current Receipts



DSR: Debt Service Ratio
CR-GDP: Ratio of Current Receipts to GDP

from 14.3 per cent in 1998-99 (Table 6.2 and Chart VI.4). The debt-service ratio declined to 16.0 per cent in 1999-2000 from 18.0 per cent during 1998-99.

6.14 Notwithstanding these favourable developments, persistence of high international oil prices would keep up the pressure on the current account. The imports of gold and silver, *albeit* lower at US $ 4,418 million in 1999-2000 as against US$ 5,238 million in the previous year, continued to remain sizeable. While the sustained buoyancy in the invisibles receipts - in particular the surge in software exports, technology related services and workers' remittances - could largely absorb the impact of higher import payments, there is a need to step up merchandise exports in order to ensure continued sustainability of the current account.

Capital Account

6.15 The restoration of orderly conditions in the international financial markets coupled with pro-active policy initiatives on macroeconomic management prompted a marked shift in the volume and composition of capital flows during 1999-2000. While net external commercial borrowings remained subdued, there was a significant recovery in the flow of foreign investment and non-resident deposits. As a result, capital flows rose from US $ 8.6 billion during 1998-99 to US $ 10.2 billion in 1999-2000 with an increase in the share of non-debt flows to 50.7 per cent from 28.2 per cent (Appendix Table VI.6).

Foreign Investment

6.16 Foreign investment recovered during 1999-2000 reflecting the stability of the domestic currency, broad-based industrial revival, easing of economic sanctions and return of orderliness in the financial markets coupled with strong stock market performance. Foreign investment flows that had plummeted from US $ 5,385 million in 1997-98 to US $ 2,401 million in 1998-99 recovered to US $ 5,181 million in 1999-2000 (Table 6.5). This increase could largely be attributed to portfolio investment and greater recourse to the international markets by Indian corporates. While investments by foreign institutional investors increased by US $ 2,135 million during 1999-2000 in contrast to a decline of US $ 390 million during 1998-99, the amount raised through the GDR/ADR route increased by US $ 768 million from US $ 270 million in the previous year. There was, however, a fall

Table 6.5: Foreign Investment Flows

(US $ million)

Items	1999-2000P	1998-99	1997-98
1	2	3	4
A. Direct Investment	2,155	2,462	3,557
a) Government (SIA/FIPB)	1,410	1,821	2,754
b) RBI	171	179	202
c) NRI	84	62	241
d) Acquisition of shares *	490	400	360
B. Portfolio Investment	3,026	-61	1,828
a) GDRs/ADRs #	768	270	645
b) FIIs @	2,135	-390	979
c) Off-shore funds and others	123	59	204
Total (A+B)	**5,181**	**2,401**	**5,385**

P Provisional.

* Relates to acquisition of shares of Indian companies by non-residents under Section 29 of FERA.

\# Represents the amount raised by Indian corporates through Global Depository Receipts (GDRs)/ American Depository Receipts (ADRs). @ Represents net inflow of funds by Foreign Institutional Investors (FIIs).

Note: Data on foreign investment presented here represent gross inflows into the country and may not tally with the data presented in other tables which include direct imports against foreign investment, Indian investment abroad as well as disinvestment.

in foreign direct investment (FDI) from US $ 2,462 million during 1998-99 to US $ 2,155 million during 1999-2000, which could be partly on account of sluggish domestic investment demand.

6.17 A number of policy initiatives were taken during the year to further facilitate inflows of foreign investment. In August 1999, a Foreign Investment Implementation Authority (FIIA) was established for speedy conversion of approvals to actual flows. The Insurance Regulatory and Development Act (IRDA) was passed in December 1999 permitting foreign equity participation in domestic private insurance companies up to 26 per cent of the paid-up capital. Moreover, investments in all sectors, except for a small negative list, were placed, in February 2000, under automatic route for direct investments. Indian companies were allowed, subject to specified norms, to raise funds for investments through issue of ADRs/GDRs without prior government approval and up to 50 per cent of these proceeds were allowed for acquisition of companies in overseas markets. Indian companies could acquire companies engaged in information technology and entertainment software, pharmaceuticals and biotechnology in the overseas market through stock-swap options up to US $ 100 million on automatic basis or ten times the export earnings during the preceding financial year as reflected in the audited balance sheet, whichever is lower. Furthermore, the Union Budget 2000-01 raised the limit of investment by FIIs in equity shares of Indian companies from 30 per cent to 40 per cent. In addition, with a view to expanding the investor base, foreign corporates and high net worth individuals were permitted to invest in Indian markets through FIIs registered with SEBI.

6.18 The source and direction of foreign direct investment flows remained by and large unchanged during the 1990s. Companies registered in Mauritius and the US were the principal source of foreign direct investment in India during 1999-2000 followed by Japan and Italy (Table 6.6). The bulk of this foreign investment was channeled into 'engineering industries', 'electronics and electrical equipment', 'food and dairy products', 'chemicals and allied products' and 'services' (Table 6.7).

Non-Resident Deposits

6.19 The outstanding balances under non-resident deposit schemes continued their increasing trend reflecting the overall confidence of non-resident Indians in the economy. Net inflows rose by US $ 2,141 million in 1999-2000 on top of US $ 1,776 million in the previous year (Table 6.8). While outstanding balances under the non-resident external rupee account [NR(E)RA] scheme and non-resident non-repatriable rupee deposit [NR(NR)RD] scheme continued to increase, foreign currency non-resident [FCNR(B)] accounts recorded accretion following a decline during 1998-99. The new non-resident special

Table 6.6: Foreign Investment – Country-wise Inflows*

Source	(Rupees crore)			(US $ million)		
	1999-2000P	1998-99	1997-98	1999-2000P	1998-99	1997-98
1	2	3	4	5	6	7
Mauritius	2,187	2,482	3,346	501	590	900
U.S.A.	1,551	1,905	2,555	355	453	687
Japan	622	989	608	142	235	164
Italy	548	486	160	125	116	43
Germany	135	478	563	31	114	151
South Korea	35	359	1,238	8	85	333
Netherlands	358	224	591	82	53	159
Others	1,468	1,491	1,927	337	354	518
Total	**6,904**	**8,414**	**10,986**	**1,581**	**2,000**	**2,956**

* Exclude inflows under the NRI direct investment route through the Reserve Bank and inflows due to acquisition of shares under Section 29 of FERA.

Table 6.7: Foreign Investment – Industry-wise Inflows*

Sector	(Rupees crore)			(US $ million)		
	1999-2000P	1998-99	1997-98	1999-2000P	1998-99	1997-98
1	2	3	4	5	6	7
Chemical and allied products	523	1,580	956	120	376	257
Engineering	1,423	1,800	2,155	326	428	580
Electronics and electrical equipment	750	960	2,396	172	228	645
Services	506	1,550	1,194	116	368	321
Food and dairy products	529	78	418	121	19	112
Computers	433	447	517	99	106	139
Pharmaceuticals	236	120	126	54	28	34
Finance	86	778	550	20	185	148
Others	2,418	1,103	2,675	553	262	720
Total	**6,904**	**8,414**	**10,986**	**1,581**	**2,000**	**2,956**

* Exclude inflows under the NRI direct investment route through the Reserve Bank and inflows due to acquisition of shares under Section 29 of FERA.

rupee account [NR(S)RA] is yet to record any significant inflow. Consistent with the policy of discouraging short-term debt and elongating the maturity profile of the external debt portfolio, the minimum maturity of FCNR(B) deposits was raised to one year. At the same time, reserve requirements in respect of incremental FCNR(B) deposits were removed so as to create a level playing field among all non-resident deposits schemes. It may be mentioned that a significant proportion of balances in FCNR(B) accounts is held abroad by banks and is thus in the form of foreign currency assets.

Table 6.8: Balances under NRI Deposit Schemes

(US $ million)

Scheme	Balance (End-March)		Variation @	
	2000	1999	1999-2000	1998-99
1	2	3	4	5
1. FCNR(A)	0	0	0	-1
2. FCNR(B)	9,069	8,323	746	-144
3. NR(E)RA	6,992	6,220	948	980
4. NR(NR)RD	7,037	6,758	447	941
Total	**23,098**	**21,301**	**2,141**	**1,776**

@ All the figures are inclusive of accrued interest and valuation arising on account of fluctuations in non-dollar currencies against the US dollar.

Notes: 1. Variations do not match with the differences between the outstanding stocks for rupee deposits on account of the exchange rate fluctuations during the year.

2. Variations presented in this table may differ from data presented in other tables against NRI deposits on account of valuation factors.

External Assistance

6.20 Net inflow of external assistance (gross utilisation *less* repayments) at US $ 1,096 million during 1999-2000 was higher than that of US $ 853 million in the previous year. On the other hand, as has been the trend during the past few years, there was a negative transfer of resources (sum of loans and grants *less* repayments of principal and interest) from the country to the tune of US $ 167 million during 1999-2000 (Appendix Table VI.7).

External Commercial Borrowings

6.21 The sluggish trend in disbursements under external commercial borrowings (ECBs) continued in 1999-2000. The muted demand in ECB was reflected in the fall in the value of approvals in 1999-2000 to US $ 3,500 million as against US $ 5,200 million in the previous year. Disbursements under ECB amounted to US $ 3,187 million during 1999-2000 as against US $ 7,226 million (including US $ 4,230 million mobilised through RIBs) during 1998-99. With amortisation at US $ 2,874 million in 1999-2000 being almost the same as in the previous year, the net inflow amounted to US $ 313 million during the year as against US $ 4,362 million including RIBs (US $ 132 million excluding RIBs) during 1998-99.

6.22 The ECB policy was further liberalised and procedures streamlined to enable borrowers to improve access to international financial markets. The government has delegated the ECB sanctioning powers up to US $ 100 million under all schemes to the Reserve Bank. Furthermore, prepayment approvals would be given by the Reserve Bank, as per prevailing guidelines, even in cases where ECBs were approved earlier by the Ministry of Finance. While infrastructure and exports sectors continued to be thrust areas, ECBs could be used for any purpose except investment in real estate and in stock markets. The limit of US $ 50 million on raising ECBs to finance equity investment in a subsidiary/ joint venture implementing infrastructure projects was enhanced to US $ 200 million to provide greater flexibility. All infrastructure projects have been permitted to have ECB exposure to the extent of 50 per cent of the project cost with greater flexibility beyond 50 per cent in the cases of the power sector and other infrastructure projects based on merit. Prepayment of ECBs was allowed from EEFC accounts in addition to the existing avenues. As a procedural simplification, the regional offices of the Reserve Bank would take loan agreements/documents on record for all ECB approvals once the Government/Reserve Bank have approved them. Besides corporates, non-banking finance companies (NBFCs) could avail of facilities under the credit enhancement scheme on compliance with the certain additional conditions, such as registration with the Reserve Bank, “AA” or equivalent rating from reputed credit rating agencies and track record of profits during the previous three years.

Overall Balance of Payments

6.23 The overall balance of payments recorded a surplus for the fourth year in succession with US $ 6,402 million (1.4 per cent of GDP) during 1999-2000 on top of US $ 4,222 million (1.0 per cent of GDP) in 1998-99, as net capital flows at US $ 10,242 million more than offset the current account deficit during the year. The overall surplus during the year, net of repurchases of US $ 260 million from the IMF, resulted in an accretion of US $ 6,142 million (excluding valuation) to foreign exchange reserves (Table 6.1 and Appendix Table VI.1).

FOREIGN EXCHANGE RESERVES

6.24 India’s foreign exchange reserves comprising foreign currency assets and gold held by the Reserve Bank and Special Drawing Rights (SDRs) held by the government increased by US $ 5,546 million (Rs. 27,908 crore) during 1999-2000 to US $ 38,036 million (Rs 1,65,913 crore) by end-March 2000 on top of an increase of US $ 3,123 million during 1998-99 (Table 6.9 and Appendix Table VI.8). Concurrently, the Reserve Bank’s forward liabilities were limited to a narrow range of US $ 675-997 million during the year, declining from US $ 802 million at end-March 1999 to US $ 675 million (less than two per cent of total reserves) by end-March 2000. Net of outstanding forward liabilities and use of the IMF credit, India’s foreign exchange reserves stood at US $ 37,335 million as compared with US $ 31,401 million as at end-March 1999, thereby showing an even higher accretion of US $ 5,934 million during 1999-2000.

6.25 The expansion of foreign currency assets during 1999-2000 was largely the outcome of net purchases of US $ 3,249 million by the Reserve Bank emanating from surplus supply conditions in the market over the most part of the year, especially since November 1999. Other major transactions on account of foreign currency assets included aid receipts of US $ 1,883 million and interest earnings of US $ 1,365 million on foreign exchange reserves which were offset partly by the acquisition of SDRs (through the IMF) equivalent to US $ 283 million for various payments to the IMF and for maintaining balances in the SDR account.

6.26 Balances under the SDRs held by the government amounted to SDR 2.67 million (US $ 4 million) as at end-March 2000 as compared to SDR 5.94 million (US $ 8 million) as at end-March 1999. A total amount of SDR 209.5 million (equivalent to US $ 283 million) was purchased from the IMF using foreign currency assets while SDR 8.52 million (equivalent to US $ 12 million) were credited on account of various other receipts from the IMF. On the other hand, SDR 221.29 million (equivalent to US $ 300 million) were used for repurchases of domestic currency and various other payment charges to the IMF.

Table 6.9: Foreign Exchange Reserves and Use of IMF Credit

(US $ million)

As at the end of	Gold	SDR	Foreign Currency Assets	**Total (2+3+4)**	Reserve Position in the Fund	Outstanding* use of IMF Credit (Net)
1	2	3	4	**5**	6	7
March 1993	3,380	18	6,434	**9,832**	296	4,799 (3,433)
March 1994	4,078	108	15,068	**19,254**	299	5,040 (3,568)
March 1995	4,370	7	20,809	**25,186**	331	4,300 (2,755)
March 1996	4,561	82	17,044	**21,687**	310	2,374 (1,625)
March 1997	4,054	2	22,367	**26,423**	291	1,313 (947)
March 1998	3,391	1	25,975	**29,367**	283	664(497)
March 1999	2,960	8	29,522	**32,490**	663	287 (212)
March 2000	2,974	4	35,058	**38,036**	658	26 (19)
June 2000P	2,948	8	33,774	**36,730**	653	0

P Provisional.

* Figures in bracket are in SDR million.

6.27 The value of gold held by the Reserve Bank increased marginally by US $ 14 million during the year to US $ 2,974 million by end-March 2000. During the year, the value of gold fluctuated between US $ 2,654 million (end-July 1999) and US $ 3,216 million (end-October 1999) essentially reflecting the movements in international gold prices.

6.28 During the first quarter of 2000-01, the foreign exchange reserves declined by US $ 1,306 million to US $ 36,730 million as at end-June 2000 as foreign currency assets fell by US $ 1,284 million to US $ 33,774 million reflecting the market demand-supply gap. India's repurchase obligations to the IMF were fully met by the first quarter of 2000-01.

6.29 Foreign exchange reserves not only provide a cushion for short-term demand-supply mismatches in the foreign exchange market but also provide the central bank with a leverage in the conduct of exchange rate policy. Adequacy of the level of reserves could be seen not only in terms of conventional indicators like import cover but also in relation to the size of short-term debt and portfolio investment.

6.30 The overall approach to management of India's foreign exchange reserves has reflected the changing composition of balance of payments and the "liquidity risks" associated with different types of flows and other requirements. The policy for reserve management is built upon a host of identifiable factors and other contingencies. Such factors include, *inter alia*, the size of the current account deficit and the short-term liabilities (including current repayment obligations on long-term loans), the possible variability in portfolio investment and other types of capital flows, the unanticipated pressures on the balance of payments arising out of external shocks and movements in the repatriable foreign currency deposits of non-resident Indians.

6.31 The movements in India's foreign exchange reserves, in recent years, have kept pace with the requirements on the trade as well as the capital accounts. As a matter of policy, foreign exchange reserves are kept at a level that is adequate to cover the liquidity needs in the event of both cyclical and unanticipated shocks. Particularly after the South-East Asian currency crises, there has been a growing opinion that the central banks need to hold reserves far in excess of the levels that were considered desirable going by the conventional indicators. The import cover of reserves improved to about 8.2 months as at end-March 2000 as against 6.5 months as at end-March 1997 while the ratio of short-term debt to reserves declined to 10.6 per cent as at end-March 2000 from 25.5 per cent as at end-March 1997. Even in relation to a broader measure of external liabilities, foreign exchange reserves provide adequate cover. For instance, short-term debt and cumulative portfolio investment inflows taken together were only 59.3 per cent of reserves as at end-March 2000. These ratios remain, by and large, unchanged even if unencumbered reserves (gross reserves net of forward liabilities) are taken into account, given the relatively small size of forward liabilities in the Indian context. The strength of the foreign exchange reserves has also been a positive factor in facilitating flow of portfolio investment by FIIs and in reducing the 'risk premia' on foreign borrowings and Global Depository Receipts (GDR)/ American Depository Receipts (ADR) issued by the Indian corporates. It is, however, important to note that unanticipated domestic or external developments, including undue volatility in asset prices in equity/bond markets, can create disproportionate pressures in the foreign exchange market in emerging economies.

EXTERNAL DEBT

6.32 India's external debt increased by 0.8 per cent from US $ 97,666 million as at end-March 1999 to US $ 98,435 million as at end-March 2000. Component-wise, long-term non-resident deposits, multilateral (excepting IMF) and bilateral debt increased while debt owed to the IMF, external commercial borrowings and rupee debt owed to the erstwhile USSR fell in absolute terms. While the proportion of multilateral (excepting IMF) and bilateral debt in the total debt inched up from 49.2 per cent as at end-March 1999 to 50.2 per cent as at end-March 2000 and that of debt under long-term non-resident deposits increased from 12.6 per cent to 14.8 per cent, the share of commercial borrowings (including long-term trade credits) fell from 28.6 per cent to 26.4 per cent and that of rupee debt fell from 4.8 per cent to 4.5 per cent over the same period (Table 6.10 and Appendix Table VI.9).

6.33 The marginal increase in outstanding debt notwithstanding, the process of consolidation of external debt continued to be strengthened, as may be seen in the movements of the key indicators of debt sustainability. The external debt-GDP ratio declined from 23.5 per cent as at end-March 1999 to 22.0 per cent as at end-March 2000, while the ratio of debt to current receipts fell from 163.4 per cent to 144.3 per cent (Table 6.11). The proportion of short-term debt to total debt declined from 4.5 per cent as at end-

Table 6.10: India's External Debt

(US $ million)

Item	At the end of March 2000	At the end of March 1999
1	2	3
1. Multilateral	31,317	30,534
2. Bilateral	18,056	17,498
3. IMF	26	287
4. Commercial Borrowings (including trade credits) #	26,025	27,885
5. NRI Deposits	14,582	12,344
6. Rupee Debt	4,386	4,731
7. Long Term-Debt (1to 6)	94,392	93,279
8. Short-Term Debt *	4,043	4,387
Total Debt (7+8)	**98,435**	**97,666**

Include net investment by 100 per cent FII debt funds.
* Excludes suppliers' credits up to 180 days.

Table 6.11: External Debt Service Payments

(US $ million)

Item	1999-2000	1998-99	1997-98
1	2	3	4
1. External Assistance @	3,442	3,144	3,234
2. External Commercial Borrowing *	4,717	4,648	4,664
3. IMF #	276	419	667
4. NRI Deposits (Interest Payments)	1,791	1,719	1,807
5. Rupee Debt Service	711	802	767
6. Total Debt Servicing	10,936	10,732	11,139
7. Total Current Receipts **	68,227	59,760	58,545
8. Debt Service Ratio (6/7 %)	16.0	18.0	19.0
9. Interest Payments to Current Receipts Ratio (%)	7.2	8.0	7.5
10. Debt to Current Receipts Ratio (%)	144.3	163.4	159.8
11. Liability Service Ratio (%)	16.8	19.1	20.0

@ Inclusive of non-Government account.
* Inclusive of interest on medium, long term and short term credits.
# Excluding charges on net cumulative allocation.
** Excluding Official Transfers.

Note: 1. Debt service payments given in this table follow accrual method of accounting consistent with balance of payments and may, therefore, vary from those recorded on cash basis.
2. From the year 1992-93, total current receipts include private transfers on account of *contra* entry against gold and silver imports.
3. Liability service ratio represents debt service payments and remittances of profits and dividends taken together as a ratio of total current receipts.

March 1999 to 4.1 per cent as at end-March 2000. The decline was on account of short-term NRI deposits which fell from US $ 2,199 million as at end-March 1999 to US $ 1,479 million as at end-March 2000 reflecting the effect of the policy of raising the minimum maturity of FCNR(B) deposits to one year. The element of concessional debt still continues to be significant, rising as a proportion to total debt from 38.2 per cent as at end-March 1999 to 38.5 per cent as at end-March 2000. The debt-service ratio fell from 18.0 per cent in 1998-99 to 16.0 per cent in 1999-2000, with the interest service ratio falling from 8.0 per cent to 7.2 per cent due to a significant increase in current receipts. The ratio of short-term debt to foreign exchange reserves further declined from 13.5 per cent as at end-March 1999 to 10.6 per cent as at end-March 2000.

6.34 The major focus of external debt management has been to attract external resources in the form of non-debt creating flows, especially direct investment inflows while de-emphasising short-term debt and volatile flows (Box VI.5). The shift in emphasis from debt to non-debt flows has underscored the importance of monitoring the stock of total liabilities (debt as well as non-debt) as also the total servicing of liability as opposed to the traditional emphasis on servicing of debt liabilities. Even by this criterion, a downward trend in servicing of liability is seen with the liability service ratio falling from 19.1 per cent in 1998-99 to 16.8 per cent in 1999-2000.

6.35 The Bank for International Settlements (BIS) estimated India's outstanding short-term debt at a higher level - US $ 8.7 billion as at end-December 1999 - on a residual maturity basis as compared with US $ 4.7 billion (as at end-December 1999) in the national database on original maturity basis (Box VI.6). As noted earlier, the short-term debt by original maturity in the national database further declined to US $ 4.0 billion by end-March 2000. The difference

Box VI.5
External Sector Asset-Liability Management

The recent South-East Asian crisis highlighted the criticality of external sector asset-liability management in preventing financial crises. Many developing countries typically finance a large part of domestic investment through external debt. Macroeconomic policies that tend to encourage foreign currency denominated bank loans and portfolio investment rather than direct foreign investment, often result in exchange rate overvaluation and accumulation of unhedged foreign currency borrowing giving rise to potential adverse consequences such as large scale capital flight and reserve loss. The need for prudential judgment and proper risk management on the part of the borrowing entities has, therefore, emerged as a key condition for efficient management of external liabilities.

Another important source of mismatch could arise from the maturity structure. The issue of appropriate maturity, until recently, was commonly considered to be a microeconomic decision left to the judgment of the borrowing entities. Short-term borrowing, while often relatively cheap, raises the frequency of the repayment profile and escalates vulnerability, especially in thin markets, leading to a run on reserves. Various macro-management rules have been suggested to strike a balance between risks and costs to ward off potential crises. Countries could, for example, manage their external assets and liabilities in such a way that they are able to live without net foreign borrowing for one year. Alternately, the average maturity of a country's external liabilities could exceed a certain threshold, such as three years and involve a degree of private sector "burden sharing" in times of crisis.

The emphasis on external sector asset liability management has, in recent years, shifted from the narrow perspective of management of just the foreign exchange reserves to management of a country's International Investment Position (IIP), which gives an account of an economy's balance sheet of the stock of external financial assets and liabilities. Some countries, *e.g.*, New Zealand, have even drawn up complete national balance sheets for the purpose of asset-liability management. In recognition of the importance of external balance sheet data, the International Monetary Fund has recently initiated the process of introduction of comprehensive and timely data on IIP and external debt statistics under its Special Data Dissemination Standards (SDDS). Furthermore, it is important that off-balance sheet contingent liabilities are recognised and kept within manageable limits. Simple balance-sheet rules, however, need to be supplemented by other approaches to risk management, *viz.*, Value-at-Risk (VaR), Cost-at-Risk (CaR) and liquidity-at-risk. It is also now believed that liquidity risks could be better reduced through "dynamic cushions" such as "liquidity options" instead of static ones done through the "risk models".

With regard to external liabilities, India's policy places emphasis on encouraging non-debt creating flows, especially direct investment inflows and discouraging short-term and volatile capital flows. External commercial borrowings (ECBs) are subject to an approval process within an overall ceiling consistent with prudent debt management. While the policy gives preference to infrastructure, core and export sectors, end-use restrictions in speculative activities (*e.g.*, real estate) and maturity specifications have been stipulated to avoid piling

(Contd.)

(Concld.)

up of volatile flows. Short-term debt is carefully monitored and is allowed only for trade purposes subject to a quantitative ceiling. The flow of NRI deposits is regulated through the use of monetary instruments such as reserve requirements and maturity prescriptions. The market determined exchange rate and the absence of any official exchange guarantees have meant stricter risk evaluation by corporates and banks that incur ECBs and accept deposits. Moreover, funds raised through ECBs and the FCNR(B) scheme are permitted to be held abroad in select instruments so as to provide Indian corporates and banks sufficient leeway in their conduct of asset-liability management. In order to encourage non-debt creating long-term flows, foreign direct investment has been progressively liberalised with the widening of sectors under automatic route, except for a few select negative list industries. Portfolio investment in domestic markets is restricted to select investors, *viz.*, FIIs and high networth individuals and corporates and are subject to overall ceilings. Regulation of external liabilities/assets of the banking system in India encompasses several broad areas of banks' operating environment and internal governance (*e.g.*, open position limits, aggregate gap limits, access to external funds, *etc.*) and market discipline (information dissemination) with a view to developing a broad oversight of the banking sector's ability and capacity to manage its own risks.

On the asset management side, the level of official reserves constitutes a critical pillar of external stability. The Indian policy has, therefore, favoured a steady build-up of reserves by encouraging non-debt flows, reassessing the reserve adequacy in terms of volume of short-term debt and stock of portfolio holdings, maintaining a cushion so as to withstand both cyclical and unanticipated shocks and limiting the extent of encumbrances on reserves such as through forward liabilities. Moreover, consistent with the current trend in asset-liability management, the government has set up a high level Steering Committee and a Technical Group to work out the modalities for more active sovereign external asset-liability management in India. The group in collaboration with the World Bank is developing a risk management model for sovereign external liability management in India.

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Box VI.6
India's Short-term Debt

The BIS Consolidated Banking Statistics (CBS) provides data on banks' international assets based on the location of the head office of reporting banks and represents world-wide consolidated international on-balance sheet claims. The data are based mainly on the country of incorporation of the reporting institutions and measure the international lending activities of banks' head offices in the reporting countries and all their offices at home and abroad. The positions between offices of the same banks are netted out. The data are supplemented by information from foreign banks in reporting countries on their international lending activities on an unconsolidated basis. The reporting countries are G-10 plus Luxembourg, Austria, Denmark, Finland, Ireland, Norway and Spain. The CBS data measure international indebtedness to the country of origin (the location of head office) rather than the country of residence of reporting banks. Thus, the data are based on the country of ultimate risk and therefore do not follow the residency criterion associated with the BoP and external debt compilations. The maturity profile is broken up into the categories of (i) up to and including one year, (ii) over one year and up to and including two years and (iii) over two years.

Besides the data compilation on residual maturity basis (*i.e.*, inclusion of long- and medium-term debt falling due within the next 12 months), the BIS data have other features distinct from the national data base. The BIS data are inclusive of suppliers' credits of up to 180 days to the extent that these credits find their way to the reporting bank's balance sheet, while the national data do not capture such transactions. Moreover, the BIS data include local claims in non-local currency, which represent transactions between residents and, therefore, do not strictly follow the residency criterion. The coverage of BIS statistics is limited to total bank lending to India which at end-December 1999 amounted to US $ 22 billion as against total external debt of about US $ 99 billion in the national data base. Notwithstanding the coverage factor, it is generally recognised that there would be some differences in data emanating from a creditor based system (as that of the BIS) and a debtor recording system (as that of the national data base) due to different basis of valuation in data recording. It is for these reasons the data on short-term debt as given by the BIS and the national database differ.

between the BIS database and the national database could be attributed to conceptual and coverage factors. The Status Report on External Debt of the Ministry of Finance has estimated short-term debt by residual maturity basis at US $ 10.7 billion or 10.8 per cent of the total debt as at end-December 1999.

EXCHANGE RATE MANAGEMENT

6.36 The developments in the exchange rate during 1999-2000 continued to be guided by the policy objective of ensuring that the external value of the Rupee is realistic and credible as evidenced by a sustainable CAD and manageable reserve situation. At the same time, in order to even out lumpy demand and supply in the relatively thin forex market and to smoothen sharp movements, the Reserve Bank makes sales and purchases of foreign currency as considered necessary. With a view to promoting orderly development of foreign exchange markets and facilitating external payments in a liberalised regime, the Government passed a new legislation *viz*., Foreign Exchange Management Act (FEMA), which came into effect from June 1, 2000 (Box VI.7).

6.37 The exchange rate of the Indian rupee *vis-a-vis* the US dollar traded within a range of Rs.42.44-Rs.43.64 during 1999-2000. The movements in the foreign exchange market during the year could be viewed in terms of three phases, *viz*., the first, April-May 1999, the second, June-October and the third, November 1999 onwards. While the first and third phases witnessed excess supply conditions in the foreign exchange market, the second phase saw excess demand conditions.

6.38 The first phase, April-May 1999, saw the continuance of overall excess supply witnessed since the last quarter of 1998-99, particularly March 1999. The rupee traded in

Box VI.7
Foreign Exchange Management Act

With the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange markets in India, the Foreign Exchange Management Act (FEMA) replaced Foreign Exchange Regulation Act (FERA), 1973 with effect from June 1, 2000. The FEMA is consistent with full current account convertibility and contains provisions for progressive liberalisation of capital account transactions.

The FEMA is more transparent in its application as it lays down the areas requiring specific permission of the Reserve Bank/Government of India on acquisition/holding of foreign exchange. In the remaining cases, funds can be remitted and assets/liabilities can be incurred in accordance with the specific provisions laid down in the Act. Foreign exchange transactions have been classified in two categories: capital account, which alters the assets or liabilities outside India of persons resident in India or alters the assets or liabilities in India of persons resident outside India (for instance, transactions in property and investments and lending and borrowing money) and current account transactions. The FEMA provides powers to the Reserve Bank for specifying, in consultation with the Central Government, the classes of permissible capital account transactions and limits to which exchange is admissible for such transactions. The Exchange Earners' Foreign Currency (EEFC) and Resident Foreign Currency (RFC) account holders are freely permitted to use the funds held in these accounts for payment of all permissible current account transactions. Rules made by the Central Government under this Act permit remittances for all current transactions through authorised dealers (ADs) without any monetary/percentage ceiling except for certain prohibited transactions (eight items, like lotteries, banned magazines, football pools, *etc.*) and transactions which require approval from the Central Government (eleven items, irrespective of the amount) or the Reserve Bank (sixteen items, wherein the remittance sought for exceeds the indicative limit).

The indicative limits in the case of certain current payments have been revised upwards. For instance, residents undertaking business visits are allowed to draw up to US $ 25,000 per trip irrespective of the period of stay. Further, ceilings pertaining to miscellaneous remittances such as the basic travel quota (BTQ), gift, donations, employment and emigration have been revised upwards to US $ 5,000. The exchange drawn can be used for purposes other than for which it is drawn provided drawal of exchange is otherwise permitted for such purpose.

The Act gives full freedom to a person resident in India, who was earlier resident outside India, to hold/own/transfer any foreign security/immovable property situated outside India and acquired when he/she was resident there.

The regulations under FEMA for foreign investment in India and Indian investments abroad are also comprehensive, transparent and permit Indian companies engaged in certain specified sectors to acquire shares of foreign companies, engaged in similar activities by share swap or exchange through the issuance of ADRs/GDRs up to certain specified limits.

FEMA is a civil law unlike FERA. The contraventions of the Act provide for arrest only in exceptional cases. There is no presumption of *mens-rea* under FEMA, that is, the burden of proof will be on the enforcement agency and not on the person in question. The Act provides for powers of adjudicating officers at par with Income Tax authorities, with an Appelate Tribunal, which would hear appeals against the orders of the adjudicating authority. Further, unlike FERA, FEMA does not apply to Indian citizens resident outside India.

the narrow range of Rs.42.44-Rs.42.99 per US dollar during this period. The Reserve Bank's net purchases of foreign currency amounted to US $ 1,013 million during the first phase.

6.39 The second phase, June-October 1999 (particularly up to September 1999) experienced excess demand conditions on account of the prevailing uncertainty in the markets. In the wake of uncertainty following the border tensions during June 1999, the spot segment of merchant transactions was marked by excess demand of US $ 683 million as against an excess supply of US $ 311 million during the previous month (Tables 6.12 and 6.13). As a result, the rupee moved down to Rs.43.39 per US dollar by June 25, 1999. On account of the Reserve Bank's market operations along side the reiteration of its policy to meet temporary demand-supply mismatches in the foreign exchange market, the rupee ended the month at Rs.43.36 per US dollar. The forward premia declined in July 1999 after stability returned to the foreign exchange market.

6.40 The demand-supply gap in the foreign exchange market, however, again widened towards end-August 1999 reflecting uncertainty in the market. For instance, excess demand rose from US $ 95 million during July 1999 to US $ 775 million during August 1999 in the spot segment and from US $ 1,109 million to US $ 1,689 million in the forward segment of merchant transactions. In order to reduce the temporary demand-supply mismatches, the Reserve Bank indicated its readiness to meet fully/partly foreign exchange requirements on account of crude oil imports and government debt service payments. In the period from end-August 1999 to March 2000, the rupee traded in a narrow band around Rs.43.50 per US dollar with the exchange rate as at end-March 2000 being Rs. 43.61 per US dollar as excess demand prevailing up to September-October 1999 turned into excess supply conditions. Over the period June-September 1999, the Reserve Bank's market operations in foreign exchange market resulted in net sales of US $ 1.3 billion as against net purchases of US $ 1.0 billion during April-May 1999 (Table 6.14). The forward premia firmed up in August 1999 with the onset of excess demand conditions in the foreign exchange market.

Table 6.12: Merchant Transactions in the Foreign Exchange Market

(US $ million)

Month	Spot			Forward			Merchant Turnover*
	Purchases	Sales	Net	Purchases	Sales	Net	
1	2	3	4	5	6	7	8
1999							
April	4,522	4,583	– 61	1,401	2,869	– 1,468	17,862
May	5,180	4,869	311	1,791	2,549	– 758	20,391
June	4,469	5,152	– 683	1,158	2,444	– 1,286	17,651
July	5,261	5,356	– 95	1,608	2,717	– 1,109	20,738
August	4,962	5,737	– 775	1,198	2,887	– 1,689	19,982
September	3,791	4,192	– 401	957	1,756	– 799	14,732
October	4,596	4,740	– 144	1,655	2,410	– 755	17,788
November	5,650	5,624	26	2,174	2,489	– 315	20,761
December	7,030	6,473	557	1,719	2,033	– 314	20,822
2000							
January	5,830	5,971	– 141	2,033	2,969	– 936	22,006
February	6,875	6,076	799	2,048	3,684	– 1,636	24,619
March	8,968	8,254	714	2,142	2,194	– 52	26,634
April	5,865	6,067	– 202	1,608	2,453	– 845	20,000
May	5,768	6,623	– 855	1,838	3,747	– 1,909	21,930
June	6,553	6,786	– 233	1,348	2,679	– 1,331	21,038

* Include cross-currency (*i.e.*, foreign currency to foreign currency, both spot and forward) transactions and cancellation/re-booking of forward contracts.

Table 6.13: Inter-bank Transactions in the Foreign Exchange Market

(US $ million)

Month	Spot			Forward/Swap			Inter-bank
	Purchases	Sales	Net	Purchases	Sales	Net	Turnover*
1	2	3	4	5	6	7	8
1999							
April	9,873	9,636	237	14,234	14,814	– 580	67,556
May	9,982	10,563	– 581	15,055	14,448	607	74,782
June	11,076	10,510	566	14,487	13,942	545	75,440
July	9,902	10,218	– 316	16,638	16,093	545	80,652
August	10,523	9,766	757	17,774	16,041	1,733	82,570
September	7,449	6,918	531	12,191	11,297	894	62,051
October	10,331	10,262	69	13,793	14,099	– 306	70,916
November	9,355	9,297	58	12,277	12,344	– 67	63,546
December	10,111	9,896	215	12,536	11,648	888	63,588
2000							
January	10,088	9,252	836	15,021	14,742	279	73,464
February	11,245	11,300	– 55	20,847	19,736	1,111	93,670
March	13,174	14,210	– 1,036	19,208	18,007	1,201	89,879
April	8,017	6,627	1,390	14,893	13,601	1,292	60,829
May	15,472	13,474	1,998	22,209	21,742	467	1,05,192
June	12,721	12,072	649	22,677	21,895	782	1,07,406

* These data are on gross basis and include cross-currency (*i.e.*, foreign currency to foreign currency, both spot and forward) transactions.

Table 6.14: Purchases and Sales of US Dollars by the Reserve Bank

(US $ million)

Month	Sales(-)/ Purchases	* Cumulative since April 1999	Outstanding Forward Sales (-) / Purchases #
1	2	3	4
1999			
April	38	38	– 732
May	975	1013	– 732
June	– 157	856	– 972
July	– 363	493	– 877
August	– 242	251	– 997
September	– 526	– 274	– 997
October	– 10	– 284	– 912
November	621	337	– 744
December	351	688	– 744
2000			
January	170	857	– 922
February	744	1,601	– 825
March	1,648	3,249	– 675
April	368	3,617	– 670
May	– 897	2,720	– 1,380
June	– 1,051	1,669	– 1,693

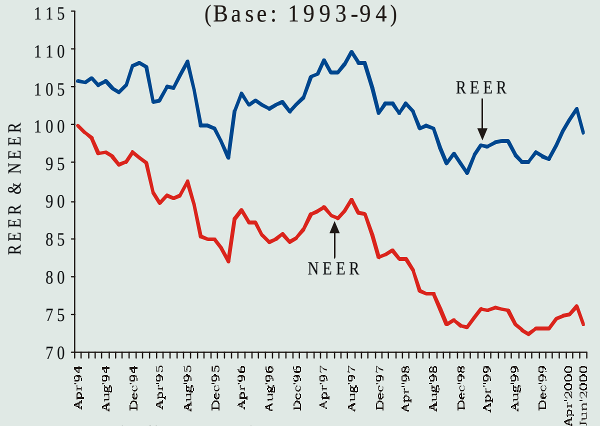
* Include spot, swap and forward transactions besides transactions under Resurgent India Bonds (RIBs).

\# Outstanding at the end of the month.

6.41 The third phase, from November 1999 to March 2000, was again characterised by excess supply conditions due to recovery in exports coupled with sustained portfolio inflows. The Reserve Bank, therefore, could make up for reserve losses in the earlier part of the year with a net purchase of US $ 3.5 billion from November 1999 to March 2000 resulting in net purchases of US $ 3.2 billion for the year as a whole. The forward premia eased with the return of excess supply conditions in the foreign exchange market.

6.42 The exchange rate of the Indian rupee *vis-a-vis* the US dollar averaged Rs.43.33 during 1999-2000 indicating a depreciation of about 2.9 per cent over that of Rs.42.07 during the previous year. Based on 5-country effective exchange rate indices, the nominal effective exchange rate (NEER) of the rupee depreciated by 2.9 per cent during 1999-2000 while the real effective exchange rate (REER) depreciated by 1.2 per cent (Chart VI.5). Similar trends were seen in the case of the broader trade-based 36-country indices with the NEER and the REER depreciating by 2.4 per cent and 0.2 per cent, respectively (Appendix Table VI.10).

Chart VI.5: Five-Country REER and NEER of the Indian Rupee (Base: 1993-94)



REER : Real Effective Exchange Rate
NEER : Nominal Effective Exchange Rate

6.43 During the first quarter of 2000-01, demand pressures prevailed in the foreign exchange market, reflecting the higher oil import payments and reduced capital inflows. The exchange rate depreciated from Rs.43.64 per US dollar during April 2000 to Rs. 44.28 on May 25, 2000 as the market was characterised by considerable uncertainty. This was reflected in the widening of excess demand in the spot as well as forward segments of the merchant transactions during May 2000. While the excess demand in the spot segment increased from US $ 202 million in April 2000 to US $ 855 million in May 2000, that in the forward segment increased from US $ 845 million to US $ 1,909 million. In order to reduce the uncertainty in the foreign exchange market, the Reserve Bank undertook the following policy actions on May 25, 2000: (i) an interest rate surcharge of 50 per cent of the lending rate on import finance was imposed with effect from May 26, 2000, as a temporary measure, on all non-essential imports, (ii) it was indicated that the Reserve Bank would meet, partially or fully, the Government debt service payments directly as considered necessary; (iii) arrangements would be made to meet, partially or fully, the foreign exchange requirements for import of crude oil by the Indian Oil Corporation; (iv) the Reserve Bank would continue to sell US dollars through State Bank of India in order to augment supply in the market or intervene directly as considered necessary to meet any temporary demand-supply imbalances; (v) banks would charge interest at 25 per cent per annum (minimum) from the date the bill falls due for payment in respect of overdue export bills in order to discourage any delay in realisation of export proceeds; (vi) authorised dealers acting on behalf of FIIs could approach the Reserve Bank to procure foreign exchange at the prevailing market rate and the Reserve Bank would, depending on market conditions, either sell the foreign exchange directly or advise the concerned bank to buy it in the market; and (vii) banks were advised to enter into transactions in the forex market only on the basis of genuine requirements and not for the purpose of building up speculative positions. In addition, the Reserve Bank made net sales of US $ 1,948 million during May-June 2000 to meet temporary demand-supply mismatches. In response to these measures, the rupee regained stability and it traded within a narrow range of Rs.44.57-Rs.44.79 per US dollar during June 2000.

6.44 The exchange rate of the rupee which was moving in a range of Rs. 44.67 – Rs. 44.73 per US dollar during the first half of July 2000 moved to Rs. 45.02 per US dollar on July 21, 2000. On a review of developments in the international and domestic financial markets, including the foreign exchange market, the Reserve Bank took the following measures on July 21, 2000: (i) Bank Rate was increased by 1 percentage point from 7 per cent to 8 per cent as at the close of business on July 21, 2000; (ii) CRR was increased by 0.5 percentage point from 8 per cent to 8.5 per cent in two stages by 0.25 percentage point each effective from fortnights beginning July 29, 2000 and August 12, 2000, respectively; and (iii) the limits available to banks for refinance facilities including the collateralised lending facility (CLF) were reduced temporarily to the extent of 50 per cent of the eligible limits under two equal stages effective from July 29, 2000 and August 12, 2000.

6.45 Reflecting the relative stability in foreign exchange market as well as the downward movements in the domestic interest rates, the forward premia continued to ease during 1999-2000. The average six-month forward premia, which were ruling over 10 per cent in June 1998, declined to 3.4 per cent by March 2000. For the fiscal year, as a whole, the average six-month forward premia declined from 7.9

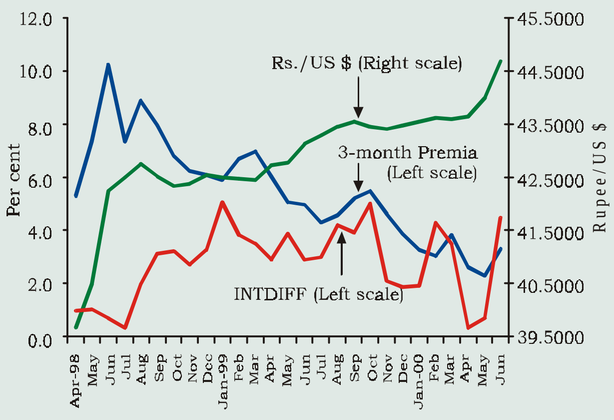
per cent in 1998-99 to 4.7 per cent in 1999-2000 (Table 6.15). In the recent period, there has been a close correspondence between the forward premia and the interest rate differential proxied by difference between the overnight domestic money market rate and the 3-month US dollar LIBOR (Chart VI.6).

Table 6.15: Forward Premia (Monthly Average)

(Per cent per annum)

Month	1-month	3-month	6-month
1	2	3	4
1999			
April	5.67	6.06	6.74
May	4.70	5.09	5.54
June	4.54	4.99	5.23
July	3.99	4.27	4.58
August	4.68	4.54	4.83
September	5.33	5.22	5.47
October	5.76	5.47	5.57
November	3.89	4.59	4.82
December	3.39	3.88	4.14
2000			
January	3.11	3.27	3.41
February	3.31	3.04	2.86
March	4.56	3.83	3.40
April	2.18	2.59	2.76
May	2.16	2.29	2.51
June	3.70	3.32	3.17

Chart VI.6: Interest Rate Differential and 3-Month Premia



INTDIFF : Differential between average domestic call money rates and 3-month US dollar LIBOR.

INTERNATIONAL DEVELOPMENTS

6.46 The global economy registered a V-shaped recovery in 1999 with the actual growth rate projected at 3.3 per cent in the International Monetary Fund's World Economic Outlook (WEO), exceeding the earlier estimates of 2.9 per cent (Appendix Table VI.11). The world economic growth is projected to strengthen to about 4.2 per cent in 2000. While uncertainties about the sustainability of the current order of global economic growth remain, advanced economies are expected to record stronger growth, as per the latest WEO forecasts, driven partly by a stable macroeconomic environment and the rally in equity prices and partly reflecting the success achieved in entrenching effective macro policy adjustment and in greater adherence to international standards as a part of the development of international financial architecture (Box VI.8).

6.47 Developing economies, particularly in Asia emerged out of their recent economic downturn, with the forecast of a robust performance for 2000. Developing countries, as a whole, are expected to grow at 5.4 per cent in 2000 as against 3.8 per cent in 1999. The crisis affected emerging Asian markets seem to have recovered faster than expected, with ASEAN-4 growth forecasts for 2000 improving to 4.0 per cent in contrast to a decline of 9.5 per cent in 1998. The growth prospects of these economies and their return to financial market stability have been shaped by successful adoption of macroeconomic adjustment policies backed by stricter enforcement of prudential standards in the financial sector (Box VI.9).

6.48 According to the IMF, the resurgence in world trade is expected to follow global economic recovery in 1999. The growth in world trade volumes is projected to accelerate to 7.9 per cent in 2000 from 4.6 per cent in 1999 and 4.2 per cent in 1998.

6.49 Certain global developments could pose serious risks to sustainable global growth. These include: (i) the possibility of a sustained increase in oil prices, which has doubled since early 1999, (ii) the perceived overvaluation of developed country stock markets and the associated risk emanating from sudden corrections and (iii) the asynchronous growth

Box VI.8
International Core Principles, Standards and Codes

The development and implementation of internationally recognised standards and codes of good practices is being increasingly emphasised as a critical element in the on-going initiatives for strengthening the international financial architecture. Adherence to such standards is expected to result in better-informed lending and investment decisions, smoother adjustment of markets to economic developments, reduced vulnerability to contagion and increased accountability of policy makers and thereby lead to improved economic performance. The IMF has taken the initiative in developing standards and codes in the areas of data dissemination, transparency in fiscal policy and monetary and financial transparency while core principles on banking supervision have been generally acknowledged to be developed by the Basle Committee on Banking Supervision (BCBS). Other international institutions such as the International Organisation of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), the Committee on Payment and Settlement Systems (CPSS), the Financial Action Task Force (FATF) on Money Laundering and the Organisation for Economic Co-operation and Development (OECD) are also actively involved in the development of standards relevant to their respective areas of expertise.

The IMF established the Special Data Dissemination Standards (SDDS) in April 1996, in order to enhance the timely availability of comprehensive statistics relating to the real, fiscal, financial and external sectors of the economy. The General Data Dissemination System (GDDS), a vehicle for supporting improvements in the statistical database of member countries which have not subscribed to the SDDS, has recently moved into its operational phase. The IMF Codes on Fiscal Transparency (approved in 1998) and Good Practices on Transparency in Monetary and Financial Policies (approved in September 1999), require clear delineation of the roles and responsibilities of monetary and fiscal authorities, harmonisation of international statistical and accounting standards and public information, with assurances of integrity through external audit and independent scrutiny. The latter includes public disclosure of the central bank's balance sheet and information on foreign exchange reserves.

The Core Principles for Effective Banking Supervision were developed by the BCBS in September 1997 in co-operation with supervisors from non-G-10 countries, the IMF and the World Bank in response to the banking sector infirmities that were at the root of many recent financial crises. The IOSCO is evolving the Principles of Securities Market Regulation. The IAIS Task Force has drafted a methodology on Core Principles on Insurance Regulation. The BCBS has issued accounting and auditing guidelines on sound practices for loan accounting and disclosure by banks and is also reviewing the International Accounting Standards (IAS) for their relevance to bank supervisors. The International Accounting Standards Committee (IASC) has published an issues paper on insurance accounting. The IOSCO and the IAIS are assessing the applicability of IAS principles for cross-border securities offerings/listing and the insurance industry, respectively. The World Bank is also developing a diagnostic tool for country assessment of accounting standards and country practices. The Principles of Corporate Governance are being used by the OECD and the World Bank as a basis for consultation with emerging and transition economies for improving corporate governance practices. A consultative document on the Core Principles for Systemically Important Payment Systems (CPSIPS) has been issued and work is in progress on elaborating the interpretation and applicability of the CPSIPS in different contexts. The United Nations Commission on International Trade Law (UNCITRAL) has developed the Model Law on Cross Border Solvency, which is being examined in various countries. The IMF has published a report on 'Orderly and Effective Insolvency Procedures' that sets out the policy choices for countries designing insolvency systems. The World Bank, in association with international organisations and insolvency experts is developing principles and guidelines on insolvency regimes for developing countries. An assessment matrix is also being developed by the World Bank to be used in pilot assessments. An important development in the context of standards and codes has been the initiation of experimental case studies or Reports on the Observance of Standards and Codes (ROSCs) by the Fund, in collaboration with the national authorities and the World Bank.

India is a member of the group of 20 (G-20) countries, which advises the Financial Stability Forum and is one of the earliest members of the IMF to voluntarily undertake the Financial Sector Assessment Programme (FSAP). India complied with almost all the Core Principles of Effective Banking Supervision and is one of the early subscribers to the SDDS. The Reserve Bank has constituted a Standing Committee on International Financial Standards and Codes (Chairman: Dr. Y.V.Reddy) which would identify and monitor developments in global standards and codes being evolved, especially in the context of the international developments and discussions as part of the efforts to create a sound international financial architecture, consider all aspects of applicability of these standards and codes to the Indian financial system and as necessary and desirable, chalk a road map for aligning India's standards and practices in the light of evolving international practices. The Committee would periodically review the status and progress in regard to the codes and practices and make available its reports to all concerned organisations in the public or private sector. The Committee has set up non-official advisory groups in ten major subject areas - accounting and auditing, banking supervision, bankruptcy, corporate governance, data dissemination, fiscal transparency, insurance regulation, transparency of monetary and financial policies, payments and settlement system and securities market regulation - with eminent external experts, to examine the feasibility and time frame of compliance with international best practices.

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among the advanced economies, with the corresponding downside risks of large payment imbalances and realignment of the major currencies.

6.50 The experience with asset price rallies in several industrialised economies, particularly the US economy, has posed issues of sustainability and the extent to which systemic stability for the world economy could be threatened. Asset price rallies entail significant risks in the form of higher inflation and a wider current account deficit, if domestic supply fails to respond to the rising demand. If a bull run is not sustained, there is also the threat of financial instability and lost output, which may arise out of sudden correction of asset values and significant downward adjustment of aggregate demand. Under these conditions, the monetary policy reaction to asset price inflation assumes crucial significance. If the stock prices in developed countries continue to surge and are perceived as unsustainable and responded to by a significant increase in interest rates by developed economies, this could precipitate reversal of capital flows to developing economies and raise the cost of international borrowings. A concommitant increase in interest rates in developing economies might follow, although this would hurt the process of recovery.

6.51 According to the IMF, the depreciation in the value of the Euro since its launch in January 1999 is expected to be corrected over time and the policy concern has been that this correction should be orderly. With economic growth in the US and the Euro zone tending to converge further in 2000 and given that the interest rate stance of both the US Federal Reserve Board and the ECB may not allow the existing interest rate differentials to widen, the correction for the 'misalignment' could be largely led by the BoP developments, the pace of recovery in the Euro zone and the expected returns on the respective stock markets. Similarly, the appreciation of the Japanese yen since summer 1999 represents a risk to corporate profits, and hence to Japan's recovery. Despite the appreciation, Japan's current account balance is expected to record a surplus of 2.2 per cent of GDP in 2000 as compared with that of 2.6 per cent of GDP in 1999. Benefiting from the recent global recovery, Japan could further increase its exports notwithstanding the appreciation of the yen, although resurgence of private consumption could be important for improved growth prospects.

6.52 The advanced economies, according to the IMF, may tighten monetary policy to minimise risks of inflation emanating from the asset price boom and strong growth. In fact, the US Federal Reserve has, over the past year, raised the federal funds rate by 175 basis points to 6.5 per cent (in five phases of 25 basis points each in June, August, November 1999, February and March 2000 and 50 basis points in May 2000), while the ECB raised the rates by an equivalent 175 basis points in phases between November 1999 and June 2000. Higher interest rates in the US and Europe, in conjunction with the need to keep interest rates low in many emerging markets of Asia and Latin America to support the recovery process, may adversely affect capital flows to emerging markets, posing a risk to their growth prospects. Net private capital flows to emerging market economies rose modestly to US $ 80.5 billion in 1999 from a decade low of US $ 75.1 billion in 1998, mainly on account of the subdued levels of gross flows and substantial net repayments to banks, particularly, in Asia. If high oil prices continue to exert pressure, oil-importing countries may have to choose between financing higher CADs through costlier foreign capital (with corresponding external debt problems) or 'sacrifice' growth by compressing non-oil imports so as to contain CADs.

Box VI.9
International Initiatives for Strengthening Financial Stability

The 1990s witnessed several worldwide financial crises in which financial instability originating in one part spread to other parts of the world through the contagion effect. This has brought to the fore the inadequacies in the existing international frameworks to deal with the complex challenges of globalisation and in turn, prompted measures to institute a more stable and resilient international financial order. The recent measures for reforming the international financial system have taken three forms *viz.*, (i) identification of vulnerability indicators, development of sound international codes/ standards/ best practices and creation of incentives ensuring transparent compliance, and more effective surveillance/monitoring mechanisms to enable designing and implementation of more appropriate crisis prevention measures, (ii) introduction of pre-emptive measures when a "bubble" or "misalignment" is generally perceived to be developing in order to avoid "hard-landings" and (iii) designing a framework for appropriate crisis management.

The international liquidity support available to crisis affected countries has been enhanced in recent years with the recognition that sudden and large outflows in the capital account could trigger exceptional BoP problems which could threaten the international monetary system through contagion. The IMF instituted a new Supplemental Reserve Facility (SRF) in December 1997 keeping in view the sudden spurt in demand for its resources in the aftermath of the Asian crises and committed SDR 9.95 billion to Korea in December 1997, SDR 4 billion to Russia in July 1998 and SDR 9.1 billion to Brazil in December 1998 under the SRF. The Contingent Credit Line (CCL) was created in April 1999 to help members having sound and well managed economies but vulnerable to the danger of contagion. The Eleventh General Review of Quotas, which came into effect on January 22, 2000, enabled the IMF to increase its general resources from SDR 145.6 billion to SDR 212.0 billion. Countries receiving resources under the SRF and CCL would be required to demonstrate their efforts to maintain constructive relationship with private creditors in order to contain the moral hazard problem associated with such bail-outs. Unlike the SRF and other Fund facilities, countries would not have to establish a BoP need to access resources up to 300-500 per cent of their quota, provided the prescribed conditionality are satisfied.

There have been several suggestions for involving private creditors in crisis management, given the relatively meagre resources at the disposal of international financial institutions like the IMF and the World Bank in relation to private capital flows. The Report of the Working Group on Financial Crises in Emerging Markets prepared by the Institute of International Finance in January 1999 suggests that the creditor-debtor relationships should be institutionalised keeping in view the four stages undergone by countries that experience financial crisis, *viz.*, normal market access, incipient crisis, crisis resolution and capital market re-entry. Other suggestions include: (i) institution of private sector contingent credit lines, (ii) introduction of call-option-like features in the inter-bank credit lines, (iii) put-option-type instruments in respect of outstanding external liabilities in the form of bonds and (iv) introduction of structured notes which lowers (increases) the debt service payments during crisis situations (normal times). Introduction of collective action clauses in the international bonds along with empowerment of the IMF to enforce standstills are also being viewed as critical to restrain "rush for exits" by creditors. Most of these initiatives, however, are at the formative stages.

Crisis prevention initiatives have developed along comprehensive lines. A key concentration area has been the development and dissemination of international standards/codes/best practices in areas that are perceived as critical from the standpoint of a country's vulnerability (Box VI.8). The issue of international arrangements that could ensure regular assessment of a country's observance of standards and codes, however, remains unresolved in view of the need to strike a balance between the "need for transparency" and the "need for confidentiality" on the one hand and the "need for comprehensiveness" and the "need for selectivity and flexibility" on the other. The IMF, nevertheless, has widened its surveillance mechanism to encompass analyses of financial sector soundness, capital account issues, and vulnerability to crises through a joint Fund-Bank Financial Sector Assessment Programme (FSAP), initiated in 1999.

Other important initiatives include the setting up of the Financial Stability Forum (FSF) by the G-7 finance ministers and central bank governors, in February 1999, to promote international financial stability through enhanced information exchange and international cooperation in financial market supervision and surveillance. Several suggestions have also been made such as the creation of international bankruptcy courts, the need for a global lender of last resort, the setting up of international credit insurance corporation, as also a global regulator and cross holding of subordinated debt by banks in the context of the ongoing debate on reforming the international financial architecture. Sound domestic macro-economic policies along with these new international initiatives are expected to limit the future vulnerability of domestic and international financial systems.

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VII ASSESSMENT AND PROSPECTS

7.1 During 1999-2000, despite a number of difficult domestic and international developments, such as the Kargil conflict and the sharp increase in oil prices, the Indian economy posted a reasonably high rate of growth with relative price stability. Real GDP growth was 6.4 per cent, the annual rate of inflation, on a point-to-point basis, was 6.5 per cent (or 3.8 per cent excluding the impact of rise in administered oil prices) and the accretion to foreign exchange reserves was about US $ 5,546 million. The external current account deficit was below 1 per cent of GDP.

7.2 It is useful at the threshold of the twenty-first century to take stock of the macro-economic developments since the 1991 crisis. The average real growth rate of the economy at 6.4 per cent during 1992-93 to 1999-2000 was higher than 5.9 per cent during the 1980s and 6.0 per cent during the second half of the 1980s. On a point-to-point basis, the rise in the wholesale price index averaged 7.6 per cent, remaining at the level recorded in the 1980s. However, in the second half of the 1990s (*i.e.*, since 1995-96), the average headline inflation rate came down significantly to 5.2 per cent. The ratio of the gross fiscal deficit (GFD) of the Centre to GDP averaged about 5.8 per cent in the post-1991 period as against 8.2 per cent in the second half of the 1980s on a comparable basis. The external current account deficit averaged 1 per cent of GDP on almost a sustained basis in the recent period. The key indicators of external debt sustainability improved continuously throughout the post-1991 period. Reserve accretions occurred in every successive year, except in 1995-96, to take the level of foreign exchange reserves to over 8 months of import cover by 1999-2000. The new impulses of growth have emerged from the private (including household) sector with private capital formation moving up, financed primarily by private saving.

7.3 There are, however, many concerns. The fiscal position has not been strong enough to share the burden of macro-economic adjustment. The variability in both output growth and the inflation rate continues to exist. Moreover, the task of sustaining 'quality' growth over the medium to long term is not complete; it requires that challenges associated with social sector improvement and productivity growth are addressed with appropriate structural reforms in a wide range of areas of activity including the labour markets. The first quarter of fiscal 2000-01 has also been characterised by several unfavourable developments including pressures in the foreign exchange market and an increase in the overall rate of inflation largely due to an increase in administered oil prices.

The Growth Profile

7.4 The sectoral growth profile in the two periods, *viz*., the post-1991 period and the second half of the 1980s, throws up some interesting insights for future policy direction. In the recent period, the services sector recorded an annual average growth of 7.7 per cent as against 7.2 per cent in the earlier period. Agriculture and allied activities which registered an annual average growth of 3.4 per cent in the second half of the 1980s improved their performance to a rate of 3.8 per cent in the post-1991 period. The average growth of the industrial sector, on the other hand, was lower at 7.3 per cent during the 1990s as compared with 8.0 per cent during the 1980s. However, manufacturing growth was more or less even during the two periods. The average growth rates of mining and quarrying and electricity, gas and water supply, on the other hand, were sharply lower in the years since 1992-93. Among the services, the main impetus has emerged from trade, transport and communication and financing, insurance, real estate and business services (which includes software). Besides, the growth rates of construction and community, social and personal services have moved up during the recent period compared to the position in the second half of the 1980s.

7.5 The real GDP growth of the Indian economy is widely believed to be hovering around its 'filtered' trend rate[1], but the economy has still to 'catch up' to achieve an

1. A rate that is obtained by smoothening out of cyclical fluctuations around the trend.

average growth of 7-8 per cent per annum or the potential growth as determined by the production possibility frontier. Such an outcome would be rendered possible if the requisite real investment growth occurs along with technology improvements and efficiency gains.

7.6 According to available data on Net State Domestic Product (NSDP), which is subject to some limitations, there was a decline in the coefficient of variation of the growth rates of NSDP at constant prices of the various States from 293.2 per cent in 1991-92 to 77.5 per cent in 1995-96. This does not fully reflect the continuing deterioration in the economic position of several States in relation to others. Looking at growth in individual States, there is some evidence of widening of the gap between the better-off States and other States. To reduce these disparities, the economies of the backward regions need to grow faster, by adopting pro-active policies including those that help to promote literacy and develop infrastructure. In this context, the role of the rural infrastructure development fund (RIDF) is important. The RIDF, which was set up from the contributions by the scheduled commercial banks to the extent of the shortfall in their priority sector lending targets, has provided funds in five tranches to State Governments to enable them to complete various types of infrastructure projects pertaining to irrigation, flood protection, rural roads, bridges, *etc.* As against a total corpus of Rs.18,000 crore for the RIDF, the cumulative sanctions and disbursements amounted to Rs.14,386 crore and Rs.6,269 crore, respectively, till end-June 2000. The state-wise performance in respect of disbursements has, however, been uneven. The low level of disbursements was due to the difficulties faced in identifying projects by some State governments, the lack of budgetary support and delays in finalisation of projects, especially those involving land acquisition and tendering procedures.

Agriculture

7.7 Growth of all crops has decelerated to 2.6 per cent in the 1990s (1992-2000) from 4.3 per cent in the second half of the 1980s, notwithstanding normal monsoons and improvements in private capital formation in agriculture, in net irrigated area and in fertiliser consumption. The variability in the inflation rates in recent years is found to originate mainly from the variability of supplies of some farm-related products such as fruits and vegetables, milk and milk products and eggs, fish and meat, which have significant weights in the WPI. A simulated exercise shows that if prices of these commodities increase at an annual rate of 2.5 percentage points (*i.e.*, 100 basis points above the trend growth in population) and assuming the increases in the prices of mineral oils and fertilisers to be in line with the international prices, the headline inflation rate would be about 4.0 per cent a year. This would imply that barring calamities such as the severe cyclones in Orissa, supplies relating to food articles would need to be maintained on a sustained basis through measures that help to reduce vulnerability to the vagaries of weather, ensure efficient land-use with reference to the cropping pattern, diversify agricultural activities with emphasis on value-added farm products, promote the development of irrigation and water resources, and make appropriate use of water and other inputs such as fertilisers, seeds, power, pesticides, including new farm technologies. Such measures are in the area of policy implementation at the state level where administrative arrangements would need to be backed up by well-tuned intelligence gathering and exercises about behavioural responses of farmers and other participants to policy initiatives.

7.8 One of the current developments of concern relates to the mounting stock levels of foodgrains. This problem has emerged from the high procurement in response to the regular hikes in Minimum Support Prices (MSP) of foodgrains unaccompanied by a commensurate rise in the off-take. The rice and wheat procurement-production ratio increased, as a result, from 16.3 per cent in 1989-90 to 18.9 per cent in 1999-2000. The off-take of foodgrains has been low in most years of the 1990s, partly due to limited open market absorption, and partly due to low quantities utilised by the public distribution agencies. In the case of the former, while market prices as well as factors such as quality are important considerations, low public distribution has much to do with the issue price levels, the quantity of the products offered and the inadequate institutional arrangements for quick delivery at areas of need and for linking delivery with work-oriented tasks (like the Food for Work programme). The buffer stocks have generally ruled above the norms in recent years resulting in a high burden of food subsidy on public finances. Better targeting of subsidies through such schemes as food stamp issuance, and a freeze on MSP with appropriate issue prices could help reduce stocks over time. At this juncture, it appears that enhanced exports of foodgrains to reduce the stock levels are also difficult, given the relatively low international prices of grains. It may become necessary to explore such methods of indirect interventions such as options and futures in the realm of agricultural marketing by first establishing a nation-wide multi-commodity exchange. Further, the problems pertaining to skewed availment/distribution of foodgrains under the public distribution scheme would need to be resolved quickly with elimination of inter-State restrictions in the movements of agricultural products.

Industry

7.9 The industrial performance has been generally uneven in the post-1992 period. Industrial output growth, as per the national accounts statistics, after showing an upward movement for three consecutive years (1993-94 to 1995-96), exhibited a moderate growth of over 6 per cent in 1996-97 and slackened in 1997-98 and 1998-99. There was some industrial recovery in 1999-2000, made possible by a combination of factors. Improved demand was propelled to an extent by increased exports, easy credit availability, low inflationary expectations and improved business confidence. The recovery was reflected largely in the increase in the output of the consumer goods sector, followed by that in basic goods and intermediate goods. The capital goods sector has suffered a significant slowdown, due to an inadequate pick up in domestic investment demand partly because of the past build up of excess capacities. The slowdown in capital goods production is also due to sharp cutbacks in project investments and the increase in cost overruns (from 51.6 per cent during March 1999 to 56.8 per cent in March 2000) on account of delays in the completion of projects in the public sector. It is important to recognise that consumption-led recovery would not help to sustain high industrial growth since infrastructure bottlenecks are substantial, with the demand for infrastructure services outpacing their supply.

7.10 In recent years, there has been considerable amount of industrial restructuring, led to a large extent by mergers and acquisitions (M&As). Most of the M&As were in consumer goods industries, where exploitation of both economies of scale and scope is likely to give material gains in a relatively short period of time. However, M&As by themselves may not necessarily lead to improvement in competitiveness. A competitive industrial structure is particularly important in ‘new’ economy industries where concentration of economic power or restrictive practices could jeopardise innovativeness, flexibility and cost minimisation. Once barriers to entry and exit are removed, the possibility of cost competitiveness and improving resource allocation will enhance. However, future policy initiatives for promoting fair competition need to be carefully designed since infromation technology (IT) makes it possible for information flows to be large and quick and helps market participants to devise business strategies that give them advantage over others in the industry.

Fiscal Imbalance

7.11 The fiscal imbalance of the Central Government and State Governments, as reflected in the combined GFD touched a high level of 9.9 per cent of GDP in 1999-2000. The slippage between the revised and the budget estimates was high at 2.5 percentage points of GDP. While the high level of government sector deficit is attributable to some unavoidable expenditure commitments as well as unanticipated shocks, any further erosion of the fiscal position could turn out to be unsustainable, since the financial saving rate of the household sector is only moderately higher than the ratio of overall fiscal deficit to GDP.

7.12 The need for a turnaround in the fiscal position is well recognised, but it requires a multi-pronged effort at improving revenue buoyancy in particular tax collections, effecting necessary expenditure reductions and raising proceeds from divestment of selected public enterprises. Expenditure management also holds the key to achieving overall fiscal prudence. The combined Government sector expenditure/GDP ratio at 28.7 per cent in 1999-2000, though lower than 30.6 per cent in 1990-91, reflects nonetheless the large size of the Government. About 52 per cent of the aggregate expenditure of the Central Government is committed towards interest payments, defence and statutory grants to States while non-obligatory expenditures such as subsidies and wages and salaries have been high and have tended to move up. Defence expenditures and statutory grants are exogenously given but in respect of others, strong policy actions would need to be put in place. The interest burden could over time be reduced by containing fiscal deficits and by plugging leakages and misappropriations while subsidies could be oriented to operate as 'social safety nets'. The expenditures of Government on wages and salaries and pensions seem to be the most important area where reforms have to be focussed. For instance, the expenditure of the Central Government towards wages and salaries has grown at an annual average rate of 14.8 per cent to Rs.32,433 crore in 1999-2000 from Rs.11,069 crore in 1991-92, which is higher than the 12.5 per cent growth in the overall expenditure of the Central Government. Unless the size of the government is pruned, the wage bill would pose a significant burden on fiscal management. Moreover, there is an urgent need to ensure that solvency of public finances in respect of pensions and other unfunded liabilities is attained.

7.13 The slow-down in revenue collections is reflected in the deterioration in the tax-GDP ratio of the government sector (Centre and States) from 16.4 per cent in 1985-86 to 14.1 per cent in 1999-2000. The structural shift in the composition of GDP seems to have constrained growth in tax receipts. While the agricultural sector has remained out of the tax net, the fast growing services sector has not been adequately taxed. With the manufacturing sector being subjected increasingly to business cycles in recent years, the problem of maintaining the tax-GDP ratio at a reasonable level has become difficult. The wide ranging tax exemptions and concessions extended to various sectors of the economy need to be rationalised after a thorough examination of the effectiveness of such concessions in promoting intended aims or in augmenting the growth of the particular sectors for which they have been extended. Moreover, there is a need for further reform and reorientation of levies such as stamp duties, registration fees, *etc*. These fees and duties need to be made 'tax payer-friendly'. It should be ensured that they do not impede the volume of transactions and reduce, in the process, the total revenue from these sources.

7.14 While the Government has taken initiatives to strengthen tax administration and reforms including the harmonisation of sales tax rates across States as a prelude to the introduction of VAT, there are some emerging problems arising from the technological development in domestic and international trade that need to be addressed. The rapid pace of globalisation and fast moving e-commerce the world over has increased the 'mobility' of the tax base. It is by now well recognised that in the near future the scope of e-commerce would widen, and the absence of a proper mechanism to tax the trade based on e-commerce may prove to be a potential source of leakage of the tax revenue of the Government. The Government would have to work in concert with other countries, which are also wrestling with this problem, to find a feasible solution. Simultaneously, the Government needs to upgrade its technological infrastructure and systems and procedures so that action in this area could be undertaken expeditiously.

7.15 In the absence of enough corrective actions, the elbow room available for public spending for creation of capital assets and social capital has become limited. In the event of a fall in public capital formation, there would be constraints on the creation of new or additional capacities. Besides, the private sector investments which depend on public sector project demands may not fructify or lose momentum.

7.16 The restructuring of public sector enterprises is yet another area of critical importance from the point of view of moving towards fiscal consolidation. In the last two budgets, the Government has announced several policy initiatives relating to closing down of non-viable public sector undertakings (PSUs), restructuring of potentially viable PSUs and marking down government equity in non-strategic PSUs. The actual realisation of disinvestment proceeds has so far fallen short of the budget targets. The disinvestment process necessarily has to take into account the prevailing or the likely capital market conditions and investor preferences. It would be useful to build different scenarios assuming different degrees of success of the disinvestment process and propose corrective strategies under each scenario for realising the determined final fiscal outcome.

7.17 The fiscal position with regard to State finances, characterised as it is by expenditure overruns due to committed expenses like wages and salaries, pensions and growing debt service obligations cannot be easily corrected in the medium term without the support of a well designed strategy. The State level PSUs, like the State Electricity Boards (SEBs) and the State Road Transport Corporations (SRTCs), have been reporting net losses and have been absorbing scarce funds through budgetary support. Restructuring the PSUs, increasing the user charges and providing greater managerial autonomy are some of the measures that are often advocated as the requisite solutions to the problem on hand. In this context, a fiscal issue of relevance is the growth in the implicit or contingent liabilities in the form of guarantees for accessing finances to meet the needs of PSUs, especially those in the area of infrastructure, besides the explicit liabilities. These off-balance sheet exposures are often costly, and could pose risks of default if the institutions supported by funds do not improve their performance. It is vital that limits are placed on the quantum and value of guarantees that could be given by State Governments and adhered to in the framework of a law.

7.18 With the fiscal deficits persisting, the debt/GDP ratio of the combined Government sector increased from 59.6 per cent as at end-March 1991 to 60.7 per cent as at end-March 2000. The relatively high interest rates on borrowings owing to persistence of fiscal deficits has led to growth in the interest burden (interest payments-revenue receipts ratio) of the combined Governments from 23.6 per cent in 1990-91 to 32.2 per cent in 1999-2000. However, the interest burden has risen more sharply for the Central Government from 39.1 per cent to 50.9 per cent of revenue receipts during the same period. The high stock of debt fuels expectations about the uncertainties of future budgetary policies and adds higher risk premium, thereby leading to volatility in the financial markets and constraining downward movement in long-term interest rates. With the Central and State governments meeting their repayment obligations through fresh borrowings, the bunching of repayments has also brought pressure on the market by increasing gross borrowings with adverse implications for interest rate evolution. While the debt management operations during 1999-2000 attempted to extend the maturity profile without having adverse effects on interest cost, the high overhang of debt acts as a severe constraint for continuance of such a policy stance in the coming years. Moreover, the adverse effect of a high debt ratio has been the reduced allocation of funds for social and other productive expenditures of the Government in order to accommodate the ballooning interest commitments. It is imperative, therefore, to limit public debt accretion together with contingent liabilities over the medium-term and thereby to lend credibility to the fiscal stance.

7.19 It is in the context of sustainability and the need for fiscal adjustment in the medium term that a strong institutional mechanism embodied in the form of Fiscal Responsibility Legislation (FRL), as announced in the last Budget, would be necessary at the level of the Central Government. The FRL at the Central Government will help in attaining sustainability, but for it to be credible it should include stringent requirements for fiscal transparency, backed by strong enforcement mechanisms. The legislation should explicitly focus on the elimination of dissavings of the public sector, placing statutory limits on borrowings and stabilisation of the debt/GDP ratio at a sustainable level. State Governments too should also be encouraged to balance their revenue accounts by introducing FRL on the lines envisaged in respect of the Central Government.

External Sector

7.20 The current account deficit has averaged about 1 per cent of GDP over the years since 1992-93. While commodity exports have generally grown over the years, there has been variability in export performance. On the other hand, competitiveness in services has strengthened during this period. Invisible earnings in the form of remittances from expatriate Indians and software exports have emerged as a major source of support to the balance of payments. As a result, current receipts have gone up, and formed over 90 per cent of current payments in 1999-2000.

7.21 Capital flows have been fairly strong since 1993-94 with brief interruptions, particularly in 1995-96. In the absence of a significant expansion in the external financing requirement, larger capital flows have helped to build foreign exchange reserves from a level of 2.5 months of imports as at end-March 1991 to 8.2 months as at end-March 2000. There has also been a progressive reorganisation and consolidation of external debt. The debt-GDP ratio has declined from over 41 per cent in 1991-92 to around 22 per cent in 1999-2000. Over the same period, the debt service ratio has fallen from 35 per cent to 16 per cent. The strategy for management of external debt to contain short-term and volatile elements within prudent limits was pursued.

7.22 While the external position has remained fairly comfortable over the last eight years, the growing openness of the economy and the need for accelerating growth in the medium term bring to the fore some areas of concern which require particular attention.

7.23 It is generally accepted that earnings on account of exports of goods and services are the mainstay of the balance of payments. In the 1990s, the ratio of current receipts to GDP has moved up to around 15 per cent, mainly on account of buoyant invisible earnings. The ratio of merchandise exports to GDP has, however, stagnated at 8-9 per cent with a downward drift in the two years of 1997-98 and 1998-99. A sharp decline in global inflation *vis-a-vis* inflation in India has had unfavourable effects on India's export competitiveness. Sluggishness in external demand was also precipitated by the recent financial crises in some parts of the world. Besides, vigorous export strategies by competitor countries, low-to-intermediate technological content of Indian exports and specific product level deficiencies are the other factors that constrained the improvement in the exports to GDP ratio.

7.24 Stepping up exports on a sustained basis holds the key to a healthy balance of payments position, in the context of India's growing global financial integration with accompanying uncertainties in capital movements. It is, therefore, necessary to create a conducive export environment by effecting enduring improvements in productivity at the specific export industry level. Such an action is particularly required in knowledge intensive and sunrise export categories. Besides, it is useful to utilise the medium of e-commerce for providing trade as also foreign investment, with sufficient monitoring and regulatory safeguards. The creation of a scheme for granting assistance to States for development of export related infrastructure is also a step in the right direction. Policies for foreign direct investment (FDI) need to emphasise the intrinsic link between FDI and exports by allowing for a greater role for foreign enterprise in infrastructure development. India's exports are reported to be suffering from a technological lag and are concentrated in lower segments of the product life cycle. As a consequence, India has not been able to exploit the shifting patterns of external demand in comparison with the export-led economies of Asia. Here again, FDI could play a major role in transferring closely held technologies and in diffusing innovations, both horizontally and vertically. In market-based exchange and payments systems, aggressive marketing strategies, brand promotion and improvement in the quality perception of goods overseas would provide the cutting edge of non-price competitiveness. This is where attention needs to be paid in full measure. There is an urgent need to diversify the external market structure of India's exports through appropriate marketing plans. The geographical pattern of exports has remained virtually unchanged since the 1970s. The South-East Asian economies and China have shown the vigour and resilience that exports can acquire when they are widely diversified in their destination patterns. In addition, exim policies should carry forward the efforts to reduce the anti-export bias in the trade regime, particularly in scaling down tariffs to international levels and in improving the access of domestic producers to imported inputs.

7.25 Structural changes underway in the economy would impact upon patterns of import demand and alter the responsiveness of imports to the domestic activity and relative prices. In so far as POL imports are concerned, the international price shocks in 1999-2000 were weathered mainly because of low non-oil import demand coinciding with the pick up in exports and net invisible receipts. The share of POL imports in total imports, however, has to be closely watched since India is vulnerable to oil price shocks. From the experience of the past oil shocks, it is necessary to contain this share at no more than one-fifth of total imports, so as to insulate the economy from cost push inflationary pressures emanating from oil price hikes. Nevertheless, with domestic consumption growing in line with the real growth rate of the economy, there is a widening gap between demand and supply. Intensive efforts for oil exploration together with augmentation of indigenous refinery capacity would save foreign exchange payments for relatively costlier imports of petroleum products. In these areas of policy, foreign direct investment by large oil companies could have a potentially critical role of providing benefits from exploitation of world-wide economies of scale and leading domain technologies.

7.26 The category of non-oil non-gold imports has remained subdued through the later half of the 1990s, essentially reflecting the structural shifts in the production pattern. The burgeoning growth of the services sector, with the consequential fall in the comparative share of commodity producing sectors in the national output, and the ongoing industrial restructuring to exploit economies of scale are some of the factors which have been at work in recent years, significantly altering the pattern of import demand. These factors also imply that there will be a shift in the composition of industrial output towards consumer goods and to an extent, basic and intermediate goods. Over the medium term, sustaining a growth rate in the range of 7 to 8 per cent would, however, require substantial increase in capital deepening and this may lead to higher imports of capital goods. Current receipts, therefore, will have to go up to meet the anticipated growth in import payments, if the reserves position has to be maintained.

7.27 The capital account of the balance of payments has been undergoing a progressive liberalisation. In respect of some components of the capital flows such as FDI, portfolio flows, banking flows and overseas investment by Indian corporate entities, liberalisation has preceded current account convertibility. Proactive changes in the policy regime have facilitated the sequential opening up of the capital account. The FEMA, which replaced the FERA in June 2000, reflects a shift in policy emphasis: from conservation to management of foreign exchange consistent with the orderly evolution of trade and payments and the foreign exchange markets; from a 'citizenship' basis to a 'residency' basis in the conduct of foreign exchange transactions; and from criminal procedures of enforcement to civil procedures – all under a transparent framework that promotes accountability. The FEMA contains various provisions in regard to capital account transactions which will facilitate better management of capital flows.

7.28 The capital account has undergone substantial, largely policy induced, changes in size and composition, with equity flows occupying an equiproportional share with debt flows over the 1990s. This has had beneficial effects in terms of transfer of technology, financial market reforms and consolidation of the country's exposure to external debt. The FDI has, over the 1990s, been viewed as the 'preferred' source in the hierarchy of capital flows to developing countries. The policies for FDI have, therefore, been progressively simplified. The emphasis is on dismantling of regulatory entry barriers. Investment proposals are being shifted to the automatic route. Further action is required for infrastructure upgradation with support from FDI itself, better exit policies, legal reforms which bring about consistency in laws within the country and in line with international standards, and decentralisation of the implementation process with accompanying State level reforms for quick and easy access to land, public utilities, raw materials and power through changes in legislation. The special economic zones being set up in the Exim policy measures for 2000-01 represent a transitional stage which allows FDI to freely come into the country even as changes in extant laws and procedures are being addressed. It is, however, important to broad base these reforms including labour market flexibility and not allow these zones to become enclaves.

7.29 Policy towards external commercial borrowings (ECBs) has been operated flexibly within the parameters of prudent debt management. While ceilings on approvals have excluded longer maturity ECBs, the approval process keeps in view the consideration about the minimum average maturity of debt. In such a process, priority is accorded to infrastructure and export sectors. The end-use stipulations have been progressively eased except with regard to capital markets and real estate. Prudent management of ECBs should continue with careful monitoring of the exposure to short-term and contingent liabilities. Given the growing exposure to international financial markets in the debt portfolio, appropriate risk and asset liability management strategies assume critical importance in the handling of market and maturity mismatches. Liquidity risks need to be assessed through dynamic liquidity-at-risk models and buttressed with built-in liquidity options and contingent support lines. The policy for ECB also encourages the use of derivatives for hedging interest and exchange rate risks on underlying foreign currency exposures. Over time, the approach to external debt management should expand into overall liability management encompassing the economy's international investment position.

7.30 External debt management policies have yielded positive results in the 1990s. The nominal stock of debt has remained at the March 1995 level, indicative of the consolidation that has occurred. India is presently at the lower bound of the group of moderately indebted countries with almost 40 per cent of the debt stock on concessional terms. Efforts are underway to develop a more comprehensive framework of debt management by setting up benchmarks that lead to optimal currency, interest and maturity mix. In order to consolidate the gains achieved so far, continuing emphasis on reporting, transparency and MIS inputs for debt management decisions assumes importance.

7.31 During the 1990s, the Indian economy began to receive portfolio flows through foreign investment in domestic stock exchanges as well as the Indian issues in foreign stock exchanges. In 1999-2000, the strength and resilience of the macroeconomic fundamentals and the on-going reforms in the capital markets helped to evoke optimistic investor response. Portfolio flows have outstripped FDI in terms of share in net capital flows. Portfolio flows are important in that they often occur alongside FDI and provide an impetus for integration of financial markets. Within this growing integration, Indian financial markets have become increasingly sensitive to asset price movements abroad. Portfolio flows are sensitive to these movements and, therefore, it is necessary to build cushions to guard against sudden movement of portfolio capital in response to international asset prices. One way to protect the economy from the effect of volatility in portfolio flows is to build international reserves, which India has been doing in the past few years.

Financial Sector

7.32 An important insight that emerges from the developments in the financial sector during the 1990s is the need to treat financial stability as a dominant objective of macroeconomic management and as a necessary, if not the sufficient, condition for accelerating economic growth. Towards this end, it has become necessary to not only regulate and supervise the financial sector but also to encourage market participants to improve information flows, adopt transparency practices, manage a wide array of risks associated with growth of business and eliminate asset-liability mismatches. Financial stability without efficiency is not a workable proposition from the point of view of growth and development. Competition for funds and introduction of modern technologies based on IT and networking have been the distinct hallmarks of the 1990s enabling freer competition. But profitability and cost minimisation which enable freer competition and financial innovations have remained areas of concern.

7.33 The banking sector is still dominant in the overall financial system in India. Since the adoption of prudential standards in 1993-94 there has been a reduction in non-performing assets (NPAs) in relation to the total assets, especially over the last five years. However, the level of NPAs still remains unduly high, partly because of the carry-over of NPAs in certain sunset industries and the continued existence of weak internal control systems in banks, and partly because of relatively weak legal support to the recovery mechanisms. The large quantum of NPAs, however, poses a major problem for a few banks, identified as weak banks, where the possibility of a return to profitability, without substantial restructuring, is doubtful. The Verma Committee, which looked into the problems of weak banks, made certain recommendations which are under consideration of the Government and the Reserve Bank.

7.34 Any delay in the resolution of the NPA problem could act as a 'drag' on the reforms process itself. It should be recognised that mere compliance to the internationally accepted Core Principles of Banking Supervision will not eliminate the problem. There is a need for not only banks and supervisory authorities to adopt best practices, but also for corporate entities to adopt greater accountability through adoption of disclosures and transparency practices and corporate governance principles. The legal machinery, as reflected in the establishment of a larger number of Debt Recovery Tribunals (DRTs) and Settlement Advisory Committees (SACs) in banks, will need to be activised strongly to enable expeditious recovery of dues of banks and financial institutions. Simultaneously, the on-going initiatives such as the setting up of internal asset-liability management committees (ALCOs) in banks, the pursuit of risk based supervision and the preparation for setting up of a Credit Information Bureau should be vigorously followed, together with upgradations in technology and payment and settlement systems.

Monetary Management

7.35 Monetary policy has continued to place emphasis on the twin objectives of pursuing price stability and ensuring adequate availability of credit for productive activities in the economy. These objectives are fundamental not only because they are in line with the provisions of the Reserve Bank of India Act but also because they reflect the economic priorities of the country.

7.36 This does not, however, imply that the monetary policy environment and conduct of monetary policy have remained unchanged. In fact, they have changed in the 1990s all over the world and in India as well. The instruments and operating procedures of monetary policy are, analytically speaking, determined largely by the nature and depth of the institutional infrastructure and arrangements, and the levels of technology and systems in the banking sector, besides the degree of deregulation and globalisation faced by the economy. These factors have played a major role in transforming the Indian financial scene in the last 8 years.

7.37 The flexibility to conduct monetary management in India was recognised and strengthened by the analytical work of the Reserve Bank's Working Group on Money Supply (1998). The Group reported that monetary policy exclusively based on monetary targets set by estimates of money demand could lack precision because while the money demand function exhibited parametric stability, predictive stability was less certain. The gradual emergence of rate variables such as interest rates with their growing sensitivity to financial developments and economic activity has contributed to the information content of quantity variables. Rate variables together with quantity variables would thus need to be used in the framework of multiple indicators to optimise management goals. In other words, the rate variables cannot be regarded as substituting for monetary targeting so long as the rate channel of transmission of policy has not evolved into a robust and reliable one. Such an outcome requires that certain conditions are satisfied, *viz.*, the elimination of fiscal dominance in macroeconomic processes and of the connect between monetary and internal debt management, and the full integration of financial markets.

7.38 It should be understood that efficient functioning of the rate channel is not always a blessing. For instance, monetary policy making in most industrialised countries has become complex in the 1990s mainly because of financial market integration and market sensitivity to rates, generating in the process expectations that may eventually be inconsistent with the final information about the economies. In the short run, the authorities face policy dilemmas as market conditions change and as 'new information' flows. Monetary authorities may announce a nominal anchor such as an inflation target or an exchange rate target, but they would still need to have an operational 'implementation aid' that could be frequently adjusted. In a strict sense, therefore, monetary policy cannot be pre-determined and has to react to evolving conditions and new information flows (Box VII.1). This explains why the interest rate, which was utilised as the operational aid to policy implementation in the US and in the Euro-zone, has been changed several times in the last 18-20 months (Table VII.1).

7.39 In the US for example, the interest rates which ruled at relatively low levels in 1998 have been moved up gradually, in small magnitudes, in 1999 and 2000 so far in order to address the issues of rising external current account deficit and overheating of the economy. The gradual upward hikes in interest rates help to avoid sudden changes in expectations and

Box VII.1
Monetary Management

Monetary policy has come a long way from the past practices of setting two parameters, *viz.*, the cash reserve requirements against either demand deposits or total deposits with banks and the Bank Rate or discount rate on borrowings by banks from the central bank, in order to influence an intermediate target such as money supply or base money growth. With the emergence of financial innovations, shifts in policy regimes and regulations, and changes in the very structure of the banking institutions, monetary targeting has been discarded in many industrialised countries. While inflation targeting is at present formally installed as a nominal anchor for policy in several industrialised and emerging market economies, the nominal demand in the economy which links the final target, *viz.*, inflation, both current and expected, is sought to be influenced by official short-term interest rates.

In reality, the *ex ante* inflation target cannot be the only guide for monetary policy conduct. If it is so, the policy maker will be in a dilemma as to whether she should respond to unanticipated developments or 'shocks'. In all the industrialised countries, the policy makers in fact respond to unanticipated situations. For, no policy maker can confidently claim that the official rate or even the short-term money market rate is the optimal one. All she can do is to ensure that the interest rate path is optimised over time, given the uncertain conditions and lag structures. This will imply that the deviations from what may be the *ex post* optimal or equilibrium rate would be as minimal as possible and could be quickly corrected. It is often considered that adjustments in small magnitudes would help to stabilise the expectation path. Monetary authorities, therefore, need 'constrained discretion' rather than unfettered discretion or even mechanistic policy rules. Importantly, the credibility of the 'constrained discretion' approach in the market place is likely to be high, given the fact that discretionary policy had in the past produced high inflation variability and those rigid rules cannot be adhered to in all economic circumstances.

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to ensure that economic confidence is not undermined by uncertainty in policy conduct. The Euro-zone countries, on the other hand, coordinated an interest rate cut in December 1998, going against the policy strategy of the respective countries, essentially to address the unknowns associated with the introduction of the Euro on January 1, 1999 and the subsequent exchange rate evolution. Since February 2000, these countries adopted a restrictive policy in the light of the many uncertainties in outlook such as the oil price movements, the changes in Euro's exchange rates and the growth rates of the Euro-zone countries themselves.

7.40 In the Indian context, the movements in market rates of interest in recent years suggest that (a) the markets have grown with the increase in interest rate flexibility; and (b) markets would get interlinked with financial sector reforms and overall economic liberalisation. Market interest rates in nominal terms were lower in 1999-2000, notwithstanding the increase in the size of Government's borrowing from the market, as compared with the rates prevalent in 1998-99. For most part of 1999-2000, the headline inflation rate was lower than the overall trend of the last five years. This situation raised the real interest rates and enabled capital flows into the economy. The consequential improvement in the liquidity position could meet the revival in loan demand as well as the financing needs of the Government sector and of the corporate sector.

7.41 However, by the end of the first quarter of 2000-01, it was clear that successive interest rate increases in industrialised countries, the continued oil price uncertainties, the rise in the domestic inflation rate mainly on account of administered price hikes and the general bearishness in the capital market would pose serious challenges to monetary management in India. The narrowing of the differential in the interest rates obtaining in the Indian and the overseas markets in the face of the growing demand to meet the payment obligations mainly on account of the oil import bill, has put pressure on the foreign exchange market. In order to curb arbitrage opportunities for investors to borrow from the fairly liquid money market and operate in the foreign exchange

Table VII.1: Policy Oriented Rates of the US Federal Reserve and the European Central Bank

US Federal Funds Target Rates	
September 29, 1998	Reduction by 25 basis points to 5.25 per cent
October 15, 1998	Reduction by 25 basis points to 5.0 per cent
November 17, 1998	Reduction by 25 basis points to 4.75 per cent
June 30, 1999	Increase by 25 basis points to 5.0 per cent
August 24, 1999	Increase by 25 basis points to 5.25 per cent
November 16, 1999	Increase by 25 basis points to 5.50 per cent
February 2, 2000	Increase by 25 basis points to 5.75 per cent
March 21, 2000	Increase by 25 basis points to 6.0 per cent
May 16, 2000	Increase by 25 basis points to 6.50 per cent
June 28, 2000	FOMC decision – not to change the interest rate
ECB Refinance Rates	
December 3, 1998	Reduction by 60 basis points to 3.0 per cent *
April 8, 1999	Reduction by 50 basis points to 2.5 per cent
November 4, 1999	Increase by 50 basis points to 3.0 per cent
February 3, 2000	Increase by 25 basis points to 3.25 per cent
March 16, 2000	Increase by 25 basis points to 3.50 per cent
April 27, 2000	Increase by 25 basis points to 3.75 per cent
June 8, 2000	Increase by 50 basis points to 4.25 per cent

* 10 of the 11 Euro-zone countries reduced their refinance rates to 3.0 per cent per annum from 3.6 per cent. By December 23, 1998, all the 11 Euro-zone country central banks had harmonised their interest rates to stay at 3.0 per cent per annum.

market as well as to reduce the impact of “leads and lags” on inflows, the Reserve Bank had to tighten liquidity conditions in July 2000. The Reserve Bank will continue to monitor closely the developments in the markets at home and abroad and take such measures as necessary from time to time.

7.42 Against this background, the unveiling of the liquidity adjustment facility (LAF) with repo auctions in June 2000, as an important operating aid to manage liquidity and influence the rate variables, gains importance. It is too early to comment on its effectiveness, but with further enhancement of market integration and with gradual phasing out of refinancing facility, the impact of LAF will become more certain and transparent. From most indications, it is already apparent that the introduction of LAF has helped the market participants to assess liquidity conditions better and has facilitated the gradual adjustment in the interest rates to the realities of the market.

Conclusion

7.43 The year 1999-2000 brought to a close an eventful decade for the Indian economy and its external environment. The international financial system was affected by a number of financial crises which severely undermined its functioning. Towards the end of the decade there emerged a global consensus on the need to strengthen and appropriately regulate domestic financial systems, to pursue consistent and credible macroeconomic policies in an environment of greater accountability and improved governance and to evolve an appropriate international architecture which prevents the occurrence of crises and/or mitigates the burden of adjustment. The work in this area is progressing and India has actively participated in the international financial reform efforts, giving particular emphasis on implementation of core standards and codes that are consistent with the country’s circumstances.

7.44 At home, the performance in 1999-2000 proved to be satisfactory but challenges to both fiscal and monetary management emerged early in 2000-01. Notwithstanding recent developments, the prospects of posting yet another year of good real output growth seem to be realistic. Monsoon conditions, in general, have been fairly satisfactory and as per present indications, the agricultural outturn in 2000-01 is likely to be better than in 1999-2000. If industrial recovery is ensured and assuming continued buoyancy in the services sector, real GDP growth during 2000-01 could be about 6.5 per cent. Such an order of growth should have favourable effects on inflation expectations particularly if the fiscal deficit and monetary expansion are kept at reasonable levels. Recent developments in respect of growth of India’s exports and invisible receipts are also highly promising which along with a high level of reserves and reasonable capital flows should contribute to external viability.

PART TWO : THE WORKING AND OPERATIONS OF THE RESERVE BANK OF INDIA

VIII PAYMENT AND SETTLEMENT SYSTEMS

8.1 The Reserve Bank of India has, in recent years, assigned high priority to reform of payment systems in order to enhance the reliability, speed and timeliness of payment transactions, the finality of settlement and operational efficiency of markets. In the process the risks of default are sought to be reduced.

8.2 The reforms included consolidation of the existing payment systems, development and upgradation of technologies relating to modes of payment and funds transfer, designing of multiple deferred/discrete net settlement system and a real time gross settlement (RTGS) system. The RTGS system would ultimately, link various payment and settlement arrangements into an integrated system which will function in an on-line real time environment. Issues relating to the appropriate legal framework, regulation and oversight of the payment and settlement system and the implications for the future conduct of monetary policy are now on the agenda of payment system reforms.

8.3 The acceleration in the pace of computerisation in the banking industry in recent years has facilitated the orderly development of modern payment and settlement systems in a secure manner. The thrust was placed on commercially important centres which account for 65 per cent of banking business in terms of value. At present, there are about 6,103 fully computerised branches among public sector banks across the country. The switchover from cash based transactions to paper based transactions is gathering momentum with the banking business on the rise. The value of transactions put through cheque clearances as a proportion to GDP is estimated to have reached over 402 per cent in 1999-2000 as against 352 per cent in 1998-99. The rise in cheque clearances was partly reflective of the operation of MICR clearing of cheques at more centres than the traditional four metropolitan centres. MICR clearing has been operational in 12 cities in 1999-2000 as against 10 cities in the previous year. The daily average value of cheques processed in clearing operations in the four metropolitan cities has gone up to Rs.19,679 crore reflecting in part the installation of modern S/390 systems, and the rising trend in daily turnovers in the principal segments of the financial markets, namely the call money market, the gilt market and the equity market (Table 8.1). The electronic clearing services (ECS) (credit) are offered at 15 of the offices of the Reserve Bank across the country with debit services available at the six major centres. At the end of 1999-2000, there were 26 ECS debit users and 171 ECS credit users. The number of ECS transactions has gone up from 4.3 million valued at Rs.67.37 crore for credits and from 5.2 lakh transactions valued at Rs.181.77 crore for debits in 1998-99 to 6.9 million valued at Rs.934.45 crore for credits and to 8.4 lakh transactions valued at Rs.301.87 crore for debits in 1999-2000. Retail

Table 8.1: Daily Turnover in Financial Markets*

(Rupees crore)

	1999-00	1998-99
1	2	3
Central Govt. dated securities market	3,388	1,454
Call/Notice money market	33,382	25,956
Equity market (BSE)	1,877	855
Equity market (NSE)	2,299	1,136
Cheque clearances through MICR	21,727	17,220
Cheque clearances in four metropolitan centres	19,679	15,528
Ratio of Cheque Clearance to GDP #	402	352
Value of ECS Transactions**	934.5	67.4
Value of EFT Transactions**	108.0	0.6

* Estimated. ** Annual. # in per cent

electronic funds transfer (EFT) on a T+1 basis has been in operation in all the metropolitan cities. The Reserve Bank EFT scheme was extended in 1999-2000 to encompass 12 other scheduled commercial banks besides the 27 public sector banks. Average monthly transactions under EFT has increased from 100 valued at Rs.5 lakh in 1998-99 to 600 valued at Rs.9 crore in 1999-2000.

Policy Initiatives in 1999-2000

8.4 The National Payments Council (NPC), was formed in May 1999 as an apex body to co-ordinate reforms in payment and settlement and for laying down policy directions in this area. The NPC endorsed the recommendations made in July 1999 by the Committee on Technology Upgradation in the Banking Sector (Chairman: Dr. A. Vasudevan) which constitute an agenda for future reforms in the technological environment for banking in India. The NPC placed emphasis on a time bound implementation of the RTGS and constituted five permanent task forces on; (i) monetary policy and related issues; (ii) oversight of payment and settlement systems; (iii) legal issues; (iv) technology related issues and (v) issues relating to systems and procedures, to assist the Council in its work on policy initiatives and guidelines for strengthening payment and settlement systems.

Smart Card Technology

8.5 The recommendations of the Working Group (Chairman: Dr. A. Vasudevan), set up in September 1999 to study various recommendations for SMART Card based Payment System Standards with a view to achieving international best practices, were accepted by the Reserve Bank in January 2000 and the standards recommended by the Working Group were forwarded to the Bureau of Indian Standards to be adopted as national standards (Box VIII.1).

Box VIII.1

Working Group on SMART Card based Payment System Standards

A pilot project on SMART Card technology in India known as 'SMART Rupees System (SMARS)' has been undertaken at the Indian Institute of Technology (IIT), Mumbai, to examine the viability and use of SMART Cards as retail payment instruments within the country. As part of its charter, the IIT, Mumbai came out with a document entitled "Recommendations for SMART Card based Payment System Standards Versions 3.0 and 3.1". The prevailing International Standards Organisation (ISO) and European standards on SMART Cards, and other standards which are specific to Project SMARS suited to the Indian context are discussed in the document and those standards were recommended for adoption to the Reserve Bank.

With a view to examining these recommendations and for determining the standards for the Indian banking industry, the Reserve Bank set up a working group to study the recommendations for SMART Card based Payment System Standards (Chairman: Dr. A. Vasudevan) on September 6, 1999. The terms of reference of the working group are: (i) to study the various recommendations for SMART Card based Payment System Standards version documents 3.0 and 3.1 made by Project SMART Rupees System (SMARS) and (ii) to corroborate these standards with the international standards and/or those prevalent in Europe and to examine the relevance of the remaining recommendations to the circumstances arising from the developments in the payment and settlement systems in the country.

The working group submitted its report to the Reserve Bank on January 30, 2000 and the recommendations were accepted by the Reserve Bank. The major recommendations made by the working group are: (i) the source for the standards proposed in the documents entitled 'Recommendations for SMART Card based Payment System Standards Versions 3.0 and 3.1', is based on the TYPE 1 and TYPE 2 open system standards. However, the MAC (Message Authentication Code) calculations for messaging between terminals and host will be done using TYPE 1 – Security Access Method (SAM); (ii) banks and service providers could enter into contractual agreements specifying adherence to the standards as laid down in the above mentioned documents; (iii) all players need to be encouraged to adopt the standards recommended by the working group; (iv) after the evaluation of the standards of other equally well known operators is completed by the Project SMARS team, the standards prescribed will be passed on to the Bureau of Indian Standards for adoption as National Standards; (v) there is a need for a payments oversight/ surveillance body for monitoring standards for SMART Cards; (vi) a well laid out strategy needs to be defined and adopted for wide dissemination of these standards to benefit the industry as well as the customers; (vii) standards were found to be flexible enough to provide for future technological developments; and (viii) a review of the standards be undertaken every two years.

The report of the working group was forwarded to the Bureau of Indian Standards (BIS) with a request that the standards proposed therein may be adopted as National Standards by the BIS.

Cheque Processing

8.6 The state-of-the-art, Year 2000 compliant IBM S/390 mainframe systems with imaging capability were operationalised at the National Clearing Cells in four metropolitan cities in July-October 1999 to replace the existing MICR cheque processing system. In non-MICR centres, magnetic media base clearing was introduced during 1999-2000. The software for providing the facility of two way inter-city clearing and regional grid processing were provided during the year to six commercial banks which manage MICR cheque processing at six centres for swift and more efficient clearing of inter-city cheques.

INdian FInancial NETwork (INFINET)

8.7 The setting up of the INdian FInancial NETwork (INFINET), a Wide Area based satellite communication and terrestrial lines network using VSAT technology in June 1999, was a landmark in the area of communication technology in so far as the Indian financial system is concerned. The INFINET is the fore runner of an efficient telecommunication backbone for the banking and financial sector. It is a Closed User Group network for the banking sector. At present it covers public sector banks. It is intended to extend the membership in phases to other banks and other eligible entities. The hub and the network management system are located at the Institute for Development and Research in Banking Technology (IDRBT), Hyderabad, which is fully funded by the Reserve Bank. The INFINET was operationalised with one-eighth transponder capacity initially. The transponder capacity was raised to one in July 2000. Currently, the INFINET connects 439 VSATs but plans are underway to extend network connectivity to 5000 VSATs in the long-run, now that transponder capacity has been augmented.

8.8 The INFINET User Group set up several sub-groups for design and standardisation of message formats, inter-bank applications and structured messaging backbone. The working group on Design of Message Formats submitted its report in October 1999, recommending message formats for applications such as customer payments and cheques, financial institution transfers, cash management and customer status, and common group and system messages, which would be implemented in the first stage. The working group's recommendations for message formats for government transactions, currency chest transfers, and some segments of government securities transactions have been taken up in the second stage (Box VIII.2).

Box VIII.2

Working Group on Design of Message Formats

A working group was established with officers of the INFINET User banks and the Reserve Bank in February 1999 for: the development of Message types for the inter-bank applications identified for the INFINET, review and modifying existing Message types in consultation with payment systems related groups, development of Message types for new applications / transactions.

The working group on Design of Message Formats, which submitted its report in October 1999, recommended that messages belonging to a particular set of transactions be clubbed under the broad generic framework of INFINET FORMAT CATEGORY (IFC). The details of IFC are: Customer Payments and Cheques (IFC 1), Financial Institution Transfers (IFC 2), Treasury Markets (IFC 3), Collections and Cash Letters (IFC 4), Securities Markets (IFC 5), Precious Metals and Syndications (IFC 6), Documentary Credits and Guarantees (IFC 7), Travellers Cheques (IFC 8), Cash Management and Customer Status (IFC 9), Common Group Messages (IFC n) and System Messages. Under each of the distinct IFC Category, messages for individual transactions have been adopted. Each of the IFC Categories has several messages with specific INFINET Format Number (IFN) for each message. The IFC and IFN classification and field definitions under IFN closely follow international standards. In phase one, the working group examined in detail the internationally accepted SWIFT standard message categories and the various message formats under each category for designing the appropriate message formats under IFC 1, IFC 2, IFC 3, IFC 4, IFC 5, IFC 6, IFC 7, IFC 8, IFC 9, and IFC 'n' respectively.

The working group has also designed the message formats pertaining to Government Account Transactions, Currency Chest Transfers, Reverse Repos, Refinance to Primary Dealers, Open Market Operations (Sale / Purchase) and SGL Transfer Form.

8.9 The Sub-group on Inter-Bank Applications was constituted in January 1999 to identify, in order of priority, applications which can be put on the INFINET and which require clearing and settlement operations (Box VIII.3). Sub-groups have also been constituted for standardising different information technology components like networking products and system software and to optimise use of communication resources.

Implementation of RTGS

8.10 Setting up an RTGS environment has become the focal point of payment system reforms in India as in the rest of the world. Access to major financial centres and cross border payment system hinges on the availability of a full-fledged domestic RTGS. Apart from providing real time fund settlement environment, RTGS is critical to an effective risk control strategy for preventing domino effects of individual defaults.

8.11 Preparing the financial system for RTGS has been on the top of the Reserve Bank's agenda for payment and settlement system reforms. The working group on Operational and Technology Issues constituted by the Indian Banks Association in 1998 had made several recommendations relating to server location and placement, architecture at banks, interface with banks' internal software, identification of centres for inter-connectivity, communication networks, queue management, settlement timings, message formats and data security. The requisite infrastructure is being put in place in the form of communication backbone, design of message formats based on SWIFT standards and provision of intra-day liquidity on collateralised basis against approved government securities on Repo basis. Other steps taken to improve the infrastructure for RTGS include the development of the Payment System Generic Architecture Model for both domestic and cross-border payments. The Model envisages

Box VIII.3

Inter-Bank Applications

In January 1999, the INFINET Closed User Group constituted a sub-group to identify applications of inter-bank nature which will impact customer services, as well as to identify the vendors who have the core software which can be customised quickly to implement the identified applications. The Sub-group studied applications which can be put on the INFINET and which require clearing and settlement operations, with the Reserve Bank being the overseer as well as settlement agency. The Sub-group felt that inter-bank applications would be implemented in a phased manner so that some improvement in customer services is immediately visible. Accordingly, some of the major identified applications are the following:

Immediate

- Consolidation of current account balances of banks across offices of DAD (CFMS).
- Retail Electronic Funds Transfer (EFT) for small value credit transfers on net settlement basis.
- Electronic Clearing Service – Credit, Debit, Receipt and Payment of Instrument / Document (RAPID) – including inter-city.
- Asset-Liability Management (reporting to the Reserve Bank).
- Reporting of Section 42 data *etc.* to the Reserve Bank.

Short Term

- Clearing and settlement system for securities on DvP basis.
- Currency chest accounting.
- Reporting of Government account transactions.
- Returns to be submitted by banks to the Reserve Bank for off-site supervision and monitoring.

Medium Term

- EFT for large value credit transfers on RTGS basis for time critical payments.
- Transferring balances from net settlement systems to RTGS Server at periodic intervals. The net obligations could arise from;
  - Local paper-based clearing.
  - Inter-city paper-based clearing, including TT discounting facilities.
  - Bulk payments – ECS (Credit, Debit, RAPID) including inter-city.
  - Rupee leg of foreign exchange market clearing.
  - Debt market clearing including derivatives.

Long Term

- Electronic Data Interchange (EDI) services to the extent they pertain to payment cycle of EDI.
- Reporting of BSR, R-Returns *etc.* to the Reserve Bank.

networking of computerised bank branches, with their controlling offices, central treasury cells and Head Office with the proviso for introducing standardisation of operating systems and networking platforms within the bank and a bank-level standardised gateway to INFINET. A consultant has been appointed to assist in the implementation of the RTGS. System requirement specifications would take into account the international best practices and the specific requirements of Indian banking.

Centralised Funds Management System

8.12 As a precursor to the full-fledged RTGS system, the Reserve Bank is in the process of implementing a Centralised Funds Management System (CFMS). The CFMS envisages creation of an intermediate service facility to the funds and treasury managers of commercial banks to obtain the consolidated and account-wise, centre-wise position of their balances with 17 regional offices of the Reserve Bank's Deposit Accounts Departments, in the first phase. This would be followed by funds transfer in the second phase to aid banks in optimal use of available funds.

8.13 The CFMS consists of: (i) a Centralised Funds Enquiry System (CFES) based on the current and other accounts maintained with the Reserve Bank and (ii) a Centralised Funds Transfer System (CFTS) to enable movement of funds across various offices where the Deposit Accounts Departments are situated.

Y2K Compliance

8.14 Proactive initiatives were undertaken to ensure Year 2000 compliance in the banking and financial system. Compliance of systems to the Year 2000 transition was 100 per cent in the Reserve Bank. Contingency plans were drawn up covering switching over to Magnetic Media Based Input Clearing System, which can work both in a LAN environment and on a stand-alone PC for ensuring uninterrupted clearing services on the roll-over date. Other measures included stocking adequate amounts of cash in all the offices of the Reserve Bank as well as at over four thousand currency chests across the country. The Reserve Bank actively helped the commercial and co-operative banks and other financial institutions in the smooth rollover to Year 2000. In the banking and financial system, tests results were documented and made available for verification to inspection teams. In addition, contingency plans were drawn up for operationalisation in the event of systems failure. Furthermore, hard copies of all important books of accounts and treasury operations as on December 31, 1999 were made to ease the temporary switchover to manual processing in the event of need. With extensive preparations, the millennium date change occurred smoothly.

Legal Issues

8.15 One of the important conditions for reforming payment system along with the advances in technology relates to the legal infrastructure. One important legislation that has already been passed in this context is the Information Technology Act, 2000, by the Parliament. As a part of the IT Act, there would be an amendment to Section 58 (2) of the Reserve Bank of India Act, 1934, whereby funds transfers through electronic means between banks or between banks and other financial institutions, the manner of such fund transfers and the rights and obligations of the participants under EFT would be subject to the regulation of the Reserve Bank.

Action Plan for 2000-01

8.16 The Monetary and Credit Policy Statement announced in April 2000 set out the major tasks for 2000-01 as :

- Expansion in the spread and coverage of INFINET to encompass all commercially important centres.
- Development of the Structured Financial Messaging backbone for exchange of financial messages in a secure mode based on international standards.
- Integration of various segments of the payment and settlement system.
- Introduction of RTGS.
- Consolidation of various Deferred Net Clearing Settlements spread across various cities.
- Technology upgradation and increasing the scope of computerisation within the banking sector.

IX BANKING, INTERNAL DEBT AND EXCHANGE MANAGEMENT DEVELOPMENTS

COMMERCIAL BANKING

9.1 A number of policy measures were undertaken in the banking sector during 1999-2000 as a part of the ongoing financial sector reforms. These measures which were dealt with in Section I of Part One on the policy environment had the objectives of improving information flows, strengthening financial stability, enhancing the efficiency of systems and procedures in the use of financial instruments, and laying down guidelines for management of risks. The underlying medium-term objective of the reforms is to move towards internationally accepted best practices in prudential norms, accounting standards, disclosure norms, and the supervisory framework.

9.2 In October 1999, the Reserve Bank issued a self assessment of the compliance of the Indian banking system with the Core Principles for Effective Banking Supervision evolved by the Basel Committee on Banking Supervision (BCBS). This was done not only to achieve greater transparency in the operation of the supervisory system but also to inform the world at large of the framework in which the principles of regulation and supervision would operate in the country in the years to come. To entrench financial stability and to integrate into the international financial world in a systematic way the Reserve Bank had constituted a Standing Committee on International Financial Standards and Codes in December 1999. Being a Standing Committee, there will be a review after a year. The Reserve Bank also closely examined the ongoing efforts at the Bank for International Settlements (BIS) to review the Capital Adequacy Framework proposed through a consultative paper by the Basel Committee on Banking Supervision (BCBS) and forwarded its comments. These comments were also released in April 2000 by the Reserve Bank through its website and press releases to inform the public about its standpoint on the proposal and also to invite the reactions of the public.

Risk Management Systems in Banks

9.3 The complexity of banking operations and the recurring incidence of financial crises necessitated sustained efforts towards upgradation of risk management practices and procedures for ensuring soundness of financial institutions. In October 1999, the Reserve Bank issued guidelines on Risk Management Systems to banks to put in place a system to take care of credit risk, market risk and operational risk. Together with the Asset-Liability Management (ALM) guidelines issued in April 1999 they would help to prepare banks for the changing dimensions of risk based supervision. The guidelines envisage setting up of credit policy committees (CPCs) and credit risk management departments (CRMDs) within the banks for evolving bank-specific loan policies, credit approving systems, benchmarks for credit risk rating and pricing, portfolio management techniques and loan review mechanism for management of credit risk. Market risk management is sought to be addressed by upgrading the existing institutional framework, adopting dynamic hedging techniques, setting up of Middle Offices to track the magnitude of market risk on a real time basis, estimating liquidity profiles under alternative scenarios, preparing contingency plans, moving over to alternative analytical tools for management of interest rate risk, *i.e.*, gap analysis, value at risk (VaR) models, simulation *etc.* and funds transfer price mechanisms. In addition, in view of the phenomenal increase in the volume of transactions and complex technological support systems, banks are advised to put in place proper framework for management of operational risk. Banks across the world have adopted the Risk Adjusted Return on Capital (RAROC) framework for risk aggregation and allocation of economic capital to various product lines/operating units. Banks which have international presence have been advised to develop suitable methodologies for estimating and maintaining economic capital by March 31, 2001. As part of ALM support measures, banks were permitted to undertake Forward

Rate Agreements (FRAs) and Interest Rate Swaps (IRSs) and price loans on a fixed rate or floating rate basis.

Take-Out-Finance

9.4 Take-out-finance is a new product emerging in the context of the funding of long-term infrastructure projects, with ramifications for asset-liability management as the financing of infrastructure is long-term in nature against their predominantly short-term resources. Under this arrangement, the institution or the bank financing infrastructure projects will have an arrangement with any financial institution for transferring to the latter the outstanding in respect of such financing in their books on a pre-determined basis. Take-out finance is either in the nature of unconditional take-out finance or conditional take-out finance with several variants. Take-out-finance products involve three parties *viz.*, the project company, taking over institution and the lending banks/ financial institutions. Banks were advised to follow the guidelines pertaining to criteria for assigning risk weight for calculation of capital adequacy ratio and other prudential norms in respect of take-out-finance.

Prudential Norms

9.5 The Reserve Bank has been making continuous efforts towards strengthening financial soundness of banks by prescribing prudential norms that are comparable to international standards. Some of the steps which were taken during the year 1999-2000 include: (i) prescription of additional risk weight of 2.5 per cent for market risk for investments in securities outside the SLR from the year ending March 31,2001 in addition to the existing 100 per cent risk weight; (ii) in respect of agricultural advances and advances for other purposes granted by banks to Primary Agricultural Co-operative Credit Societies (PACS)/Farmers' Service Societies (FSS) under the on-lending system, only that particular credit facility granted to a PACSs/FSSs which is in default for a period of two harvest seasons (not exceeding two half years/two quarters as the case may be), after it has become past due (one month after due date), will be classified as NPA and not all the credit facilities sanctioned; and (iii) in respect of export project finance, in cases where the actual importer has paid the dues to the bank abroad but the bank in turn is unable to remit the amount due to political developments such as war, internal strife, UN embargo *etc.*, the extant prudential norms relating to income recognition, asset classification and provisioning may be made applicable after a period of one year from the date the amount was deposited by the importer in the bank abroad.

Reserve for Exchange Rate Fluctuations Account

9.6 The outstanding dues under foreign currency denominated loans (where actual disbursement was made in Indian rupee), which became past due, goes up correspondingly with the exchange rate movements of the Indian rupee with attendant implications for provisioning requirements, it was decided that such assets should not normally be revalued. In case such assets need to be revalued as per requirement of accounting practices or for any other requirement, the loss on account of revaluation has to be booked in the bank's Profit and Loss account. Besides the provisioning requirement as per asset classification, the banks should treat the full amount of the revaluation gain relating to the corresponding assets, if any, on account of foreign exchange fluctuation as provision against the particular assets.

Inter-branch Accounts – Provisioning for Net Debit Balance

9.7 As per the extant instructions banks are required to provide 100 per cent provision for the net debit position arising out of the unreconciled entries (both debit and credit) outstanding for more than three years as on 31st March every year in their inter-branch accounts. On prudential considerations, the time lag has been reduced from three to two years with effect from the accounting year ending 31st March, 2001.

Reconciliation of Nostro Accounts

9.8 The credit entries in each nostro account pertaining to the period up to March 31, 1996 and remaining unreconciled as on March 31, 2000 were allowed to be netted against the debit entries in the respective mirror accounts. Likewise, the debit entries in each nostro account could be netted against credit entries in the respective mirror accounts.

The accounts showing net debit position and the accounts showing the net credit position may be aggregated separately while ensuring that the net debit position in an account is not set off against net credit position in another account or vice versa. The net debit and net credit positions were required to be reflected in the bank's accounts for the year 1999-2000 by transferring the aggregate net debit to profit and loss account and the aggregate net credit to Sundry Creditor Account. However, the unreconciled debits which were already transferred to profit and loss account were not to be written back to the respective accounts in order to carry out the netting exercise as indicated above. For the unreconciled debit entries in the nostro and mirror accounts for the subsequent periods outstanding for more than three years, the banks were required to make 100 per cent provision in the relevant accounting year while the unreconciled credit entries in the nostro and mirror accounts outstanding for more than three years were to be segregated and kept in an account like Unclaimed Deposit Account.

Entry of Banks into Insurance Business

9.9 With the passage of the Insurance Regulatory and Development Authority (IRDA) Act, 1999, banks have been permitted to enter into insurance business. The Reserve Bank of India has issued guidelines in this regard. Banks having minimum net worth of Rs.500 crore and satisfying other criteria in respect of capital adequacy, profitability, NPA level and track record of existing subsidiaries can undertake insurance business through joint venture with risk participation, subject to certain safeguards. Though maximum equity holding by banks will normally be 50 per cent in such joint ventures, the Reserve Bank could, on a highly selective basis, permit a higher equity contribution by a promoter bank initially, pending divestment of equity within the period prescribed under the amended insurance statutes. Banks which are not eligible as joint venture participants can participate without risk participation basis up to 10 per cent of their net worth or Rs.50 crore, whichever is lower, in an insurance company for providing infrastructure and services support, without taking on any contingent liability. Any scheduled commercial bank or its subsidiary can distribute insurance products as agent of an insurance company. Banks are required to obtain prior approval of the Reserve Bank to undertake any form of insurance business.

Recovery of Banks' Dues

9.10 In order to improve the recovery of debts due to banks and financial institutions, the 'Recovery of Debts due to Banks and Financial Institutions (Amendment) Ordinance, 2000' was promulgated on January 17, 2000. Some of the existing provisions of the 'Recovery of Debts due to Banks and Financial Institutions Act, 1993' have been amended and certain new provisions have been incorporated in the Act for strengthening DRTs *viz.*, provision for the appointment of more than one recovery officer for a DRT, power to attach defendant's property/assets before judgement, power to appoint receiver of any property of the defendant before or after grant of recovery certificate, power to appoint Commissioner for preparing an inventory of the properties of the defendant or for sale thereof, and penal provisions for disobedience of Tribunal's Order or for breach of any terms of the Order. Banks were also advised that in cases where loss assets are more than two years old on the books of the bank without legal action being initiated, they may be reviewed at different levels of management depending on the quantum of dues.

Settlement Advisory Committees

9.11 The Reserve Bank issued guidelines to public sector banks for the constitution of Settlement Advisory Committees (SAC) for compromise settlement of chronic NPAs of small sector in May 1999. A review of the compromise settlements of NPAs through SACs made by the Reserve Bank revealed that the progress of recovery of NPAs through this mechanism has not been satisfactory. The recovery position in respect of categories of borrowers other than small sector has also not been satisfactory. The Reserve Bank recognised that banks should take effective measures to strengthen the credit appraisal and post-credit monitoring to arrest incidence of fresh NPAs and adopt a realistic approach to reduce the stock of existing and chronic NPAs in all categories. Therefore, the Reserve Bank issued revised guidelines covering all sectors including the small sector in July 2000 which would provide a simplified, non-discretionary and non-discriminatory mechanism for recovery of the stock of NPAs. The Reserve Bank advised that all public sector banks should implement these guidelines in order to realize the maximum dues from the stock of NPAs within the stipulated time *i.e.*, March 31, 2001.

Transfer of Shares of Banking Companies

9.12 Following dematerialisation of shares of banking companies, banks are not in a position to have prior knowledge of transfer of their shares to any particular category of investors in the dematerialisation segment. As a consequence, they are unable to comply with the requirement of obtaining prior approval of Reserve Bank when the shareholding reaches the prescribed level. A working group was set up consisting of representatives from Securities Exchange Board of India (SEBI), National Securities Depository Ltd. (NSDL), Deutsche Bank and the Reserve Bank in order to evolve a framework by which acknowledgement of shares in the demat segment would be within the purview of the instructions. The working group submitted its report in March 2000. The various recommendations made by the working group are being examined. As an immediate measure all the Indian private sector commercial banks have been advised to promote an amendment to their Articles of Association to the effect that acquisition of shares by a person/group which would take his/its holding to a level of 5 per cent or more of the total paid up capital of the bank (or such other percentage as may be prescribed by the Reserve Bank from time to time) should be with the prior approval of the Reserve Bank. Suitable proposals are being initiated for promoting necessary amendments to the Banking Regulation Act, 1949, for the purpose.

Smart/Debit Cards

9.13 Broad guidelines were issued to banks regarding safeguards to be observed in respect of smart/debit cards introduced by banks. Banks can introduce smart/debit cards with the approval of their Boards without the prior approval of the Reserve Bank; however they should not issue smart/debit cards in tie-up with a non-bank entity. The guidelines cover aspects such as eligibility of customers, treatment of the liability, payment of interest, security and terms and conditions for issue of smart/debit cards *etc.*

Ready Forward Transactions

9.14 The Union Government has delegated powers to the Reserve Bank under Section 16 of the Securities Contracts (Regulation) Act for regulating contracts in government securities, money market securities, gold related securities and derivatives based on these securities, as also ready forward contracts in all debt securities. In exercise of these powers the Reserve Bank notified that Ready Forward (RF) contracts could be undertaken in Treasury bills and dated securities of all maturities issued by the Government of India and State governments and that the RF contracts in the above-mentioned securities should be settled through the Subsidiary General Ledger Account of the participants with the Reserve Bank at Mumbai. Banks were advised that RF deals could be entered into by a banking company with another banking company, a co-operative bank or entities maintaining SGL Account and current account with the Reserve Bank, Mumbai, subject to the condition that they should comply with all instructions on securities transactions in force and issued from time to time.

Cheque Writing Facility

9.15 'Cheque Writing' facility which scheduled commercial banks were initially permitted to offer to Money Market Mutual Funds (MMMFs) was extended to Gilt Funds and to those Liquid Income Schemes of mutual funds which predominantly (not less than 80 per cent of the corpus) invest in money market instruments, subject to the same safeguards prescribed for MMMFs except that the prescription of lock-in period in such cases will be governed by SEBI regulations.

Bank-Sponsored Mutual Funds

9.16 On a review of the assured return schemes floated by bank-sponsored mutual funds, banks whose mutual funds have offered assured return schemes were required to assess the shortfall arising on such schemes with reference to the Net Asset Value (NAV) as on the date of the balance sheet and disclose the same as a contingent liability in their published accounts. The banks were also advised to make provisions for the shortfall for the residual maturity period of the schemes year-wise from profits or by creating a Special

Reserve Account by appropriating General Reserve. The amount appropriated out of general reserve would also be deducted from Tier-I capital for the purpose of determining the capital adequacy ratio of the bank.

Advances against Domestic/NRE/FCNR(B) Deposits

9.17 The interest rate chargeable on advances granted to depositors against their domestic/NRE term deposits was to be equal to bank's Prime Lending Rate (PLR) or less, except in cases where deposit rates were equal to or more than PLR or less than one percentage point below PLR. In the latter case, the banks had freedom to charge suitable rates of interest without reference to the ceiling of PLR. Advances against NRE term deposits to the depositors, when repaid in rupees, were subject to PLR. Further, advances against FCNR (B) deposits were also subject to PLR. In October 1999, banks were given freedom to charge interest rates on advances against domestic/NRE (irrespective of repayment in foreign currency or rupees)/FCNR (B) term deposits to the depositors without reference to their own PLR. Interest rates chargeable on advances against third party domestic/NRE/FCNR(B) term deposits were at the rates prescribed in the Reserve Bank's directive on interest rates on advances. In March 2000, banks were given freedom to charge interest rates on such advances without reference to their PLR, if the amount of advance is up to Rs.2 lakh. Such advances above Rs.2 lakh would continue to be governed by the Reserve Bank's directive on interest rates on advances as hitherto.

Review of Prime Lending Rates Norms

9.18 Banks have been given the freedom to operate different PLRs for different maturities. Some banks are declaring a stand alone PLR in addition to tenor linked PLRs. Banks which have moved over to declaration of tenor-linked PLRs should always indicate the specific tenor for which the declared PLRs is applicable.

9.19 Till October 1999, loans up to Rs.2 lakh attracted interest rates not exceeding the PLR and on the loans above Rs.2 lakh, PLR was the minimum lending rate. In the light of the suggestions received from the banks and other market participants, effective October 29, 1999, banks were given freedom to charge interest rates without reference to their own PLR in certain categories *viz.*, loans covered by refinance scheme of term lending institutions, interest rates on bank lending to intermediary agencies including housing finance intermediary agencies, bill discounting by banks and advances/overdrafts against domestic/NRE/FCNR (B) deposits.

Local Area Banks

9.20 The Reserve Bank has given 'in-principle' approval for setting up of nine Local Area Banks in the private sector. Of these, licenses were issued to two Local Area Banks *viz.*, 1) Coastal Local Area Bank Limited., Vijayawada in the districts of West Godavari, Krishna and Guntur in Andhra Pradesh and 2) Capital Local Area Bank Limited., Phagwara in the districts of Kapurthala, Jalandhar and Hoshiarpur in Punjab to commence banking business. These banks have started functioning with effect from December 27, 1999 and January 14, 2000, respectively. The application of one of the remaining proposed LABs is at an advanced stage of issuance of license.

Customer Service

9.21 In order to improve further the customer service in the banks, based on the suggestions received by the Regulation Review Authority, some of the areas of customer service have been reviewed and instructions were issued to commercial banks. All commercial banks were advised by the Reserve Bank that they should pay interest at a rate as applicable for appropriate tenor of fixed deposit for the period of delay beyond 10/14 days in collection of outstation instruments. Besides, banks should also pay to the customers automatically, penal interest at the rate of 2 per cent above the fixed deposit rate applicable for abnormal delay caused by the branch in collection of outstation instruments. For the issue of duplicate demand draft on the basis of adequate indemnity and without obtaining non-payment advice from the drawee branch, the Reserve Bank advised banks that the present limit at Rs.2,500 may be enhanced to Rs.5,000, in view of the considerable delay in issue of non-payment advice by the drawee branch. It was also decided that a duplicate demand draft be issued to the customer within a fortnight from the receipt of such a request.

In case of delay in issuing duplicate draft beyond the stated stipulated period, banks should pay interest at rates applicable for fixed deposit of corresponding maturity in order to compensate the customer.

Indian Banks' Operations Abroad

9.22 Nine Indian banks (8 in the public sector and 1 in the private sector) operate branches abroad. During the year 1999-2000, the number of Indian branches abroad remained at 95. The number of representative offices of Indian banks abroad remained at 14. The number of wholly owned subsidiaries of Indian banks abroad and joint ventures of Indian banks abroad stood at 13 and 7, respectively.

Foreign Banks' Operations in India

9.23 During the year 1999-2000 no new foreign bank opened its branch in India. However, the Commercial Bank of Korea and Hanil Bank closed their operations in India. The British Bank of the Middle East ceased its operations consequent to its amalgamation with Hong Kong Shanghai Banking Corporation (HSBC). As a result, the number of foreign banks operating in India was reduced to 42. The existing foreign banks opened nine new branches. With this the total number of branches of foreign banks increased to 183 as at the end of June 2000.

Liquidation and Amalgamation of Banks

9.24 As on December 31, 1999, 78 banks were in liquidation. Early completion of the liquidation proceedings continues to be pursued with the concerned Officials/Court Liquidators. The Bareilly Corporation Bank Ltd. was amalgamated with Bank of Baroda with effect from June 3, 1999 while the Sikkim Bank Ltd. was amalgamated with Union Bank of India with effect from December 22, 1999. The Times Bank Ltd. was amalgamated voluntarily with HDFC Bank Ltd. with effect from February 26, 2000. The branches of the British Bank of the Middle East in India were amalgamated with HSBC with effect from September 25, 1999.

Developments in Supervision

9.25 The progressive liberalisation of the financial sector and the establishment of international standards, codes and best practices by international agencies to promote financial stability have been two areas where supervisors of financial systems have focussed attention. A self-assessment of the Indian banking system *vis-a-vis* the Core Principles for Effective Banking Supervision as enunciated by the Basel Committee on Banking Supervision, was conducted by an internal group in 1998 and was followed up by a second detailed self-assessment using the revised methodology set out by the BCBS in October 1999. It concluded that systems in India are largely in compliance with the core principles notwithstanding the need to close gaps in respect of risk management, consolidated supervision and inter-agency cooperation. In order to rectify these gaps, ALM and Risk Management guidelines were issued to banks. A system of consolidated supervision of banking groups (*i.e.* banks and their subsidiaries) is gradually being introduced. In keeping with the commitment to increased transparency, the Reserve Bank placed its self-assessment in the public domain in October 1999. An external assessment of the compliance position in India was conducted in November 1999 by the International Monetary Fund. It stated that, "with the exception of a few areas *viz*., consolidated supervision, country risk, market risk and other risks, there already exist adequately detailed and comprehensive regulations on all significant aspects of banking. These regulations generally comply with international best practices, with minor exceptions." In recognition of the role played by the Reserve Bank in the implementation of the Basel Core Principles, the BCBS invited the Reserve Bank in August 1999 to be a member of the Core Principles Liaison Group (CPLG), which has been set up by the BCBS to promote and monitor the implementation of these principles worldwide. The Reserve Bank participates actively in the deliberations of the Group and is also represented on the Working Group on Capital, which is currently discussing the proposals of the revised capital adequacy framework. In April 2000, the Reserve Bank released its view on the proposals under the new capital adequacy framework with a view to generating a debate at the national and international levels.

Off-site Monitoring and Surveillance

9.26 Work was initiated on OSMOS-IT database upgradation project during the year. The systems requirement study for the project was completed in the first half of 1999. Based on this, the Reserve Bank took up the implementation of the project in view of increased data processing requirements necessitated by the second tranche of off-site returns which were introduced in 1999-2000 as well as to enable more sophisticated analysis of supervisory data captured by the returns. The project would facilitate distributed analysis of off-site returns as a precursor to the central point of contact (CPOC) of the risk-based supervision and also substantially enhance the research capabilities built around this supervisory data. The project would be implemented using Relational Data Base Management System (RDBMS) with a data-warehousing component.

9.27 During the period from July 1999 to March 2000, the Board for Financial Supervision considered various memoranda placed by the Department of Banking Supervision. The Board reviewed the performance of banks, financial institutions and subsidiaries of banks for the periods ended March 31, 1998 and 1999 and in some cases up to a later period ended September 30, 1999. It reviewed 13 inspection reports of public sector banks, 3 reports of Local Head Offices (LHOs) of State Bank of India, 24 reports on private sector banks, 32 reports on foreign banks, 5 reports on financial institutions, and 4 reports on subsidiaries of public sector banks. The responsibility of on-site inspection of overseas branches of Indian banks has been left to the parent banks and RBI will confine itself to quick scrutiny of all the foreign branches once in three years. The Board gave its directions on several regulatory and supervisory issues thrown up in the course of deliberations on the performance of banks and financial institutions as revealed in the inspection reports.

Annual Financial Inspections

9.28 During the year 1999-2000, annual financial inspection was completed in respect of 27 public sector banks, 33 private sector banks and 39 foreign banks.

Quick Scrutiny of Overseas Operations

9.29 During the year, quick scrutiny of operations of Indian banks in Hong Kong and Singapore was undertaken. Supervisory meetings with the Financial Services Authority (FSA) of UK were held in London and later in Mumbai regarding the operations of Indian banks in UK.

Frauds/Robberies

9.30 During the year 1999-2000 (July-March), commercial banks reported 2,899 cases of frauds involving an amount of Rs.303.74 crore and 16 cases involving Rs.101.89 crore in the overseas branches of Indian banks. During the year 1998-99 (July-June), commercial banks reported 2,456 cases of frauds involving an amount of Rs.585.91 crore and 12 cases involving an amount of Rs.35.18 crore in the overseas branches of Indian banks. These cases have been followed up with the banks for necessary remedial measures and fixing staff accountability. During the year 1999-2000 (July-June), 92 cases of robberies/dacoities involving an amount of Rs.4.13 crore have been reported by public sector banks. During the year 1998-99 (July-June), 92 cases involving an amount of Rs.6.02 crore were reported by public sector banks.

CO-OPERATIVE BANKING

Registration/Licensing of New Primary (Urban) Co-operative Banks

9.31 The existing licensing policy in respect of new primary co-operative banks is based on the need and potential for mobilisation of deposits and absorption of credit at a centre. During 1999-2000, 172 proposals were cleared for registration, and 58 proposals were rejected. During 1999-2000, licences were issued to 89 new primary (urban) co-operative banks for commencement of banking business. The number of unlicensed primary co-operative banks issued licences during the year were 12.

Valuation of Investments

9.32 In regard to valuation of investments for the year ending March 31, 2000, PCBs were required to mark-to-market a minimum of 75 per cent of their investments in approved securities. The PCBs were advised to adopt the procedure for valuation of investments as applicable to commercial banks.

Investment of Funds

9.33 Primary (urban) co-operative banks were allowed to invest their surplus funds in unsecured redeemable bonds floated by nationalised banks within the stipulated limit of 10 per cent of their deposits, subject to the conditions/safety measures as stipulated by the Reserve Bank.

Priority Sector Lending

9.34 The credit for food and agro-processing industries extended by PCBs was included within the ambit of priority sector lending. To increase the outreach of banks, lending by Scheduled PCBs to NBFCs or other financial intermediaries for on-lending to the tiny sector were also included as priority sector lending. Further, bank finance to HUDCO as a line of credit for on-lending to artisans, handloom weavers *etc*. under tiny sector was classified as indirect lending to small scale industries (tiny) sector.

Offices of Primary (Urban) Co-operative Banks

9.35 The total number of primary (urban) co-operative banks including salary earners' type of banks increased to 2,064 as on June 30, 2000 from 1,936 as at end-March 1999. The number of offices increased to 7,084 as on June 30, 2000 from 6,066 as on March 31, 1999.

Branch Expansion

9.36 The Reserve Bank has been following a liberal policy regarding the extension of area of operation and opening of branches by PCBs, pursuant to the Marathe Committee recommendations. As a result, 3,938 centres were allotted for branch expansion since 1993, of which 3,407 branches have been opened till June 2000. During 1999-2000 (July-June), 463 centres were allotted for opening branches and 455 licences were issued. Besides, a salary earners' bank was granted permission for opening branch at one centre. PCBs having deposits of more than Rs.50 crore are allowed to extend their area of operation to more than one State, provided they satisfy prescribed norms. As on June 30, 2000, 21 PCBs have presence in more than one State.

Scheduled PCBs

9.37 As on March 31, 1999 there were 29 scheduled PCBs. Twenty two PCBs were scheduled during the year ended June 30, 2000 raising the total number of scheduled PCBs to 51. Of these, 34 were located in Maharashtra, 11 in Gujarat, 3 in Andhra Pradesh, 2 in Goa and 1 in Karnataka.

Prudential Norms

9.38 During the year, policy changes were made with regard to prudential norms on income recognition, asset classification and provisioning for PCBs. An asset should be classified as doubtful if it has remained in sub-standard category for 18 months instead of 24 months as at present, by March 31, 2001. Primary (urban) co-operative banks should make a general provision on standard assets of a minimum of 0.25 per cent from the year ending March 31, 2000. With regard to the provisioning requirement for advances guaranteed by State governments, which stood invoked as on March 31, 2000, necessary provision should be made during the financial years ending March 31, 2000 to March 31, 2003 with a minimum of 25 per cent each year. When natural calamities occur, PCBs may decide to convert the short term production loan into a term loan or re-schedule the repayment period. The asset classification of these loans would be governed by the revised terms and conditions and would be treated as NPAs, if interest and/or instalment of principal remains unpaid, after it has become past due, for two harvest seasons but for a period not exceeding two half years.

Non-Performing Assets

9.39 The non-performing assets (NPAs) of 1,748 reporting PCBs stood at Rs.4,534.60 crore constituting 12.2 per cent of their aggregate advances (Rs.37,036.50 crore) as on March 31, 1999.

Supervision

9.40 On-site financial inspection is carried out at annual intervals in respect of Scheduled PCBs and weak banks and once in two years in respect of all other PCBs. During 1999-2000 (July-June), 828 banks were inspected.

Weak Banks

9.41 The total number of PCBs which were classified as 'weak' banks as on June 30, 2000 increased to 262 from 249 at end-March 1999.

Liquidation and Amalgamation

9.42 The licences of 17 banks were cancelled due to bad financial positions and licence applications from nine unlicensed banks were rejected during the year 1999-2000 (July-June). In all these cases, the Registrar of Co-operative Societies of the States concerned were advised to initiate liquidation proceedings. Further in respect of Ferozabad Urban Co-operative Bank Ltd., Uttar Pradesh, necessary permission was granted to take the bank into liquidation. One weak bank *viz.*, The Daxini Brahman Co-perative Bank Ltd., Mumbai has been amalgamated with Pen Co-operative Urban Bank Ltd., Pen, Maharashtra.

Complaints and Frauds

9.43 During the year 1999-2000 (July-June), 1,255 complaints relating to irregularities in the functioning of the Board of Directors, unsatisfactory customer service, non-payment of DDs, non-payment of matured deposits, fraudulent encashment of payment instruments, non-sanctioning of loan *etc.* were received and 219 cases of frauds were reported.

NON-BANKING FINANCIAL COMPANIES (NBFCs)

9.44 The Reserve Bank put in place a comprehensive regulatory framework in January 1998 to ensure that the NBFCs function on sound and healthy lines and that only financially sound and well run NBFCs are allowed to access public deposits. For the purpose of regulation, NBFCs were stratified into three categories *viz.*, those accepting/ holding public deposits, those which do not accept public deposits and are engaged in financial business and, core investment companies which hold at least 90 per cent of their assets as investments in their group/ subsidiary companies.

9.45 The total number of NBFCs which submitted applications for certificate of registration (CoR) till June 30, 2000 were 37,256. However, a large number of these companies were found to be not satisfying the basic condition of having minimum level of Net Owned Fund (NOF), which was enhanced from Rs.25 lakh till April 20, 1999 to Rs.200 lakh with effect from April 21, 1999. As on June 30, 2000, the Reserve Bank approved applications of 9,130 companies, of which 679 are deposit holding/accepting companies, and rejected applications of 14,986 companies. As many as 5,992 companies whose NOF is below the prescribed minimum level of Rs.200 lakh are pending with the Reserve Bank and the remaining 7,148 applications are at various stages of processing.

Action against Errant NBFCs

9.46 Action was initiated against errant NBFCs for violations of the Reserve Bank of India Act and the directions issued there-under. 107 companies were issued orders prohibiting them from accepting fresh deposits for not complying with the directions issued by the Reserve Bank. Prosecution proceedings were launched in respect of 24 companies and winding up petitions were filed in 16 cases. Show-cause notices were issued in respect of 9,435 companies for rejection of application for certificate of registration/non-submission of various prescribed returns. The Reserve Bank continued to coordinate with various State governments for enacting State legislation on the lines of the Tamil Nadu Protection of Interest of Depositors (in Establishments) Act, 1997. Maharashtra and Andhra Pradesh have passed Acts on the lines of Tamil Nadu Act, while State governments of Gujarat and Tripura have issued ordinances. Governments of Haryana and Himachal Pradesh have framed Bills on similar lines.

Publicity Campaign

9.47 Considerable effort has been undertaken to inform depositors regarding do's and don'ts for placement of deposits with NBFCs, educating the registered NBFCs about the regulatory framework and the role of the Reserve Bank in regulating the registered NBFCs. The information campaign included issue of press releases, advertisements in print media, seminars, use of the Reserve Bank website and printing and distribution of a booklet containing the names of NBFCs approved for issue of certificate of registration and allowed to accept public deposits and those rejected by the Reserve Bank.

DEVELOPMENTS IN THE EXCHANGE MANAGEMENT

9.48 A number of measures were undertaken during 1999-2000 to further liberalise the foreign exchange market in terms of delegation of more powers to authorised dealers, relaxation of investment limits/simplification of procedures, both direct and portfolio investment, for NRIs/OCBs and FIIs (for details please see also Section I).

Capital Account Liberalisation Measures

9.49 The following measures were undertaken towards liberalisation of capital transactions which broadly cover foreign direct investment and portfolio investment.

9.50 *Foreign Direct Investment:* (i) permission was granted to, (a) Indian companies to issue rights/bonus shares to non-residents and to send such shares out of India, (b) non-residents to acquire such shares subject to reporting to the Reserve Bank; (ii) a person resident outside India or a company incorporated outside India which has been permitted to set up 100 per cent owned subsidiary, to acquire shares from the shareholders who had acquired such shares as signatories to the Memorandum and Articles of Association subject to certain conditions; (iii) a) non-residents to acquire shares of companies incorporated in India from other non-residents (other than NRIs/OCBs) by way of sale/transfer provided the transferor/seller had acquired the shares under general/specific permission of the Reserve Bank, b) non-resident Indians (NRIs) and Persons of Indian Origin (PIOs) and Overseas Corporate Bodies (OCBs) to acquire shares of companies incorporated in India from other NRIs/PIOs/OCBs by way of sale/transfer provided the transferor had acquired the shares under general or special permission of the Reserve Bank; (iv) Indian companies for issuing non-convertible debentures to NRIs/OCBs on repatriation/non-repatriation basis subject to certain conditions; and (v) eligible Indian companies to issue shares to non-residents and submit the prescribed documents to the Reserve Bank.

9.51 *Portfolio Investment:* (i) the aggregate ceiling of 30 per cent on FII investment in the paid-up equity capital was enhanced up to 40 per cent. The ceilings of 30 per cent/40 per cent are applicable exclusively to FII investment and do not include NRI/OCB investment under Portfolio Investment Scheme; (ii) the existing overall ceiling of (a) 5 per cent of the total paid-up equity capital of the company concerned and (b) 5 per cent of the total paid-up value of each series of convertible debentures issued by the company to all NRIs/OCBs taken together both on repatriation and on non-repatriation basis was raised to 10 per cent. The individual ceiling (applicable to NRIs/OCBs) of 1 per cent of the total paid-up equity capital or preference capital or total paid-up value of each series of convertible debentures of Indian company was raised to 5 per cent. The overall ceiling of 10 per cent for NRIs/OCBs can be raised up to 24 per cent by the company by passing a General Body Resolution to that effect; and (iii) the Reserve Bank empowered designated branches of authorised dealers to grant permission on repatriation/non-repatriation to NRIs/OCBs under all portfolio investment schemes to acquire shares/debentures of Indian companies and other securities. NRIs/OCBs were also granted permission to acquire such shares/debentures of Indian companies and other securities.

Joint Ventures (JVs) And Wholly Owned Subsidiaries (WOS) Abroad

9.52 During the year under review, further relaxations were made in the existing guidelines for Indian direct investment in joint ventures/subsidiaries (JVs/WOS) abroad. In order to promote Indian investment in SAARC countries and Myanmar, the ceiling for clearance of proposals of investment under the Fast Track Route of the Reserve Bank was raised from US $ 15 million to US $ 30 million in respect of investments in these countries. The Fast Track Route for Indian rupee investment in Nepal and Bhutan was raised from Rs.60 crore to Rs.120 crore in May 1999. The existing ceiling of U.S. $ 15 million will continue to remain applicable for investment in other countries. With a view to facilitating direct investment in JVs/WOS abroad by Indian companies, the condition that the amount of investment should be repatriated in full by way of dividend, royalty, fees *etc.* within a period of five years was dispensed with. A new scheme of overseas investment was introduced under which Indian companies engaged in knowledge-based sectors like information technology, pharmaceuticals, biotechnology and entertainment software were permitted to acquire overseas companies engaged in the same line of activity, as that of the Indian company, through stock swap options up to US $ 100 million or 10 times the export earnings during the preceding financial year on an automatic basis. Acquisitions under the automatic route should, however, conform to the extant FDI policy. Where the investing company does not qualify to avail of such automatic route or where the value of acquisition exceeds the limit indicated above, applications for overseas acquisition through ADR/GDR stock swaps will be considered by a Special Composite Committee (SCC) constituted by the Government of India.

9.53 As a sequel to the announcements made by the Finance Minister in his budget speech for the year 2000-01, the extant guidelines for overseas investments were considerably liberalised and rationalised. Besides the ADR/GDR stock swap route available to knowledge-based Indian companies, three routes/schemes are available to Indian corporates for overseas investment: (i) automatic route under which Indian companies can freely invest up to US $ 50 million provided that they have earned net profit in the last three years and the overseas investment is core activity of the Indian company. Funding of such investments can be out of balances held in EEFC accounts or proceeds of ADR/GDR issues (up to 50 per cent of such issues) and market purchase of foreign exchange plus capitalisation of exports up to 25 per cent of the net worth of the Indian company; (ii) ADR/GDR automatic route under which Indian Companies can freely utilise the proceeds of ADR/GDR issues (up to 50 per cent of such proceeds) for overseas investments without prior approval of the Reserve Bank or Government of India; and (iii) the Special Committee which will be headed by Deputy Governor, Reserve Bank of India and will comprise representatives from Ministries of Finance, Commerce, External Affairs and the Reserve Bank to deal with proposals not coming under the automatic route.

9.54 At the end of March 2000, there were 968 active JVs abroad, out of which 375 were in operation and 593 were under various stages of implementation. As on March 31, 2000, the approved equity with these JVs amounted to US $ 1,226.16 million. The total investment approved during the financial year 1999-2000 in respect of 95 new and 27 existing JVs amounted to US $ 472.49 million as equity, US $ 6.26 million as loan and US $ 31.92 million as guarantees as against equity, loan and guarantees amounting to US $ 61.95 million, US $ 7.87 million and US $ 33.45 million, respectively, approved in respect of 89 new and 25 existing JVs in 1998-99. The actual investment outflows during the financial year 1999-2000 were to the tune of US $ 24.18 million (provisional) which included cash remittance of US $ 22.49 million. As per the provisional information, the total inflows of foreign exchange to the country up to March 31, 2000 in the form of dividend and other entitlements repatriated were Rs.189.85 crore and Rs.381.24 crore, respectively. The additional/non-equity exports realised through the JVs were approximately Rs.1,348.10 crore up to March 31, 2000.

9.55 At the end of March 2000, there were 938 active WOS abroad, out of which 347 were in operation and 591 were under various stages of implementation. As on March 31, 2000, the approved equity with these subsidiaries amounted to US $ 1,627.64 million. The total investment approved during the financial year 1999-2000 in respect of 205 new and 68 existing subsidiaries amounted to US $ 826.43 million as equity, US $ 44.18 million as loan and US $ 375.72 million as guarantees as against US $ 85.30 million, US $ 10.61 million and US $ 52.76 million towards equity, loan and guarantees, respectively, approved in respect of 117 new and 44 existing WOS in 1998-99. The actual investment outflows during the financial year were to the tune of US $ 36.19 million (provisional) which included cash remittance of US $ 34.83 million. As per the provisional information, the total inflows of foreign exchange up to end-March 2000 in the form of dividend and other entitlements repatriated were Rs.106.74 crore and Rs.401.10 crore, respectively. The additional/non-equity exports realised through the subsidiaries were approximately Rs.1,103.94 crore up to end-March 2000.

Developments during the First Quarter: 2000-2001

9.56 Some of the important measures undertaken by the Reserve Bank in the exchange management during the first quarter of 2000-2001 were: (i) the firms/companies having trading offices abroad, operating on ‘no remittance’ basis or maintained out of funds in EEFC accounts need not apply for renewal of permission for continuation of their offices abroad; (ii) authorised dealers are permitted to grant, through their overseas branches and correspondents, loans and overdrafts against the security of fixed deposits or other assets in India, to Indian nationals or persons of Indian origin and to Overseas Corporate Bodies (OCBs) established in business or trade, provided they are satisfied that such assets represent funds which had previously been remitted to India in an approved manner; (iii) authorised dealers are permitted to grant, to the EEFC account holders, credit facilities (fund based as well as non-fund based) according to their commercial judgement against the security of balances held in their EEFC accounts. The credit facilities against the security of balances in EEFC accounts may be granted in foreign exchange also. The repayments of such credit facilities should, however, be made out of balances in EEFC accounts of the depositors concerned. The facilities should be utilised for normal business purposes only and not for any on-lending or for investment in shares, securities, etc.; (iv) exporters after award of contracts abroad for supply contracts on deferred payments/terms, turnkey projects or construction contracts are required to submit applications in form DPX3 or PEX 4, as the case may be to the authorised dealer for post award clearances, if the value of contract is up to Rs.25 crore and to Exim Bank through an authorised dealer if the value of contract exceeds Rs.25 crore but is within Rs.100 crore, for clearance. The above value limit for clearance of post award proposals for authorised dealers has been raised from Rs.25 core to Rs.50 crore and that for Exim Bank from Rs.100 crore to Rs.200 crore; (v) authorised dealers/Exim Bank have been permitted to clear project export proposals (including service contract proposals) involving bridge finance up to 25 per cent of the contract value; (vi) the Foreign Exchange Management Act, 1999 (42 of 1999) came into force from June 1, 2000. The Reserve Bank has made Regulations/issued Notifications under various provisions of the Act. All the foreign exchange transactions taking place with effect from June 1, 2000, will be governed by the provisions of the Foreign Exchange Management Act, 1999, Rules, Regulations, Notifications/directions or orders made or issued thereunder; and (vii) all authorised dealers and money changers who have been issued licences by the Reserve Bank and functioning as on May 31, 2000 shall be deemed as authorised persons, authorised by the Reserve Bank to deal in foreign exchange as authorised dealers or as authorised money-changers, for the purpose of Section 10 (1) of the Foreign Exchange Management Act. The directions issued in this regard will be applicable, mutatis-mutandis to money changers and they shall continue to be governed by the provisions of Memorandum FLM/RLM, as amended from time to time.

DEVELOPMENTS IN THE INTERNAL DEBT MANAGEMENT

9.57 Some of the important policy measures initiated by the Reserve Bank with reference to internal debt management during 1999-2000 (April-March) and up to end-June 2000 are presented in Box IX.1

Central Government Market Borrowing

9.58 During 1999-2000, the Central

Box IX.1

Policy Measures in the Internal Debt Management

- The Reserve Bank decided to hold auctions of 182-day Treasury Bills on fortnightly basis effective from May 26, 1999.
- From April 20, 1999 the revised scheme for bidding, underwriting and liquidity support to primary dealers came into operation. Each PD is required to commit to submit minimum bids up to a fixed percentage of the issue such that all PDs together would absorb 100 per cent of the issue. Commission at fixed rates would be paid by the Reserve Bank on the amounts allotted in the auctions of Treasury Bills.
- The Reserve Bank decided to exercise the option of issuing dated government securities on price basis. Accordingly the first ever price based auction of two Government of India securities (11.19 per cent Government of India stock 2005 and 12.32 per cent Government of India Stock, 2011) was conducted on May 11, 1999.
- To provide flexibility to State governments in investing their surplus funds, it was decided to permit them to bid in the auctions of 182 day and 364 Treasury Bills on non-competitive basis. They are also allowed to avail special WMA against collateral of their investments in auctioned treasury bills.

(Contd......)

(........Concld.)

- IDBI Capital Market Services Ltd. and Corp Bank Securities Ltd. were authorised to function as primary dealers in government securities market.
- An internal working group was constituted to go into various aspects relating to two-way operations by Reserve Bank in Treasury Bills market and based on its recommendations, the Reserve Bank commenced two-way operations as and when felt required from February 2000.
- Consolidated Sinking Fund (CSF) has come into force from 1999-2000 as a scheme for States. It is to be used to meet redemption of market loans of State governments. It would help the States in increasing their credibility and in raising loans at lower rates in future through auctions. As per the scheme, Government is to contribute 1 to 3 per cent of the outstanding loans each year to the fund. The fund is to be administered by the Central Accounting Section, Reserve Bank of India, Nagpur. Nine States have invested Rs.240 crore by end-June, 2000.
- In order to give the regulatory responsibility of debt markets to the Reserve Bank, Government of India issued two notifications on March 1, 2000 rescinding the banking notification dated June 27, 1969. The Reserve Bank simultaneously notified that ready forward contracts may be entered into in all government securities put through SGL account held with the Reserve Bank in accordance with the terms and as may be specified by the Reserve Bank, by a banking company, co-operative bank or any person maintaining an SGL account and current account with the Reserve Bank or any other permitted by the Reserve Bank.
- As an integral part of the policy to move towards the system of auctioning of State loans, the State governments have been given flexibility to raise to the extent of 5 to 35 per cent of the allocated borrowings through auction with the flexibility to decide timing, maturity and interest rates on the issue.
- Consequent upon the delegation of powers by the Central Government and as part of development of the repo market, State government securities have been made eligible for undertaking repos. The Reserve Bank also widened the scope of participation in the repo market to all the entities having SGL account and current account with the Reserve Bank Mumbai, thus increasing the number of non-bank participants to 64 from the earlier 35.
- In view of the increased volumes in government securities transactions, a scheme was introduced for automatic invocation by the SGL account holder of undrawn refinance/liquidity support from the Reserve Bank for facilitating smooth securities settlement.
- In terms of the guidelines issued by the Reserve Bank, no sale deal should be entered into without actually having the securities in the investment portfolio at the time of sale. This procedure was inhibiting entities which got allotments in the primary issues from selling securities allotted, on the same day. The Reserve Bank removed such restrictions and allowed entities to sell the securities after they have been allotted to them, enabling sale, settlement and transfer on the same day.
- The minimum bidding commitment by PDs cover more than 100 per cent of the auction issue of Treasury Bills and the PDs are not required to take devolvement. OMO window for Treasury Bills with exclusive access to PDs has been opened. In view of these developments the commission payment to PDs for auctioned Treasury Bills was withdrawn.
- A preliminary proposal to set up a debt securities clearing corporation was received from the PDs and action to establish such a corporation is being initiated.
- The Fixed Rate Repo Auction system and Additional Collateralised Lending Facility for banks along with Level II support for PDs was replaced by a variable interest rate auction system on "uniform price" basis conducted by the Reserve Bank from June 5, 2000.

Government's market borrowings amounted to Rs.99,630 crore (gross) and Rs.73,077 crore (net), exceeding the budgeted amount by about Rs.15,000 crore. Dated securities aggregating Rs.86,630 crore were issued during fiscal 1999-2000 as against Rs.83,753 crore in 1998-99. The Central Government entered the market on 22 occasions (14 auctions, seven private placements with the Reserve Bank and one on-tap issues) in 1999-2000 as against 24 occasions (with private placements on eight occasions) in 1998-99. Out of 30 loans floated by the Government, only four were fresh issues whereas others were reissues. The Reserve Bank's subscription to total primary issues (including private placement) amounted to Rs.27,000 crore (31 per cent) as against Rs.38,205 crore (46 per cent) during 1998-99. The details of market borrowing have been discussed in Section V of this Report.

Operation of Primary Dealers

9.59 The system of Primary Dealers (PDs) has been operating in India since 1996 with the objectives of strengthening the market infrastructure, enhancing liquidity and widening the market, ensuring and developing the underwriting and market making capabilities for government securities, improving trading in the secondary market, widening the investor base and developing PDs as effective conduits for open market operations. The obligations upon PDs include an annual minimum bidding commitment for dated securities and Treasury

Bills with a minimum success ratio and commitment to underwrite the gap between the subscribed/accepted amount and the notified amount where there is a short-fall. The PDs are allowed to access call money as well as repos/reverse repo markets and to trade in all money market instruments. They have access to SGL account and current account facility with the Reserve Bank. The number of PDs increased to 15 as on March 31, 2000 as against 13 as on March 31, 1999.

Conference of State Finance Secretaries

9.60 The conference of State finance secretaries was held twice during 1999-2000 (April-March) and once during the first quarter of the financial year 2000-01. The discussions were on issues relating to market borrowings, Y2K related problems, the auction system for market borrowings, State government guarantees and fiscal transparency. The status reports on the Government Securities Act, the Committee on Voluntary Disclosure Norms and the Consolidated Sinking Fund were presented in the conference. A working group of State finance secretaries was constituted to explore the scope for reducing the interest burden of States, including measures such as debt prepayment and recourse to floating rate debt instruments. Another significant decision was the constitution of a task force on similar lines to analyse and report on the extent of maneuverability available in budget making at the State level as also on the scope for increasing budget flexibility. The Reserve Bank provides technical and secretarial support to both the groups. As a follow up to the recommendations of the Committee of State finance secretaries, the Governments of Karnataka, Gujarat and Assam have introduced legislative ceilings on guarantees. The Government of Tamil Nadu has decided to charge guarantee commission on the outstanding guaranteed amount. The meeting of the State finance secretaries of North-Eastern States was held on May 17, 2000 to discuss problems particularly relating to the region.

X ORGANISATIONAL MATTERS

CURRENCY MANAGEMENT

10.1 Notes in circulation increased by 11.6 per cent to Rs.1,92,483 crore at the end of March 2000 from Rs.1,72,541 crore in March 1999. The number of currency chests operated by commercial banks and treasuries increased to 4,223 from 4,163 in 1998-99. A currency chest was established in the Jammu office of the Reserve Bank. In all, the number of currency chests functioning as at the end of March 2000 stood at 4,242 (Table 10.1).

10.2 The Reserve Bank continued to strengthen the mechanisation process in the issue offices during 1999-2000. In order to provide for the disposal of soiled notes in an environment friendly manner, the Issue Offices at New Delhi, Calcutta, Mumbai and Belapur (Navi Mumbai) have been equipped with shredding and briquetting systems of appropriate capacity. This measure would obviate incineration of cancelled notes and thereby address the objection raised by the State Pollution Boards. It is planned to provide similar facilities at the Issue Offices at Chennai, Hyderabad, Jaipur, Kanpur, Patna, and Thiruvanthapuram during 2000-01. The note processing and disposal of soiled notes in the Issue Offices at Bhopal and Chandigarh has been fully mechanised by installing currency verification and processing systems with online shredding and briquetting. The accounting of the notes and coins in the Issue Offices has also been fully computerised.

Table 10.1: Number of Currency Chests

Name of Agency	No. of currency chests as on 31.3.1999	No. of currency chests as on 31.3.2000
1	2	3
1. Treasuries	424	425
2. SBI/its Associates	2,898	2,945
3. Nationalised Banks	820	832
4. Private Sector Banks	21*	21*
5. Co-operative Banks	—	—
6. Reserve Bank (including 2 sub-offices)	18	19
Total	**4,181**	**4,242**

* Including 5 chests with branches of Jammu & Kashmir Bank Ltd.

Computerisation in the Department of Government and Bank Accounts

10.3 The process of computerisation was further strengthened in the Department of Government and Bank Accounts during 1999-2000. Computerisation of Public Debt Office (PDO) started with the development of software for SGL transactions, operationalisation of Delivery *vs* Payment (D*v*P) System of settlement, and providing connectivity with Deposits Accounts Department (DAD) for funds transfer. A software package for the full computerisation of the activities of Public Accounts Department (PAD) on COBOL was installed at Ahmedabad, Bangalore, Bhubaneswar, Hyderabad, Jaipur, Kanpur, Nagpur, New Delhi, Patna and Thiruvanthapuram and it would be installed at the remaining PADs in due course. Under the Inter-active Voice Response System (IVRS), which has been in operation since 1998-99, a new value-added product, *viz.*, Easy term, which would help the account holders to obtain transaction details in electronic form and to communicate short messages between account holders and the Reserve Bank, was installed in DAD Chennai on a trial run from June 3, 2000.

10.4 The Department of Information Technology developed software for operationalising the recently introduced Liquidity Adjustment Facility. The software was installed in the Mumbai Office.

HUMAN RESOURCES DEVELOPMENT DEPARTMENT

10.5 With a view to enhancing the motivation of officers and staff the heads of regional offices, central office departments and the Reserve Bank's training colleges were advised to initiate certain measures to making the administration positive, to create an atmosphere of openness and trust, to encourage collaboration and team spirit, proactiveness and innovativeness, to improve work ethics, to conduct employee-oriented surveys and studies, to develop appropriate leadership skills and to refine the performance appraisal system so as to enhance organisational effectiveness.

10.6 The existing promotion policy for officers was revised with a view to encouraging merit and performance, ensuring the desired level of competence and minimising the level of discontent. The main features of the promotion policy are: banding of performance appraisal report marks, increase in weightage of interview marks, increase in the qualifying marks for interview, enumeration of faculties and skills to be tested during interview, personal promotion from Grade 'A' to 'B' and 'B' to 'C', two-stage promotion from Grade 'D' to 'E', and increased transparency in the system.

10.7 A career progression/development strategy for Direct Recruit Officers in Grade B was initiated. Pending finalisation of a formal system for this purpose, a Nodal Officer was appointed to ensure and suggest measures for enhancing faculties, competence and aptitude of these officers. The Nodal officer is expected to interact periodically with the Direct Recruit officers apart from taking care of their training during probation, placement, rotation, career-growth and motivation level.

10.8 A scheme was announced for deputation/secondment/tour of duty and re-employment of officers of the Reserve Bank. The objectives of the scheme are to widen officers' perspective, provide them with alternative job experience and career opportunities and lend manpower support to other organisations temporarily in public interest. An officer with a minimum service of 5 years and not having any disciplinary proceedings pending against him will be eligible for consideration under the scheme. The scheme specifies the terms and conditions under which deputation/ secondment to various institutes will be approved.

10.9 Under the Reserve Bank's Summer Placement Scheme for the year 2000, placements were offered to 22 summer trainees in Ahmedabad, Bangalore, Calcutta, Chennai, Mumbai and New Delhi Offices of the Bank.

Training

Bankers Training College, Mumbai

10.10 The College conducted 95 programmes in which 2,137 participants from different banks were trained during 1999-2000 as compared with 63 programmes in which 1,490 participants were trained in 1998-99.

Reserve Bank Staff College, Chennai

10.11 The Reserve Bank Staff College, Chennai conducted 109 programmes during 1999-2000 in which 2,489 RBI officers were trained as against 114 programmes benefiting 2,669 officers in 1998-99.

College of Agricultural Banking, Pune

10.12 The College conducted 124 programmes in which 2,596 officers were trained during 1999-2000 as against 102 programmes in which 2,447 officers were trained in 1998-99.

10.13 The CAB conducted, in addition to regular programmes, three new programmes during 1999-2000 *viz.*, (i) management of non-performing assets for officers of State and District Central Co-operative Banks; (ii) electronic payment and settlement systems; and (iii) audit and command language.

10.14 A Course on Macroeconomic Adjustment and Financial Sector Issues was conducted at the College of Agricultural Banking by the Department of Economic Analysis and Policy in collaboration with the IMF Institute in October 1999 to impart training on the ongoing economic reforms in the country. A total of 25 officers drawn from the Reserve Bank, State Governments and Central Government were trained.

10.15 An International training course *viz.*, 'Use of Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) Ver. 7.2 and Debt Strategy Module PLUS (DSM+)' was conducted during April 3 to 13, 2000 at the College of Agricultural Banking, by the Department of Statistical Analysis and Computer Services in collaboration with the Ministry of Finance, Government of India and Commonwealth Secretariat (COMSEC) mainly for exploring possibilities of establishing a training centre in the Reserve Bank to develop India as a resource centre for external debt management activities. The faculty support was drawn from COMSEC, World Bank, the Reserve Bank and the Ministry of Finance. Such a training centre has to have in-house training facilities for CS-DRMS which will impart latest skills to user staff. A total of 14 participants were imparted training, of which 7 participants were from foreign countries, mostly from SAARC countries.

Zonal Training Centres

10.16 The Zonal Training Centres at four metropolitan centres cater exclusively to the training needs of employees in Class III and Class IV of the Reserve Bank. During 1999-2000, Zonal Training Centres conducted 86 programmes for Class III employees and 16 programmes for Class IV staff. The number of employees trained during the year 1999-2000 were 1,660 in Class III and 312 in Class IV as against 95 programmes involving 1,711 employees in Class III and 12 programmes involving 224 employees in Class IV in 1998-99.

Deputation of officers for training in India and abroad

10.17 During the year 1999-2000, 399 officers were deputed by the Reserve Bank to participate in training programmes, seminars and conferences organised by various management/banking institutes in India. Besides, 159 officers were deputed by the Bank to attend training courses, seminars, conferences, workshops *etc.* conducted by banking and financial institutions in 27 countries abroad.

10.18 Under the Golden Jubilee Scheme, four officers were selected for pursuing higher studies abroad in 1999-2000. The total number of beneficiaries under the scheme so far stands at 55. The Reserve Bank deputed 5 officers under the 'Select List Scheme' for training abroad. During 1999-2000, one officer was selected and granted study leave for pursuing higher studies abroad under the Study Leave Scheme introduced in 1994. One officer was granted sabbatical under the scheme for grant of sabbatical to senior officers during 1999-2000.

Training in Computer Technology

10.19 The Reserve Bank continued to provide incentives to staff members to acquire qualification in the field of computers. The scheme of base level computer training for officers and Class III employees introduced by the Reserve Bank in November 1995 to cope with the increasing training needs in this area was liberalised. Regional offices and central office departments were delegated powers to depute officers and Class III employees to reputed computer training institutions to gain working knowledge of computers. Up to the end of March 2000, 2,757 Class III employees and 1,167 officers were trained. Furthermore, with a view to enabling the officers to acquire more proficiency and skills in computer related areas which are directly linked to their job performance, 278 officers in various offices and departments were imparted training under the Scheme by the end of June 2000. In addition, 162 officers were deputed to various training institutions such as IIMs, ASCI and NIBM during the year 1999-2000 for computer training.

Training facilities to officials from other countries

10.20 During 1999-2000, 135 officials from eleven countries *viz.*, from Bhutan, Bangladesh, Ghana, Iran, Kenya, Maldives, Nepal, Oman, Sri Lanka, Sudan and Tanzania were trained/provided study attachment facilities at the Reserve Bank's training establishments.

Training Programme under SAARCFINANCE

10.21 SAARCFINANCE is a network of SAARC Central Bank Governors and Finance Secretaries which works towards strengthening exchange of ideas on national macro-economic policies and promoting understanding of global developments and their implications for the SAARC region. Staff exchange programme under the SAARCFINANCE has been designed to promote exchange of officials among the SAARC countries so as to familiarise them with the functions and working of key policy making bodies and other official organisations. Under the SARCFINANCE Network, 8 participants from different countries (4 from Sri Lanka, 2 from Maldives, and 1 each from Bangladesh and Bhutan) participated in the E-Commerce Workshop organised by the Ministry of Commerce, Government of India during November 11-12, 1999 in Mumbai. In the month of April 2000, 7 officers from the Central Bank of Sri Lanka visited the Exchange Control Department (ECD) and the Department of Currency Management (DCM) for in-house training. A senior consultant appointed by the Nepal Rashtra Bank to prepare a study report under the SAARCFINANCE Network on

"Regional Currency Arrangement in the SAARC Region and the Feasibility of using National Currencies in SAARC Trade" visited the Reserve Bank during March 23 - 25, 2000 for discussions with the Department of Economic Analysis and Policy (DEAP), ECD and DEIO. Two officers from DEAP participated and presented a paper in the seminar on "Global Financial Crisis and Recession" organised by the Bangladesh Bank in Dhaka during November 17-19, 1999 under the SAARCFIANCE Network.

Promotion of Hindi

10.22 The Reserve Bank continued its efforts for promotion of the use of Hindi consistent with the Official Language Policy. Hindi workshops and training programmes were arranged for imparting training to officers and other staff for doing work in Hindi. A special workshop on Hindi translation was conducted in the Reserve Bank Staff College, Chennai.

10.23 During the year, several bilingual publications including the Reserve Bank of India monthly bulletin, a quarterly magazine *viz.*, "Chintan Anuchintan", the Annual Report, the Report on Trend and Progress of Banking in India, the Report on Currency and Finance, the Annual Report of the Services Board of the Reserve Bank, the Reserve Bank of India News Letter and the Credit Information Review were published. Besides, "Computer Paribhasha Kosh" an explanatory English-Hindi dictionary on computer terms was also published. In the field of computer bilingualisation some data processing applications were developed in bilingual form. Training in bilingual software packages was intensified. Rajbhasha shields, cups were awarded to the winner public sector banks for their outstanding performance in implementation of Hindi in different regions.

Industrial Relations

10.24 Industrial relations between the Bank and all the four recognised unions/associations of workmen and officers have continued to be peaceful and cordial during the year 1999-2000.

Recruitment

10.25 During 1999, the Reserve Bank recruited 620 employees, of which 175 were from Scheduled Castes and Scheduled Tribes categories constituting 28.2 of total recruitment (Table 10.2).

10.26 The total staff strength as on December 31, 1999 was 31,737 as compared with 31,626 during the previous year. Of the total staff, 7,926 belonged to Scheduled Castes/Scheduled Tribes (Table 10.3).

Table 10.2: Recruitment During 1999

Category	Total Recruited	Of which SC	Of which ST	Percentage SC	Percentage ST
1	2	3	4	5	6
1. Class I	128	13	4	10.2	3.1
2. Class III	267	39	29	14.6	10.9
3. Class IV *of which :*	225	67	23	29.8	10.2
(a) Sweepers	41	23	6	56.1	14.6
(b) Others	184	44	17	23.9	9.2
Total	**620**	**119**	**56**	**19.2**	**9.0**

Table 10.3: Total Staff Strength During 1998 and 1999

Cadre	Category-wise strength: All 1998	All 1999	SC 1998	SC 1999	ST 1998	ST 1999	Per cent to Col.3 SC	Per cent to Col.3 ST
1	2	3	4	5	6	7	8	9
Class I	6,953	7,481	766	718	166	184	9.6	2.5
Class III	15,123	14,641	2,187	2,174	1,094	1,111	14.8	7.6
Class IV	9,550	9,615	3,014	2,947	785	792	30.7	8.2
Total	**31,626**	**31,737**	**5,967**	**5,839**	**2,045**	**2,087**	**18.4**	**6.6**

10.27 The Bank's Liaison Officer for Scheduled Caste/Scheduled Tribe employees conducted inspection of reservation rosters maintained at the Bank's Ahmedabad, Bangalore, Bhopal, Calcutta, Chennai, Guwahati, Jaipur, Jammu, Patna and Thiruvananthapuram Offices during the year. Meetings between the Management and the representatives of the All India Reserve Bank Scheduled Castes/Scheduled Tribes and Buddhist Employees' Federation were held on three occasions during the year to discuss issues relating to implementation of the reservation policy in the Reserve Bank.

10.28 The total strength of ex-servicemen in the Bank at the end of 1999, stood at 95 in class I, 648 in Class III and 1,138 in Class IV. The number of physically handicapped employees in Class I, Class III and Class IV stood at 51, 324 and 149, respectively.

Housing Loans

10.29 During 1999-2000 (July-June), the Reserve Bank has sanctioned a sum of Rs.41.56 crore up to end-December 1999 towards housing loans to its employees as also to the housing societies formed by employees as against Rs.28.34 crore during the previous year.

Surveys Conducted by the Bank

Survey of India's Foreign Liabilities and Assets, 1999

10.30 The survey relating to International Investment Position (IIP) collects stock and flow data on India's foreign liabilities and assets including those of the corporate sector. As per requirements of the IMF, these data are required to be collected preferably at quarterly intervals. Accordingly, a survey was launched in December 1999 for capturing data for four quarters ending December 31,1999.

Data Dissemination

10.31 During the year, the Reserve Bank brought out a comprehensive publication on the data base on the Indian economy entitled "Hand Book of Statistics on Indian Economy" for dissemination of historical data and current statistics in continuation of the initiative taken in 1998-99. Another important publication entitled "The Report on Currency and Finance 1998-99", a thematic one focusing on the process of structural transformation in the Indian economy during 1980s and 1990s was brought out during 1999-2000.

10.32 The Reserve Bank created a website (URL: www.rbi.org.in) on the internet in August 1996. The website is used for dissemination of data on Indian economy, particularly those relating to the banking and financial sector. The website is also used for meeting the requirement of data dissemination under the Special Data Dissemination Standards of the International Monetary Fund. The information available on the Reserve Bank site includes the Weekly Statistical Supplement, Reserve Bank Bulletin, Annual Report of the Reserve Bank, Report on Trend and Progress of Banking in India, Quarterly Banking Statistics, speeches of top executives of the Bank, research publications, banking guidelines and exchange control manual. The reports of most of the committees set up by the Reserve Bank are available on the site.

Central Database Management System for Reserve Bank of India

10.33 A major initiative on building a Central Database Management System as a decision support system for the Bank was undertaken during the year. A consultant was appointed to undertake the system study, system design and supervise the implementation. A study of the existing operational information systems in the Reserve Bank and a survey of analytical and information requirements of the decision making process was taken up as the first phase of the project. The nodal officers identified to assist the consultant were given basic training in data warehousing technology and were assigned subject areas for development of analytical modules.

Development Research Group

10.34 The Development Research Group (DRG) which was constituted in the Bank in November 1991, continued to serve as a forum for constructive debate and interaction among eminent outside experts and officials from within the Bank on subjects of contemporary policy oriented relevance. The DRG has published eighteen studies since its inception on a wide range of subjects relating to monetary, fiscal, external, real and social sectors. During the year, the nineteenth study in the DRG Study Series entitled "Bond Financing: Implications for Debt Stability" was released. The DRG is also responsible for publishing the Reserve Bank of India Occasional Papers which comprise research contributions of the staff.

Committees and Working Groups

10.35 During the year, a Standing Committee on International Financial Standards and Codes was constituted by the Reserve Bank. A number of working groups and committees which were constituted by the Reserve Bank to examine and analyse various aspects relating to banking and the financial sector for the purpose of policy formulation submitted their reports. Their recommendations are discussed below.

Working Group on Restructuring Weak Public Sector Banks

10.36 The Working Group on Restructuring Weak Public Sector Banks (Chairman: Shri M.S. Verma) constituted by the Reserve Bank in consultation with the Government of India submitted its report in October 1999. The Group recommended the use of seven parameters relating to solvency, earning capacity and profitability, in conjunction with the definition suggested by the Committee on Banking Sector Reforms to identify a bank's weakness or strength. The Group identified three banks as 'weak' and also six banks which are showing signs of distress and are vulnerable to sudden changes in the external environment.

10.37 While examining the options for restructuring, the Group concluded that a comprehensive restructuring strategy *i.e.*, operational, organisational, financial and systemic would be the most appropriate for the three identified weak banks *viz.*, Indian Bank, UCO Bank and United Bank of India. Some of the major recommendations include recapitalisation of the three banks accompanied by strict conditionality under an agreement between the Government, staff and employee unions, setting up of a Financial Restructuring Authority (FRA) under an Act of Parliament, creation of an Asset Reconstruction Fund for taking over of large NPAs of these banks, reduction of staff costs through introduction of Voluntary Retirement Scheme (VRS) and wage freeze, rationalisation of branch network, longer tenure for CMDs and development of a line of succession and withdrawal of Government's own serving officers from banks' Boards and replacing them with independent nominees having relevant knowledge and experience. The recommendations of the Working Group are currently under examination. The Union Budget for 2000-01 announced the constitution of a Financial Restructuring Authority (FRA), which is a modified form of the model suggested by the Working Group.

Standing Committee on International Financial Standards and Codes

10.38 The worldwide debate on the appropriate international financial architecture has centered on the need for evolving sound standards based on recognised best practices in fiscal, financial and accounting procedures in an environment of greater transparency. In order to monitor these developments and to evaluate their relevance to India, the Reserve Bank constituted a "Standing Committee on International Financial Standards and Codes" (Chairman: Dr. Y.V. Reddy) in consultation with the Government of India in December 1999.

10.39 The terms of reference of the committee are: (i) to identify and monitor developments in global standards and codes being evolved especially in the context of international developments and discussions as part of the efforts to create a sound international financial architecture; (ii) to consider all aspects of applicability of these standards and codes to the Indian financial system, and as necessary and desirable, chalk out a road map for aligning India's standards and practices in the light of the evolving international standards; (iii) to periodically review the status and progress in regard to the codes and practices; and (iv) to make available its reports on the above to all the organisations concerned whether they are in the public or the private sector. The Committee has set up ten non-official advisory groups in major subject areas (Box VI.8).

Working Group on Credit Information Bureau

10.40 At present, there is no institutional mechanism for sharing of information on borrowers/potential borrowers among banks/financial institutions. The Reserve Bank constituted a Working Group to explore the possibilities for setting up of a Credit Information Bureau (CIB) in India for obtaining and dissemination of adequate and reliable information on borrowers to enhance the quality of credit decisions. The Working Group submitted its report on November 1, 1999. The major recommendations of the Group are: (i) the Bureau should collect both negative and positive information relating to credit, trade and financial information; (ii) a foreign technology partner might also be involved in setting up the Bureau to benefit from the expertise available with them; and (iii) the Bureau should be technology-driven and professionally managed company with minimum manual intervention; and (iv) an appropriate regulatory framework for the credit information bureau is necessary. The Working Group suggested that the proposed legislation should have provisions in relation to data protection, privacy, redressal of grievances for customers, *etc.*, As a follow up of these recommendations, the State Bank of India has entered into a Memorandum of Understanding (MoU) with Housing Development Finance Corporation (HDFC) and with Dun and Bradstreet Information Services Ltd. and Trans Union International Inc. as foreign partners, to set up a CIB within the confines of the existing legislation. An in-house Committee has also been constituted by the State Bank of India to frame a master legislation to enable the formation of full-fledged CIB.

Working Group on International Banking Statistics

10.41 In India, with the growing liberalisation of the external sector, close monitoring, on an on-going basis, of the cross-border flow of funds has assumed critical importance. This calls for concerted efforts to collect and improve the coverage and timeliness of data on international claims and liabilities of the banking sector. Keeping these aspects in view, the Reserve Bank constituted a working group on International Banking Statistics (Chairman: Shri N.K. Puri). The Group submitted its report in June 1999.

10.42 The major recommendations of the working group are: (i) introduction of a comprehensive return to enable effective monitoring of the international claims and liabilities of the banking system as well as India's participation in the International Banking Statistics; (ii) establishment of a Central Database Management System (CDBMS) at the Reserve Bank with access to all user departments; (iii) data reporting by banks in the Locational Banking Statistics (LBS) could begin with the quarter ending December 1999 and the reporting of full information in the Consolidated Banking Statistics (CBS) could begin with end-March 2001; (iv) the data collection could be confined, at least in the initial periods, to 500 large branches (including public sector, private sector and foreign banks) which account for above 85 per cent of the overall foreign exchange business; (v) information flow from banks to the Reserve Bank could be initially through floppies and a direct flow of information from banks to the Reserve Bank could occur once the VSAT-based network becomes operational; (vi) collection of data on a quarterly basis both in respect of international claims and liabilities; (vii) speedy computerisation foreign exchange transactions in the relevant branches and establishing requisite connectivity between branches and head office to facilitate speedy data transmission; (viii) the Reserve Bank may design a suitable reporting format and provide detailed guidelines consisting of definition and coverage under each item to be reported; (ix) to facilitate asset-liability management, maturity-wise information in respect of both assets and liabilities should be reflected in the formats of the returns being devised by the Reserve Bank and the maturity classification should be on the basis of residual maturity; and (x) in view of the concentration of foreign exchange business in a few currencies in the country, the reporting formats of five major currencies, *viz.*, US dollar, Yen, Pound Sterling, Deutsche Mark (applicable up to 2001) and Euro.

Working Group on New Capital Adequacy Framework

10.43 The Basel Committee on Banking Supervision (BCBS) had issued a consultative paper on 'A New Capital Adequacy Framework' in June 1999 which is intended to replace the 1988 accord on international convergence of capital measure and capital standards. An informal working group (Chairman: Shri A. Ghosh) was constituted in the Reserve Bank to examine the feasibility of various recommendations of the consultative paper of BCBS. The major recommendations of the working group *inter alia* are: (i) suitable amendments in the Banking and Regulation Act need to be moved to vest powers with the Reserve Bank to advise banks to annex/merge the accounts; (ii) minority stakes taken up by banks in the equity of other banks, Financial institutions, Non-Banking Financial Companies (NBFCs) or any other financial services entity may be deducted from the investing bank's / financial institution's (FIs) total capital, in addition to the total deduction of majority-owned stake in subsidiaries; (iii) investments made by banks in both equity and subordinated debt of other banks /FIs be brought under the material limit of 10 per cent of bank's total capital and any investments in excess of the material limit be deducted from the investing bank's/FI's total capital; (iv) regulations should enable the banks to issue non-cumulative perpetual preference shares and redeemable preference shares maturing not earlier than 5 years and treating these instruments as Tier I and Tier II capital; (v) banks may be encouraged to fine-tune their internal credit rating systems for assigning preferential risk weights; (vi) external assessment agencies or export insurance agencies in G-10 countries should not be assigned the sole responsibility for risk assessment of banking book assets, especially in case of sovereigns; (vii) in case of claims on banks, banks should be encouraged to go in for assessment by domestic rating agencies and preferential risk weight of 20 per cent to 50 per cent, on a graded scale, could be assigned on the basis of ratings; (viii) in respect of claims on corporates a two-pronged approach has been recommended for adoption *viz.*, external ratings by domestic rating agencies for corporates enjoying fund-based limits of Rs.100 crore and above, and internal-rating by banks for corporates enjoying fund-based limits below Rs.100 crore; (ix) the benefit of bilateral netting may be extended to inter-bank claims for the purposes of capital adequacy; (x) there is a need to move amendments in the Banking Regulation Act to vest powers with the Reserve Bank to frame regulations on prudential norms and/ or differential CRAR, and (xi) the ability of the market to logically interpret the available information needs to be taken into account to avoid a possibility of over-reaction which can destabilise the system.

Working Group on Asset Securitisation

10.44 The Reserve Bank has indicated that institutional initiative should be triggered to lay the road map for development of asset securitisation in the Indian financial system. Accordingly, an in-house working group on asset securitisation (Chairman: Shri V.S.N.Murty) was constituted in June 1999 to examine the related issues, suggest comprehensive guidelines and amendment to the concerned statutes. The working group submitted its report in December 1999, categorising its major recommendations into short-term, medium-term and long-term with definite time frames in each category. The major recommendations of the working group *inter alia* are:

(i) defining securitisation in the Transfer of Property Act to lend uniformity of approach and restrict the benefits provided by law/regulation for genuine securitisation transactions;

(ii) rationalisation of stamp duty to make it uniform at 0.1 per cent for all securitisation transactions. Attempts may be made to bring the subject under the purview of Indian Stamps Act, 1889 from the State Stamps Act;

(iii) reduction of registration charges by amending Section 17 (2) of the Registration Act;

(iv) inclusion of securitised instruments in Securities Contract Regulation Act, may be considered by the SEBI;

(v) tax neutrality of Special Purpose Vehicle. Recommendations for tax reforms also include the spread of upfront income received by Originator over the tenure of the loan securitised, extension of benefits under Section 88 of Income Tax Act for repayment of housing loans after the loans have been securitised, *etc.*;

(vi) appropriate accounting treatment for securitisation transactions, adequate disclosure norms and model prudential guidelines;

(vii) medium-term measures include standardisation of documents, improvement in the quality of assets, upgradation of computer skills and exploration of possibilities of securitising non-performing assets; and

(viii) in the long-term there is a need for developing a host of financial intermediaries with specialised skills to provide the building blocks for market growth. The implementation of the various recommendations including framing guidelines for financial institutions are under consideration.

Technical Advisory Committee on Money and Government Securities Markets

10.45 The Reserve bank has appointed a technical advisory committee (Chairman: Dr. Y.V. Reddy) to advise on developments in the money and government securities markets. The Committee's tasks would include: (i) reviewing and recommending measures for deepening and widening the money and government securities market including participants, products, institutional and infrastructural arrangements; (ii) suggesting measures for development of the secondary market and promoting liquidity in money market instruments and governments securities; (iii) examining and advising on the evolving and desirable linkages between the money, government securities, foreign exchange and capital markets; (iv) reviewing infrastructure, legal and institutional arrangements for trading, transfer and settlement in the money/ government securities markets; and (v) preparing and considering papers and advising on the policies and practices on product/market development. During 1999-2000 (April-March) there were four meetings of the committee.

Working Group on Deposit Insurance

10.46 The report of the working group on deposit insurance (Chairman: Shri Jagdish Capoor) was set up to study the existing deposit insurance system in India and the need for its reform as a crucial component of the financial sector reforms. The report of the group submitted in October 1999 recommended: (i) retention of the present deposit coverage at Rs.1 lakh; (ii) limited co-insurance for deposits between Rs.90,000 and Rs.1 lakh with cover of 90 per cent; (iii) introduction of two deposit insurance funds- one each for commercial banking and co-operative banking at two per cent of the insured deposits; (iv) risk based pricing of deposit insurance premium in place of the existing flat rate system; (v) withdrawal of the function of credit guarantee from the Deposit Insurance and Credit Guarantee Corporation (DICGC); and (vi) assignment of the role of liquidator and receiver to the Deposit Insurance Corporation. The Group recommended the setting up of a Deposit Insurance Corporation with a capital of Rs.500 crore to be fully contributed by the Reserve Bank. Further, banks which have not complied with capital adequacy requirements, entities with a CAMEL rating of 'C' or below consistently for the past three years and development financial institutions need to be excluded from the deposit insurance coverage. It recommended a review of the position with regard to offering deposit insurance to NBFCs after two years.

High Power Committee on Urban Co-operative Banks

10.47 The Reserve Bank had appointed a high power committee on urban co-operative banks (Chairman: Shri K. Madhava Rao) in May 1999 to review the performance of Primary (Urban) Co-operative Banks (PCBs) and suggest necessary measures to strengthen this sector. The committee has submitted its report to the Reserve Bank on November 30, 1999. The committee recommended changes with regard to the revision of licensing policy for new PCBs, branch licensing policy, extension of areas of operation, dealing with unlicensed and weak PCBs, application of capital adequacy norms to PCBs, conversion of co-operative societies into PCBs, reforms in State Co-operative Societies Acts, Multi-State Co-Operative Societies Act and Banking Regulation Act, 1949 (as applicable to co-operative societies). The recommendations of the Committee are under examination.

Regulations Review Authority

10.48 A Regulations Review Authority (RRA) was set up by the Reserve Bank (with Dr. Y.V. Reddy, Deputy Governor as RRA) for a period of one year from April 1, 1999 for reviewing the Reserve Bank's rules, regulations, reporting system *etc.*, in the light of suggestions received from general public, market participants and users of the Reserve Bank's services. Considering the favourable response to the scheme and the need to provide reasonable time to the service users, the term of RRA was extended for a further period of one year *i.e.* up to March 31, 2001. During the period of one year of its existence, the RRA has been instrumental in streamlining several existing procedures, not only in the Reserve Bank, but in the banking industry in general, leading to an overall improvement in customer service. An important contribution of the RRA has been compilation of subject-wise master circulars by merging quite a large number of circulars issued on important subjects over the years. Other improvements introduced on the basis of suggestions received by RRA include, authorising individual banks to take their own decision in regard to charges for various services rendered by them (hitherto attended by IBA and FEDAI), doing away with the system of sample test checking of newly printed MICR instruments at MICR cheque processing centres in the Reserve Bank, granting general permission to mutual funds for issuing units to foreign institutional investors, passing on the powers to regulate Money Market Mutual Funds from the Reserve Bank to the SEBI, withdrawal of requirement of obtaining succession certificates by banks from legal heirs irrespective of the amount in the account of a deceased customer, rationalisation of payments of interest for abnormal delay in collection of outstation instruments, setting out a procedure for dissemination of timely information on foreign investment in Indian companies through RBI website to facilitate trading by FIIs and making available information to general public through e-mail on demand.

Central Board/Local Boards

10.49 Consequent upon the appointment of Dr. Vijay Kelkar, as Executive Director for India, Sri Lanka, Bangladesh and Bhutan at the International Monetary Fund, Dr. E.A.S. Sarma, Secretary (Economic Affairs), Ministry of Finance, Department of Economic Affairs, Government of India, was nominated as a Government nominee on the Central Board in place of Dr. Kelkar with effect from July 30, 1999.

10.50 Shri Mumtaz Ahmad, Director on the Central Board expired on January 9, 2000 at Calcutta.

Appointment/Retirement of Executives

10.51 Shri S. Gurumurthy, Executive Director retired from the Bank's service from the close of business on July 31, 1999.

10.52 Shri G.P. Muniappan, Regional Director, Chennai was appointed as Executive Director with effect from August 1, 1999.

10.53 Shri B.S. Sharma, Executive Director retired from the Bank's service from the close of business on November 30, 1999.

10.54 Shri Khizer Ahmed, Executive Director retired from the Bank's service from the close of business on January 31, 2000.

10.55 Shri P.B. Mathur, Chief General Manger, DBS was appointed as Executive Director with effect from February 18, 2000.

10.56 Shri P.R. Gopala Rao, Chief General Manager and Secretary was appointed as Executive Director with effect from February 18, 2000.

10.57 Shri M.R. Umarji, former Executive Director of the Corporation Bank was taken on deputation as Executive Director for Department of Non-Banking Supervision with effect from September 1, 1999.

Foreign Dignitaries

10.58 Mr. Richard Celeste, Ambassador of the USA to India visited the Bank on September 16, 1999 to participate in the Round Table conference on financial services.

10.59 Mr. Wim Kok, Prime Minister of Netherlands, together with a delegation visited the Bank on November 24, 1999.

10.60 Mr. Lou Tiwei, Chinese first Vice Minister for Finance, together with delegation of six members visited the Bank on December 24, 1999.

10.61 Mr. Gerrit Ybema, Minister for Foreign Trade, Netherlands visited the Bank on January 12, 2000.

10.62 Mr. Lawrence Summers, US Treasury Secretary visited the Bank on January 17, 2000.

10.63 Mr. Tom Alweendo, Governor, Bank of Namibia visited the Bank on January 31 and February 1, 2000.

10.64 Mr. Howard Davies, Chairman, Financial Services Authority, UK visited the Bank on February 7, 2000 to deliver the tenth C.D. Deshmukh Memorial Lecture.

10.65 Ms. Mary Harney, Deputy Prime Minister of Ireland visited the Bank on April 10, 2000.

Auditors

10.66 The accounts of the Bank were audited by M/s. Brahmayya & Co., Chennai, M/s. Mukund M, Chitale & Co., Mumbai, M/s.V.K. Mehta & Co., New Delhi, M/s. Kapoor Tandon & Co., Kanpur, M/s. N.C. Rajagopal & Co., Chennai and M/s. P.K. Mitra & Co., Calcutta. While the first five audit firms were reappointed, the last one has been appointed for the first time by the Central Government.

XI THE BANK'S ACCOUNTS FOR 1999-2000

11.1 The key financial results of the Bank's operations during the year are presented in this chapter.

INCOME

11.2 The total income of the Bank for the year 1999-2000, after various provisions, showed an increase of Rs.2,740.64 crore (14.3 per cent) from Rs.19,220.33 crore to Rs.21,960.97 crore. The increase in income was mainly due to increase in earnings from domestic and foreign sources. However, the share of earnings from foreign sources has declined from 32.8 per cent in 1998-99 to 29.7 per cent in 1999-2000. The sources of income are set out in Table 11.1.

Income from Foreign Sources

11.3 During the accounting year ended June 30, 2000, the Bank's net earnings from deployment of foreign currency assets including gold increased by Rs.208.14 crore (3.3 per cent) from Rs.6,306.59 crore in 1998-99 to Rs.6,514.73 crore in 1999-2000 mainly due to higher average level of foreign currency assets at Rs.1,40,275 crore in 1999-2000 as against Rs.1,16,445 crore in 1998-99. However, in percentage terms the net earnings on foreign currency assets and gold declined from 5.4 per cent in 1998-99 to 4.6 per cent in 1999-2000. Excluding gains/losses on account of securities transactions, the net earnings on foreign currency assets and gold worked out to 5.0 per cent for 1999-2000 as against 5.1 per cent for 1998-99. There was capital loss (net) on sale of securities at Rs.464.68 crore (depreciation of Rs.496.53 crore as against realised capital gain of Rs.31.85 crore) during the year 1999-2000 as compared to capital loss (net) of Rs.20.67 crore (depreciation of Rs.189.62 crore, as against realised capital gain of Rs.168.95 crore) in 1998-99. The foreign securities held in Bank's portfolio are valued at the end of every month at the lower of book value or market rate. If the market rate is lower than the book value, depreciation to the same extent is provided for. Appreciation is neither taken to profit and loss account nor to the reserves. Such unrealised appreciation in the value of foreign securities held in the Bank's portfolio as at the end of June 2000 was Rs.216.97 crore as against Rs.93.93 crore as at the end of June 1999.

Table 11.1: Income

(Rupees crore)

Item	1999-2000	1998-99	1997-98	1996-97	1995-96
1	2	3	4	5	6
A. Foreign Sources					
Interest, Discount, Exchange, Commission	6,514.73	6,306.59	5,687.34	4,585.66	3,722.97
B. Domestic Sources					
Interest	14,928.38	12,642.96	7,999.73	6,954.88	6,098.74
Discount	323.11	87.74	21.37	1,601.88	2,025.25
Exchange	0.14	0.19	0.37	0.25	0.44
Commission	185.62	175.02	365.03	105.16	70.21
Rent realised and others	8.99	7.83	9.80	9.03	14.06
Total – Domestic	15,446.24	12,913.74	8,396.30	8,671.20	8,208.70
Total Income (Gross) [A+B]	**21,960.97**	**19,220.33**	**14,083.64**	**13,256.86**	**11,931.67**
C. Less transfer to :					
(i) Contingency Reserve	6,554.50	8,917.65	2,158.72	4,204.92	3,664.79
(ii) Asset Development Reserve	711.55	1,274.59	1,181.71	—	—
Total (i + ii)	**7,266.05**	**10,192.24**	**3,340.43**	**4,204.92**	**3,664.79**
Total Income (Net)	**14,694.92**	**9,028.09**	**10,743.21**	**9,051.94**	**8,266.88**

Income from Domestic Sources

11.4 Domestic income rose by Rs.2,532.50 crore (19.6 per cent) from Rs.12,913.74 crore in 1998-99 to Rs.15,446.24 crore in 1999-2000 reflecting increase in income earnings from sale of rupee securities, interest earnings on Ways and Means advances to Central and State Governments and loans and advances to banks and financial institutions and discount on Government Treasury bills. The profit booked on sale of Rupee Securities increased by Rs.2,125.09 crore from Rs.1,155.45 crore in 1998-99 to Rs.3,280.54 crore in 1999-2000 on account of larger volume of open market operations (sales) coupled with higher security prices.

11.5 The decrease of Rs.479.50 crore in interest from Government securities from Rs.9,441.82 crore during 1998-99 to Rs.8,962.32 crore during 1999-2000 was mainly because of lower interest rates. The interest earnings on Ways and Means advances increased by Rs.101.63 crore from Rs.614.20 crore in 1998-99 to Rs.715.83 crore in 1999-2000 due to increased recourse to this facility by the Central and State Governments. Interest on loans and advances to banks/financial institutions also increased by Rs.200.66 crore from Rs.1,137.18 crore in 1998-99 to Rs.1,337.84 crore in 1999-2000. The increase in discount earned is attributable to devolvement of Government Treasury bills on the Bank in auctions and net purchases made in the open market.

EXPENDITURE

11.6 Total expenditure of the Bank increased by Rs.795.83 crore (17.5 per cent) from Rs.4,545.09 crore in 1998-99 to Rs.5,340.92 crore in 1999-2000 (Table 11.2). The increase is due to rise both in establishment and non-establishment expenses.

Interest Payment

11.7 Interest payment decreased by Rs.4.76 crore (0.2 per cent) from Rs.1,976.64 crore in 1998-99 to Rs.1,971.88 crore in 1999-2000 mainly due to substantial reduction in payment in lieu of service charges on borrowings from IMF payable to Government of India from Rs.45.51 crore in 1998-99 to Rs.7.82 crore in 1999-2000. Government's liability to IMF has been completely liquidated, as on June 30, 2000.

Establishment Expenditure

11.8 Establishment expenditure increased by Rs.163.16 crore (23.9 per cent) from Rs.683.59 crore in 1998-99 to Rs.846.75 crore in 1999-2000. The higher expenditure in 1999-2000 was mainly due to provision made towards payment of arrears on account of wage revision of employees.

Non-establishment Expenditure

Agency Charges

11.9 Expenditure towards agency charges increased by Rs.269.60 crore (29.2 per cent) from Rs.924.02 crore in 1998-99 to

Table 11.2: Expenditure

(Rupees crore)

Item	1999-2000	1998-99	1997-98	1996-97	1995-96
1	2	3	4	5	6
I. Interest Payment					
of which :	**1,971.88**	**1,976.64**	**1,999.23**	**1,912.60**	**2,541.65**
a) Scheduled Banks	1,656.18	1,652.76	1,639.16	1,520.44	2,076.82
b) Payment in lieu of service charges on borrowings from IMF payable to Government of India	7.82	45.51	103.28	183.66	309.54
II. Establishment	**846.75**	**683.59**	**848.43**	**519.48**	**682.30**
III. Non-Establishment					
of which:	**2,522.29**	**1,884.86**	**1,914.45**	**1,352.43**	**1,100.54**
a) Agency charges	1,193.62	924.02	884.25	829.93	601.00
b) Security printing	1,068.44	733.96	834.23	386.48	372.67
IV. Total [I+II+III]	**5,340.92**	**4,545.09**	**4,762.11**	**3,784.51**	**4,324.49**

Rs.1,193.62 crore in 1999-2000 mainly due to increase in Government business and payment of arrears of agency commission consequent to increase in the rate of commission.

Security Printing

11.10 Expenditure on security printing, comprising cost of printing of currency notes, cheque forms *etc.*, has increased by Rs.334.48 crore (45.6 per cent) from Rs.733.96 crore in 1998-99 to Rs.1,068.44 crore in 1999-2000. The increase in expenditure during the year was mainly due to increase both in supply of note forms and cost of printing.

APPROPRIATION

Net Disposable Income

11.11 The net disposable income for the year 1999-2000 amounted to Rs.9,354 crore as against Rs.4,483 crore in 1998-99. Since 1991-92 significant transfers to statutory funds have been discontinued. However, pending amendment to the Reserve Bank of India Act, 1934 for vesting in the Bank the discretion in the matter of transfer to statutory funds from the profits of the Bank, a token contribution of Rupees one crore each, has been made to the four funds. The appropriation of the net disposable income is summarised in Table 11.3.

Surplus transferable to Government of India

11.12 A sum of Rs.9,350 crore is transferable to the Government for the year 1999-2000 as against Rs.4,479 crore transferred during the year 1998-99 inclusive of Rs.1,479 crore each for both the years towards interest differential on special securities converted into marketable securities (Table11.3). In the year 1997-98, Special Securities of the order of Rs.20,000 crore carrying interest at 4.6 per cent per annum held by the Bank were converted into marketable securities at market related rates to augment the stock of eligible securities in the Bank's investment portfolio for open market operations. The above transfer is intended to compensate the Government for the difference in interest expenditure, which the Government had to bear consequent on the conversion. Transfer of higher amount of surplus to the Government for the year under reference has been considered after ensuring that indicative target to take Contingency Reserve balance to 12 per cent of the size of the Bank's assets by the year 2005, could be achieved.

Table 11.3: Appropriation of Net Disposable Income

(Rupees crore)

Item	1999-2000	1998-99
1	2	3
Total Income (Net)	14,694.92	9,028.09
Total Expenditure	5,340.92	4,545.09
Net Disposable Income	9,354.00	4,483.00
Less : Transfer to Funds *	4.00	4.00
Surplus transfer to Government of which	9,350.00	4,479.00
i) Towards Normal Transfer	7,871.00	3,000.00
ii) Interest differential on account of conversion of special securities into marketable securities	1,479.00	1,479.00

* An amount of Rupees one crore each was transferred to NIC (LTO) Fund, NRC(LTO) Fund, NRC(Stabilisation) Fund and NHC(LTO) Fund during each of the two years.

BALANCE SHEET

Liabilities

National Industrial Credit (Long Term Operations) Fund

11.13 The National Industrial Credit (Long Term Operations) Fund was established by the Bank in July 1964 with an initial corpus of Rs.10 crore and annual contributions from the Bank's disposable surplus in terms of Section 46C(1) of Reserve Bank of India Act, 1934. The Fund was applied for the purpose of making loans and advances to eligible financial institutions. Consequent on the announcement in the Union Budget for 1992-93, the Bank decided to discontinue the practice of crediting large sums to the said Fund. Simultaneously, no further disbursements from the Fund have been made. It was decided in 1997-98 to transfer the unutilised balance in the Fund built up through repayments to Contingency Reserve (CR) on a year to year basis. Accordingly, an amount of Rs.350 crore has been transferred to CR in 1999-2000 as against Rs.300 crore transferred in the preceding year.

Deposits – Banks

11.14 'Deposits - Banks' represent balances maintained by the banks in current account with Reserve Bank mainly for maintaining Cash Reserve Ratio (CRR) and working funds for clearing adjustments. The aggregate deposits of scheduled commercial banks with the Reserve Bank decreased by Rs.9,151.75 crore (13.1 per cent) from Rs.70,006.22 crore as on June 30, 1999 to Rs.60,854.47 crore as on June 30, 2000 mainly due to reduction in CRR requirement from 10 per cent of total Net Demand and Time Liabilities (NDTL) to 8 per cent during the year 1999-2000. The aggregate deposits of the scheduled state co-operative banks, other scheduled co-operative banks, non-scheduled state co-operative banks and other banks, increased by Rs.603.30 crore (23.4 per cent) from Rs.2,577.48 crore as on June 30, 1999 to Rs.3,180.78 crore as on June 30, 2000.

Deposits – Others

11.15 'Deposits - Others' include deposits from financial institutions, employees' provident fund deposits, surplus earmarked pending transfer to the Government and sundry deposits. The sharp increase in the amount of ' Deposits-Others' during the year under reference by Rs.4,242.16 crore (34.7 per cent) from Rs.12,227.83 crore as on June 30, 1999 to Rs.16,469.99 crore is mainly due to higher amount of surplus transferable to the Government for the year 1999-2000.

Other Liabilities

11.16 'Other Liabilities' include the internal reserves and provisions of the Bank and net credit balance in RBI General Account. These liabilities have increased by Rs.10,513.09 crore (19.3 per cent) from Rs.54,556.21 crore as on June 30, 1999 to Rs.65,069.30 crore as on June 30, 2000 mainly on account of increase in the levels of internal reserves.

11.17 The reserves *viz*., Contingency Reserve, Asset Development Reserve, Exchange Fluctuation Reserve and Exchange Equalisation Account *etc*., reflected in 'Other Liabilities' are in addition to the 'Reserve Fund' of Rs.6,500 crore held by the Bank as a distinct balance sheet head.

Exchange Fluctuation Reserve and Exchange Equalisation Account

11.18 Gains/losses on valuation of foreign currency assets and gold are not booked in profit and loss account but in a separate account called Exchange Fluctuation Reserve (EFR), the balance in which represents accumulated net gain on valuation of foreign currency assets and gold. During 1999-2000, there was an accretion of Rs.2,785.14 crore to the EFR increasing the balance to Rs.27,608.43 crore as on June 30, 2000 from Rs.24,823.29 crore as on June 30, 1999. EFR is also utilised for replenishing Exchange Equalisation Account (EEA) *inter alia* to meet exchange losses on accrual basis in respect of liabilities under schemes involving exchange guarantees provided by Reserve Bank in respect of funds parked by financial institutions like IDBI. The balance in the EEA as on June 30, 2000 amounted to Rs.791.27 crore and fully provides for the exchange difference on foreign currency funds parked by Indian financial institutions which are expected to be withdrawn by February 2001. As exchange guarantees are no longer being given by the Reserve Bank and also the schemes which enjoyed such guarantees, have almost come to a close, the EFR will not come under pressure in future on this account. The EFR at the end of June 2000 was equivalent to 16.8 per cent of foreign currency assets and gold holdings of the Reserve Bank, as against 17.2 per cent at the end of June 1999. The balances in EFR and EEA, which are part of 'Other Liabilities' in the Balance Sheet, are given in Table 11.4.

Contingency Reserve and Asset Development Reserve

11.19 The Bank maintains a Contingency Reserve (CR) to be able to absorb unexpected and unforeseen contingencies. The Bank has been pursuing a pro-active policy of strengthening the CR and has accordingly set an indicative target of 12 per cent of the size of the Bank's assets to be achieved in phases by the year 2005, subject to review, if considered essential. In order to be in a position to meet the internal capital expenditure and make investments in its subsidiaries and associate institutions, the Bank had created in 1997-98 a separate 'Asset Development Reserve' (ADR) with the aim of reaching one per cent of the

Table 11.4: Balances in Exchange Fluctuation Reserve and Exchange Equalisation Account

(Rupees crore)

As on June 30	Exchange Fluctuation Reserve	Exchange Equalisation Account
1	2	3
1996	11,976.42	2,818.70
1997	10,080.93	758.89
1998	25,143.03	639.00
1999	24,823.29	618.61
2000	27,608.43	791.27

size of Bank's assets within the overall target of 12 per cent set for CR.

11.20 The balance in CR has gone up from Rs. 23,007.06 crore as on June 30, 1999 to Rs.29,911.56 crore as on June 30, 2000 due to the transfer of Rs.6,554.50 crore from income and transfer of the unutilised balance of Rs.350 crore from National Industrial Credit (Long Term Operations) Fund in 1999-2000. The balance in CR is sufficient to meet contingent liabilities. Further, in 1999-2000, an amount of Rs.711.55 crore was transferred from income to ADR raising its level from Rs. 2,456.30 crore as on June 30, 1999 to Rs.3,167.85 crore as on June 30, 2000. As a proportion of total assets, CR and ADR together constituted 9.2 per cent of total assets of the Bank as on June 30, 2000 as against 7.6 per cent as on June 30, 1999. Balances in CR and ADR are given in Table 11.5.

ASSETS

Foreign Currency Assets

11.21 The foreign currency assets comprise foreign securities held in Issue Department, balances held abroad and investments in foreign securities held in Banking Department. Such assets which stood at Rs.1,32,505.09 crore as on June 30, 1999 rose to Rs.1,50,901.13 crore as on June 30,2000. In US dollar terms, these assets rose from US dollar 30.56 billion as on June 30,1999 to US dollar 33.77 billion as on June 30, 2000.

Investment in Government of India Rupee Securities

11.22 Investment in Government of India rupee securities which stood at Rs.1,47,965.95 crore as on June 30, 1999 marginally increased by Rs.942.41 crore (0.6 per cent) to Rs.1,48,908.36 crore as on June 30, 2000.

Table 11.5: Balances in the Contingency Reserve and Asset Development Reserve

(Rupees crore)

As on June 30	Balance in CR	Balance in ADR	Total	Percentage to total assets
1	2	3	4	5
1996	7,725.59	—	7,725.59	3.3
1997	11,230.69	—	11,230.69	4.5
1998	13,789.41	1,181.71	14,971.12	5.1
1999	23,007.06	2,456.30	25,463.36	7.6
2000	29,911.56	3,167.85	33,079.41	9.2

Investments in Subsidiaries and Associate Institutions

11.23 The Bank's investments in the shares of its subsidiaries and associate institutions remained unchanged during the current accounting year as could be seen from the details furnished in Table 11.6.

Other Assets

11.24 'Other Assets' comprise mainly dead stock, gold holdings in the Banking Department, amounts spent on projects pending completion, advance contribution to NABARD towards capital, staff advances *etc*. 'Other Assets' have increased by Rs.886.94 crore (6.8 per cent) from Rs.13,085.87 crore as on June 30, 1999 to Rs.13,972.81 crore as on June 30, 2000 mainly due to appreciation in the value of gold and increase in income accrued but not received.

Auditors

11.25 The accounts of the Bank were audited by M/s Brahmayya & Co., Chennai , M/s V.K. Mehta & Co., New Delhi, M/s Mukund M. Chitale & Co., Mumbai, M/s N.C.Rajagopal & Co., Chennai, M/s Kapoor Tandon & Co., Kanpur, and M/s. P.K.Mitra & Co., Calcutta. While the first five Audit firms were re-appointed by the Central Government, M/s P.K.Mitra & Co. have been appointed for the first time.

Table 11.6: Investments in Subsidiaries/ Associate Institutions

(Rupees crore)

Institutions	Book value of shares held as at 30.6.2000	30.6.1999
1	2	3
1. Deposit Insurance and Credit Guarantee Corporation	50.00	50.00
2. NABARD	250.00	250.00
3. State Bank of India	1,222.73	1,222.73
4. Discount and Finance House of India	20.99	20.99
5. Securities Trading Corporation of India Ltd.	72.06	72.06
6. National Housing Bank	350.00	350.00
7. Bharatiya Reserve Bank Note Mudran Ltd.	800.00	800.00
8. Infrastructure Development Finance Co. Ltd.	150.00	150.00
Total	**2,915.78**	**2,915.78**

RESERVE BANK OF INDIA

BALANCE SHEET AS AT 30TH JUNE 2000

ISSUE DEPARTMENT

(Rupees Thousands)

1998-99 Rs.	LIABILITIES	1999-2000 Rs.	1998-99 Rs.	ASSETS	1999-2000 Rs.
	Notes held in the			**Gold Coin and Bullion :**	
26,50,45	**Banking Department** 15,29,23		9584,16,17	(a) Held in India 10761,25,93	
			—	(b) Held outside India —	
183703,44,54	**Notes in circulation** 201486,11,42		67700,00,00	**Foreign Securities** 86700,00,00	
183729,94,99	**Total Notes issued**	**201501,40,65**			
			77284,16,17	**Total**	**97461,25,93**
			107,56,20	**Rupee Coin**	**115,30,85**
			106338,22,62	**Government of India Rupee Securities**	**103924,83,87**
			—	**Internal Bills of Exchange and other Commercial Paper**	—
183729,94,99	**Total Liabilities**	**201501,40,65**	183729,94,99	**Total Assets**	**201501,40,65**

BANKING DEPARTMENT

1998-99 Rs.	LIABILITIES	1999-2000 Rs.	1998-99 Rs.	ASSETS	1999-2000 Rs.
5,00,00	**Capital paid-up**	**5,00,00**	26,50,45	**Notes**	**15,29,23**
6500,00,00	**Reserve Fund**	**6500,00,00**	9,22	**Rupee Coin**	**13,01**
4982,00,00	**National Industrial Credit (Long Term Operations) Fund**	**4633,00,00**	32,32	**Small Coin**	**10,79**
				Bills Purchased and Discounted :	
			—	(a) Internal	—
882,00,00	**National Housing Credit (Long Term Operations) Fund**	**883,00,00**	—	(b) External	—
			—	(c) Government Treasury Bills	—
	Deposits		41193,82,56	**Balances Held Abroad**	**32371,86,53**
	(a) Government		68154,77,49	**Investments**	**79728,58,63**
100,65,20	(i) Central Government	**100,01,44**		**Loans and Advances to :**	
102,69,09	(ii) State Governments	**41,14,10**	5620,00,00	(i) Central Government	**5298,00,00**
			2971,53,56	(ii) State Governments	**2386,65,37**
	(b) Banks			**Loans and Advances to :**	
70006,22,49	(i) Scheduled Commercial Banks	**60854,46,74**	6201,44,10	(i) Scheduled Commercial Banks	**8712,61,15**
	(ii) Scheduled State Co-operative		2,50,00	(ii) Scheduled State Co-operative Banks	—
793,60,25	Banks	**845,53,64**	98,76,00	(iii) Other Scheduled Co-operative Banks	**215,88,00**
	(iii) Other Scheduled Co-operative		—	(iv) Non-Scheduled State Co-operative Banks	—
1078,85,14	Banks	**1624,99,51**	5073,36,27	(v) NABARD	**5104,70,01**
	(iv) Non-Scheduled State		4515,67,20	(vi) Others	**5187,26,15**
27,41,49	Co-operative Banks	**52,35,21**		**Loans, Advances and Investments from**	
677,61,97	(v) Other Banks	**657,89,27**		**National Industrial Credit (Long Term**	
12227,83,35	**(c) Others**	**16469,99,00**		**Operations) Fund :**	
806,31,01	**Bills Payable**	**743,95,87**		**(a) Loans and Advances to :**	
			2000,00,00	(i) Industrial Development Bank of India	**1740,00,00**
54556,21,03	**Other Liabilities**	**65069,30,47**			
			752,00,00	(ii) Export Import Bank of India	**697,00,00**
			170,00,00	(iii) Industrial Investment Bank of India Ltd.	**170,00,00**
			2004,75,00	(iv) Others	**2004,75,00**
				(b) Investments in bonds / debentures issued by :	
			—	(i) Industrial Development Bank of India	—
			—	(ii) Export Import Bank of India	—
			—	(iii) Industrial Investment Bank of India Ltd.	—
			—	(iv) Others	—
				Loans, Advances and Investments from National Housing Credit (Long Term Operations) Fund :	
			875,00,00	(a) Loans and Advances to National Housing Bank	**875,00,00**
			—	(b) Investments in bonds / debentures issued by National Housing Bank	—
			13085,86,85	**Other Assets**	**13972,81,38**
152746,41,02	**Total Liabilities**	**158480,65,25**	152746,41,02	**Total Assets**	**158480,65,25**

Significant Accounting Policies and Notes to the Accounts as per Annexure.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2000

(Rupees Thousands)

1998-99 Rs.	INCOME		1999-2000 Rs.
9028,09,47	**Interest, Discount, Exchange, Commission, etc.**[1]		**14694,92,17**
9028,09,47		**Total**	**14694,92,17**
	EXPENDITURE		
1976,63,80	**Interest**		**1971,87,87**
683,58,65	**Establishment**		**846,75,36**
38,27	**Directors' and Local Board Members' Fees and Expenses**		**47,65**
30,83,86	**Remittance of Treasure**		**16,81,63**
924,02,38	**Agency Charges**		**1193,62,39**
733,96,22	**Security Printing (Cheque, Note forms etc.)**		**1068,43,68**
10,33,02	**Printing and Stationery**		**12,93,16**
12,23,95	**Postage and Telecommunication charges**		**18,68,19**
41,07,41	**Rent, Taxes, Insurance, Lighting etc.**		**44,94,69**
57,97	**Auditors' Fees and Expenses**		**64,35**
56,39	**Law Charges**		**1,49,64**
67,22,93	**Depreciation and Repairs to Bank's Property**		**81,23,32**
63,64,62	**Miscellaneous Expenses**		**83,00,24**
4545,09,47		**Total**	**5340,92,17**
4483,00,00	**Available Balance**		**9354,00,00**
	LESS: Contribution to:		
	National Industrial Credit (Long Term Operations) Fund	1,00,00	
	National Rural Credit (Long Term Operations) Fund [2]	1,00,00	
	National Rural Credit (Stabilisation) Fund [2]	1,00,00	
	National Housing Credit (Long Term Operations) Fund	1,00,00	
4,00,00			**4,00,00**
4479,00,00	**Surplus Payable to Central Government**		**9350,00,00**

1. After making the usual or necessary provisions in terms of Section 47 of the Reserve Bank of India Act, 1934.
2. These funds are maintained by National Bank for Agriculture and Rural Development (NABARD).

(K.B. Chakraborti)	**(Jagdish Capoor)**	**(S.P. Talwar)**	**(Bimal Jalan)**
Chief General Manager	Deputy Governor	Deputy Governor	Governor

REPORT OF THE AUDITORS

TO THE PRESIDENT OF INDIA

We, the undersigned Auditors of the Reserve Bank of India, do hereby report to the Central Government upon the Balance Sheet of the Bank as at 30th June 2000 and the Profit and Loss Account for the year ended on that date.

We have examined the above Balance Sheet of the Reserve Bank of India as at 30th June 2000 and the Profit and Loss Account of the Bank for the year ended on that date and report that where we have called for information and explanations from the Bank, such information and explanations have been given and have been satisfactory.

In our opinion and according to the best of our information and explanations given to us and as shown by the books of accounts of the Bank, the Balance Sheet read with Significant Accounting Policies and Notes to the Accounts is a full and fair Balance Sheet containing all necessary particulars and is properly drawn up in accordance with the Reserve Bank of India Act, 1934 and regulations framed thereunder so as to exhibit a true and correct view of the state of the Bank's affairs.

M/s. Brahmayya & Co.	**M/s. V.K. Mehta & Co.**	**M/s. Mukund M. Chitale & Co.**	**M/s. N.C. Rajagopal & Co.**	**M/s. Kapoor Tandon & Co.**	**M/s. P.K. Mitra & Co.**
Auditors	Auditors	Auditors	Auditors	Auditors	Auditors

Dated August 17, 2000

ANNEXURE

RESERVE BANK OF INDIA

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

SIGNIFICANT ACCOUNTING POLICIES

1. CONVENTION

The financial statements are prepared in accordance with the Reserve Bank of India Act, 1934 and the notifications issued thereunder and in the form prescribed by the Reserve Bank of India General Regulations, 1949.

Historical cost basis of accounting is used except where it is modified to reflect revaluation.

The accounting practices and policies followed in the statements, unless otherwise stated, are consistent with those followed in the previous year.

2. REVENUE RECOGNITION

Income and expenditure are recognised on accrual basis except dividend, which is accounted for on receipt basis. Only realised gains are recognised. Provision for outstanding expenditure is made for unpaid bills in each case of Rs. 1 lakh and above.

Balances unclaimed and outstanding for more than three consecutive years in certain transitory accounts including Drafts Payable Account, Payment Orders Account, Sundry Deposits Account, Remittance Clearance Account and Earnest Money Deposit Account are reviewed and written back to the Bank's Income. Claims in this respect are considered and charged against Bank's Income as and when paid.

Income and expenditure in foreign currency are translated on the basis of exchange rates prevailing on the last business day of the preceding week.

3. GOLD AND FOREIGN CURRENCY ASSETS AND LIABILITIES

(a) Gold

Gold is valued at the end of the month at 90 per cent of the daily average price quoted at London for the month. The rupee equivalent is determined on the basis of the exchange rate prevailing on the last business day of the month. Gains/losses arising therefrom are adjusted to the Exchange Fluctuation Reserve.

(b) Foreign Currency Assets and Liabilities

All foreign currency assets and liabilities are translated at the exchange rates prevailing on the last business day of the week, and also on the last business day of the month.

At the year end, assets and liabilities in foreign currencies are translated at the exchange rates prevailing on the last business day except in cases where rates are contractually fixed. Foreign securities are valued at lower of book value or market price prevailing on the last business day of each month. The depreciation is adjusted against current income.

Forward exchange contracts are evaluated half-yearly and net loss, if any, is provided for.

Profit/loss on sale of foreign currency assets is recognised with respect to the book value. Exchange gains and losses arising from translation of foreign currency assets and liabilities are accounted for in Exchange Fluctuation Reserve and remain adjusted therein.

4. RUPEE SECURITIES

Rupee securities, other than Treasury bills, are valued at lower of book value or market price or rates based on the yield curve prevailing on the last business day of the month where the market price for such securities is not available. The depreciation in the value is adjusted against current income. Treasury bills are valued at cost.

5. SHARES

Investments in shares are valued at cost.

6. FIXED ASSETS

Fixed assets are stated at cost less depreciation.

Depreciation on computers, motor vehicles, office equipments, furniture and electrical fittings, etc., is charged on the straight-line basis. Depreciation on other assets including premises and fixtures is charged on written-down value basis.

Depreciation on fixed assets is charged only if held for a period of more than six months as at the year-end.

7. RETIREMENT BENEFITS

The liability on account of retirement benefits and leave encashment to employees is valued on an actuarial basis at the year end.

8. CONTINGENCY RESERVE AND ASSET DEVELOPMENT RESERVE

Contingency Reserve represents amount provided on a year to year basis for meeting unexpected and unforeseen contingencies including depreciation in value of securities, exchange guarantees and risks arising out of monetary/exchange rate policy compulsions. In order to meet the internal capital expenditure and investments in subsidiaries and associate institutions a further specified sum is provided and credited to Asset Development Reserve.

9. NATIONAL INDUSTRIAL CREDIT (LONG TERM OPERATIONS) FUND

Unutilised balance in the Fund, built up through repayments, is transferred to Contigency Reserve on a year to year basis.

NOTES TO THE ACCOUNTS

1. SURPLUS TRANSFER TO GOVERNMENT OF INDIA

Surplus transferable to Government includes an amount of Rs.1,479 crore representing interest differential pertaining to the period April 1, 1999 - March 31, 2000, on account of conversion of special securities into marketable securities.

2. CHANGES IN THE ACCOUNTING POLICIES AND PROCEDURES

Zero Coupon Bonds

Income on Zero Coupon Bonds has been accounted for on accrual basis from the current year. Hitherto, the income was accounted for on redemption. The income for the year is higher by Rs.33.94 crore.

3. RBI GENERAL ACCOUNT

RBI General Account represents inter-office transactions and balances under reconciliation. Reconciliation of the entries subsequent to June 30, 1992 is in progress and necessary adjustments are being effected as and when ascertained.

4. RESERVE FUND

The Reserve Fund comprises initial contribution of Rs. 5 crore made by the Government of India and appreciation of Rs.6,495 crore on account of revaluation of gold up to October 1990. Subsequent gains/losses on monthly revaluation of gold are taken to Exchange Fluctuation Reserve.

5. DEPOSITS - OTHERS

(Rupees crore)

Particulars	As at June 30, 2000	As at June 30, 1999
1	2	3
I. Rupee Deposits from Foreign Central Banks and Foreign Financial Institutions	3,559.79	4,932.91
II. Deposits from Indian Financial Institutions	243.31	159.74
III. Accumulated Retirement Benefits	2,590.88	2,258.36
IV. Surplus transferable to Government of India	9,350.00	4,479.00
V. Miscellaneous	726.01	397.82
Total	**16,469.99**	**12,227.83**

6. OTHER LIABILITIES

(Rupees crore)

Particulars	As at June 30, 2000	As at June 30, 1999
1	2	3
I. Contingency Reserve		
Balance at the beginning of the year	23,007.06	13,789.41
Add : Transfer from National Industrial Credit (Long Term Operations) Fund*	350.00	300.00
Add : Accretion during the year	6,554.50	8,917.65
Balance at the end of the year	29,911.56	23,007.06
II. Asset Development Reserve		
Balance at the beginning of the year	2,456.30	1,181.71
Add : Net Accretion / Utilisation(-) during year	711.55	1,274.59
Balance at the end of the year	3,167.85	2,456.30
III. Exchange Fluctuation Reserve		
Balance at the beginning of the year	24,823.29	25,143.03
Add : Net Accretion / Net Utilisation (-) during the year	2,785.14	(-) 319.74
Balance at the end of the year	27,608.43	24,823.29
IV. Exchange Equalisation Account		
Balance at the beginning of the year	618.61	639.00
Add : Net Accretion / Net Utilisation (-) during the year	172.66	(-) 20.39
Balance at the end of the year	791.27	618.61
V. Provision for net debit entries in RBI General Account for the period up to June 30, 1992	57.80	57.80
VI. Provision for Outstanding Expenses	1,201.78	1,516.45
VII. Miscellaneous	2,330.61	2,076.70
Total (I to VII)	**65,069.30**	**54,556.21**

* Represents transfer of the unutilised balance in the Fund built up through repayments.

7. RUPEE INVESTMENTS

Securities acquired and sold under REPO have been accounted for under investments. Accordingly, investments include Rs.289.99 crore against which there is commitment to sell for an aggregate consideration of Rs.289.68 crore on a future date.

8. FOREIGN CURRENCY ASSETS

(Rupees crore)

Particulars	As at June 30, 2000	As at June 30, 1999
1	2	3
I. Held in Issue Department	86,700.00	67,700.00
II. Held in Banking Department –		
a) Included in Investments	31,829.27	23,611.27
b) Balances Held Abroad	32,371.86	41,193.82
Total	**1,50,901.13**	**1,32,505.09**

Note: (i) There are outstanding forward exchange contracts under which the Reserve Bank has to sell US dollar equivalent to Rs. 8,214.82 crore (as against sale contracts of US dollar equivalent to Rs.4,214.59 crore outstanding as at June 30, 1999). Forward purchase contracts of US dollar equivalent to Rs.637.21 crore are outstanding as on June 30,2000. No forward purchase contracts were outstanding as at June 30, 1999.

(ii) Uncalled amount on partly-paid shares of the Bank for International Settlements as at June 30, 2000 – Rs.67.71 crore.

9. OTHER ASSETS

(Rupees crore)

Particulars	As at June 30, 2000	As at June 30, 1999
1	2	3
I. Fixed Assets (Net of Accumulated Depreciation)	342.52	295.44
II. Gold	2,411.66	2,147.86
III. Income Accrued but not Received	6,410.41	5,844.67
IV. (i) Advance to National Bank for Agriculture and Rural Development Towards Capital	1,200.00	1,200.00
(ii) Advance to Infrastructure Development Finance Co. Ltd., Towards Subordinated Debt	350.00	350.00
V. Miscellaneous	3,258.22	3,247.90
Total	**13,972.81**	**13,085.87**

10. INTEREST, DISCOUNT, EXCHANGE, COMMISSION ETC.

Interest, Discount, Exchange, Commission etc., include the following items:

(Rupees crore)

Particulars	Year ended June 30, 2000	Year ended June 30, 1999
1	2	3
(i) Profit on Sale of Foreign and Rupee Securities	3,312.39	1,324.40
(ii) Rent Realised	8.92	7.65
(iii) Net Profit on Sale of Bank's Property	0.08	0.18

ANNEXURE

CHRONOLOGY OF MAJOR POLICY ANNOUNCEMENTS : APRIL 1999 – JULY 2000

Date of Announcement		POLICY ANNOUNCEMENTS
		I. MONETARY MANAGEMENT
1999		
April	**20**	● Effective fortnight beginning May 8, 1999, CRR was reduced by 0.5 percentage point to 10.0 per cent.
		● The Reserve Bank announced introduction of an Interim Liquidity Adjustment Facility (ILAF) through repos and lending against collateral of Government of India securities. It provided a mechanism by which liquidity would be injected at various interest rates, and absorbed when necessary at the fixed repo rate. The features of this facility were: 1. The general refinance facility was withdrawn and replaced by a collateralised lending facility (CLF) up to 0.25 per cent of the fortnightly average outstanding aggregate deposits in 1997-98 which was available for two weeks at the Bank Rate. An additional collateralised lending facility (ACLF) for an equivalent amount of CLF was made available at the Bank Rate plus two percentage points. CLF and ACLF availed for periods beyond two weeks were subject to a penal rate of 2 per cent for an additional period of two weeks. There was a cooling period of two weeks thereafter. In order to facilitate systemic adjustment in liquidity, the restriction on participation in money market (during the period that such facilities were availed of) was withdrawn. 2. Scheduled commercial banks were made eligible for export credit refinance facility (ERF) at the Bank Rate, *i.e.*, 8.0 per cent per annum effective April 1, 1999. 3. Liquidity support under Level I against collateral of government securities and treasury bills, based on bidding commitment and other parameters was made available to PDs at the Bank Rate for a period of 90 days and the amounts remained constant throughout the year. Liquidity support under Level II against collateral of government securities and treasury bills was also provided to PDs for periods not exceeding two weeks at a time at the Bank Rate plus 2 percentage points.
		● Non-bank entities which were specifically permitted to undertake reverse repos were allowed to borrow money through repo transactions on par with banks and PDs.
		● MMMFs were permitted to offer 'cheque writing facility' to provide more liquidity to unit holders subject to certain safeguards prescribed in this regard. The 'cheque writing facility' was in the nature of a tie-up arrangement with a bank.
		● Banks were allowed to operate different PLRs for different maturities instead of the existing two PLRs (one for the short-term and the other for the long-term loans).
		● Banks were permitted to offer fixed rate term loans subject to conformity to ALM guidelines.
		● It was decided that the Boards of Directors of banks could delegate necessary powers to Asset Liability Management Committee for fixing interest rates on deposits and advances.
		● It was decided that the Reserve Bank would provide accommodation to the state co-operative banks at the Bank Rate as against at 'Bank Rate plus 2.5 percentage points' earlier.
	24	● It was decided that in cases where deposit rates are equal to or more than PLR or less than one percentage point below PLR, the banks would have freedom to charge suitable rates of interest on advances against domestic/NRE term deposits without reference to the ceiling of PLR.
	28	● Banks have been allowed to pay interest at their discretion, at the time of conversion of NRE account into RFC account, even if the same has not run for a minimum maturity of six months provided that the rate of interest does not exceed the rate payable on savings deposits held under RFC account scheme and request for such conversion is received immediately on return of the NRE account holder to India.
July	**7**	● Scheduled commercial banks (excluding RRBs), PDs and all-India financial institutions (AIFIs) were permitted to undertake Forward Rate Agreements/Interest Rate Swaps (FRAs/IRS) as a product for hedging and market making. Corporates were allowed to undertake these transactions only for hedging their own balance sheet exposures.
	21	● Recalling the announcement made on March 14, 1998 that gold borrowed by authorised banks from abroad would form part of the time and demand liabilities and would be subject to CRR and SLR, it was decided on a review that the gold borrowed from abroad and lent to jewellery exporters in India for the purpose of exports would be exempted from the CRR and SLR requirements with effect from the fortnight beginning July 31, 1999, subject to the condition that the effective CRR and SLR maintained

1999		I. MONETARY MANAGEMENT *(Contd.)*
		by the banks on total NDTL, including the liabilities under gold borrowed from abroad and lent to jewellery exporters in India for the purpose of exports should not be less than 3 per cent and 25 per cent, respectively.
July	29	● 35 non-bank entities along with those non-bank entities which were earlier allowed to undertake reverse repo were permitted both to lend and borrow through repo transactions.
Aug.	19	● The Reserve Bank revised the interest rates on General Line of Credit to NABARD, effective July 1, 1999. Accordingly, the interest rate on GLC I was revised to 'Bank Rate minus 2 percentage points' (*i.e.* 6.0 per cent) from 'Bank Rate minus 3.5 percentage points' (*i.e.* 4.5 per cent). The interest rate on GLC II was also revised to 'Bank Rate minus 1.5 percentage points' (*i.e.* 6.5 per cent) from 'Bank Rate minus 3.0 percentage points' (*i.e.* 5.0 per cent).
Oct.	5	● With a view to encouraging mobilisation of domestic idle gold under the gold deposit scheme proposed to be introduced by authorised banks, banks participating under this scheme were exempted from maintaining CRR on liabilities under gold deposits mobilised in India. However, the effective CRR to be maintained by authorised banks on total net demand and time liabilities including liabilities under gold deposit scheme should not be less than 3 per cent. The effective SLR maintained by the nominated banks on total NDTL including the liabilities under Gold Deposit Scheme should not be less than 25 per cent. Banks were required to convert the liabilities and assets denominated in terms of gold into rupees for the purpose of compliance with reserve requirements/capital prescription requirements/ balance sheet translation requirements.
	6	● It was observed that on account of provision of cooling period at the end of four weeks of availment of CLF/ACLF, banks were not freely availing these facilities even during those periods when call rates were ruling high. Hence with a view to making the facilities more flexible and effective in meeting the liquidity requirements of banks and the system, the stipulation of cooling period was removed. Accordingly, banks were provided CLF and ACLF for the first block of two weeks at the Bank Rate and Bank Rate plus two percentage points, respectively. An additional interest rate of two percentage points over the rates applicable for the first block was charged thereafter. The period of payment of the amount drawn under CLF/ACLF was not to exceed 90 days from the date of drawal.
	11	● The Reserve Bank advised that the interest rate on advances for fixed rate loans would be available to banks for all term loans (repayable within a period of not less than three years) and for all purposes including small loans up to Rs.2 lakh, subject to conformity with ALM Guidelines.
	29	● CRR to be maintained by scheduled commercial banks (excluding RRBs) was reduced in two stages of half a percentage point each, effective the fortnights beginning November 6 and 20, 1999 to 9.5 per cent and 9.0 per cent, respectively.
		● Effective fortnight beginning November 6, 1999, the liabilities under FCNR(B) scheme were exempted from the maintenance of incremental CRR of 10 per cent (over the level as on April 11, 1997).
		● In order to improve the cash management by banks, a lag of two weeks in the maintenance of stipulated CRR by banks was introduced, effective November 6, 1999. Thus, the prescribed CRR during a fortnight would be maintained by a bank based on its NDTL as on the last Friday of the second preceding fortnight.
		● The minimum interest rate of 20 per cent per annum on overdue export bills was withdrawn and banks were free to decide the appropriate rate of interest on these bills, keeping in view the PLR and spread guidelines.
		● The interest rate surcharge of 30 per cent on import finance, in force since January 1998, was withdrawn to reduce the financing costs of imports for industry.
		● With a view to enabling banks to meet any unanticipated additional demand for liquidity in the context of the century date change, a 'Special Liquidity Support' for the period December 1, 1999 to January 31, 2000 was introduced, whereby banks were made eligible to avail of liquidity to the extent of their excess holdings of Central Government dated securities/Treasury Bills over the required SLR. The rate of interest on this facility would be 2.5 percentage points over the Bank Rate.
		● To enable banks to tide over the contingency of additional demand for bank notes during the millennium change, 'cash in hand' with banks was allowed to be included in the calculation of CRR during December 1, 1999 to January 31, 2000.
		● The permission granted to non-bank entities to lend in the call/notice money market by routing their transactions through PDs was extended from end-December 1999 to end-June 2000.
		● Effective November 2, 1999, MMMFs were allowed to be set up as a separate entity in the form of a 'Trust' only and not in the form of a Money Market Deposit Account (MMDA).

1999		I. MONETARY MANAGEMENT *(Contd.)*
Oct.	29	• Effective November 2, 1999, scheduled commercial banks were permitted to offer 'cheque writing' facility to Gilt Funds and Liquid Income Schemes of mutual funds which invest not less than 80 per cent of their corpus in money market instruments. The minimum lock-in period of 15 days applicable for MMMFs would not apply in the case of these schemes. • Incremental CRR of 10 per cent on the increase in liabilities under FCNR(B) scheme over the level prevailing as on April 11, 1997 was withdrawn effective from the fortnight beginning November 6, 1999.
2000		
Jan.	13	• Scheduled commercial banks were allowed to pay interest at their discretion at a rate based on their perception and other relevant factors on the minimum credit balance in the composite cash credit accounts of farmers during the period from the 10th to the last day of each month.
March	7	• MMMFs were brought within the purview of SEBI regulations. Banks and FIs were required to seek clearance from the Reserve Bank for setting up MMMFs.
	23	• It was decided to permit banks to charge interest at suitable rates in case of advance up to Rs. 2 lakh against third party deposits as in the case of advances to depositors against their own deposits.
April	1	• The Reserve Bank reduced the Bank Rate by 1.0 percentage point to 7.0 per cent, effective the close of business of April 1, 2000. • CRR was reduced by 1.0 percentage point to 8.0 per cent in two stages of 0.5 percentage point each, from the fortnights beginning April 8 and April 22, 2000, respectively. • The Reserve Bank reduced the repo rate by 1.0 percentage point from 6.0 per cent to 5.0 per cent, effective April 3, 2000. • The Reserve Bank reduced the savings deposit rate of scheduled commercial banks from 4.5 per cent to 4.0 per cent, effective April 3, 2000.
	27	• In order to facilitate the movement of short-term money market rate within a corridor, to impart greater stability and facilitate the emergence of a short-term rupee yield curve, it was announced that a full-fledged Liquidity Adjustment Facility (LAF) operated through repos and reverse repos would be progressively introduced with effect from June 5, 2000. In the first stage, it was proposed that the ACLF would be replaced by variable rate repo auctions with same day settlement; in the second stage (exact timing to be determined subsequently) the CLF and Level-I liquidity support would be replaced by variable rate repo auctions (some minimum support to PDs would be continued but at the interest rate linked to variable rate in the daily repos auctions as determined by the Reserve Bank); in the third stage, with full computerisation of Public Debt Office and introduction of real time gross settlements system (RTGS), repo operations through electronic transfers would be introduced; and in the final stage, LAF would possibly be operated at different timings of the same day. • In order to impart greater flexibility in the pricing of rupee interest rate derivatives and facilitate integration between money and forex markets, interest rates implied in the foreign exchange forward market could be used as a benchmark in addition to the existing domestic money and debt market rates. • The minimum maturity of CDs was proposed to be reduced from 3 months to 15 days in order to bring it on par with other instruments like CPs and term deposits. • It was decided to permit banks to offer, at their discretion, differential rates of interest also on NRE/FCNR(B) term deposits on size group basis. For NRE term deposits, banks were allowed to offer differential rate of interest on single term deposit of Rs.15 lakh and above as in the case of domestic deposits. For FCNR(B) deposits, it was decided to allow banks to have discretion to decide currency-wise minimum eligible quantum qualifying for such differential rates of interest. The interest rates so offered were, however, subject to the overall ceiling prescribed under the scheme. In order to make the market more 'on line', it was decided to give the banks the option to choose at their discretion, the current swap rates while offering FCNR(B) deposits. • It was decided that the facility to non-bank entities for routing transactions through PDs would be extended from end-June 2000 to end-December 2000 and simultaneously steps would be initiated to extend repo facility to such entities through Subsidiary General Ledger (SGL) II Accounts. • AIFIs were given flexibility in the matter of fixing interest rates on term deposits. • In order to facilitate operational flexibility to lenders to adjust their asset liability structure a time bound programme of withdrawing permission to non-bank entities for lending in call/notice money market coinciding with the development of the repo market was announced, with the objective of widening the repo market and improving the participation of the non-bank entities.

2000		**I. MONETARY MANAGEMENT** *(Concld.)*
April	**27**	● In order to provide more deployment avenues within the country and at the same time to exploit the synergy between the lending expertise of a few banks with the vast branch network of the others, it was decided that gold mobilised under the Gold Deposit Scheme could be lent to other authorised banks for similar use as per the specified guidelines. Such borrowings of gold would be treated as inter-bank liabilities and exempted from CRR.
		● With a view to providing further flexibility to banks and enabling them to choose an optimum strategy of holding reserves depending upon their intra-period cash flows, the requirement of minimum 85 per cent of the CRR balances to be maintained on a daily basis was reduced from 85 to 65 per cent from the fortnight beginning May 6, 2000.
May	**25**	● Banks were advised that with effect from May 26, 2000, the interest rate applicable to “Export Credit Not Otherwise Specified” (ECNOS) at post-shipment stage in respect of overdue export bills was 25 per cent per annum (minimum) from the date of bills on which they fall due for payment for both the fresh advances and also the existing advances for the remaining period.
		● In the context of the developments in the foreign exchange market as also the overall monetary and credit situation, it was decided to reintroduce, as a temporary measure, interest rate surcharge of 50 per cent of the actual lending rate on bank credit for imports with effect from May 26, 2000.
July	**6**	● The Reserve Bank issued draft guidelines for the issue of commercial paper (CP). It was proposed to permit all-India financial institutions to issue CPs, to allow issue of CPs in maturities ranging from 15 days to one year in denominations of Rs. 5 lakh or its multiples, to facilitate corporates to issue CPs to the extent of 50 per cent of working capital (fund-based) limit under automatic route, to permit FIIs to invest in CPs within their 30 per cent limit of debt instruments, to encourage issue/holding of CP in dematerialised form, to enable credit rating agencies (CRA) to have discretion on the validity period of the rating and to assign clear roles for issuer, financing banking company, issuing and paying Agent and CRA.
	21	● After a review of the recent developments in the international and domestic financial markets, including the foreign exchange market, the Reserve Bank raised the Bank Rate by 1 percentage point to 8 per cent with effect from the close of business of July 21, 2000. Further, it was announced that the CRR would be hiked by 0.5 percentage point to 8.5 per cent in two stages of 0.25 percentage point each, effective from fortnights beginning July 29 and August 12, 2000, respectively, and all refinance limits available to banks (including those for CLF), as a temporary measure, would be reduced by 25 per cent each of the eligible limits as per existing formulae in each of the same two stages.
		II. INTERNAL DEBT MANAGEMENT
1999		
April	**1**	● The arrangements for the fiscal year 1999-2000 in respect of Ways and Means Advances (WMA) to the Central Government and the rates of interest and the minimum balance required to be maintained with the Reserve Bank effective April 1, 1999 were announced as under: (a) The limit for WMA was kept at Rs.11,000 crore for the first half of the year (April to September) and Rs.7,000 crore for the second half of the year (October to March). When 75 per cent of the limit for WMA would be utilised by the Government, the Reserve Bank could trigger fresh floatation of market loans depending on market conditions. (b) The interest rate on WMA was kept at the Bank Rate (8.0 per cent per annum) and that on overdraft at Bank Rate plus two percentage points (10.0 per cent per annum). (c) The minimum balance required to be maintained by the Central Government with the Reserve Bank was revised from not less than Rs.50 crore to Rs.100 crore on Fridays and from not less than Rs.4 crore to Rs.10 crore on other days. (d) As per the provisions of the Agreement dated March 26, 1997 between the Central Government and the Reserve Bank, overdrafts beyond ten consecutive working days were not allowed from April 1, 1999.
	17	● The Reserve Bank granted ‘in-principle’ approval to Corporation Bank to set up a separate subsidiary dedicated to the securities business to be accredited as a PD.
	20	● The revised scheme for Bidding, Underwriting and Liquidity Support to PDs came into operation to increase the depth and liquidity in the government securities market. Under the scheme, the system for underwriting of Treasury Bills was replaced by a system of minimum bidding commitment. Each PD was required to make a minimum bidding commitment as a percentage of the notified amount for each auction, which is to be indicated at the beginning of the year. The minimum bidding commitment of all PDs taken together was expected to absorb 100 per cent of the issue. In the case of auctions of dated securities, the underwriting system was not changed except that against 50 per cent offered for underwriting, PDs were allowed to underwrite 100 per cent of the notified amounts. The Reserve Bank's liquidity support against collateral of Government securities, based on the bidding commitment and other parameters, was made available to the PDs.
		● Consolidation of outstanding loan is necessary for ensuring sufficient volumes and liquidity in any one issue. Such consolidation also facilitates the emergence of benchmarks and development of the Separate

1999		II. INTERNAL DEBT MANAGEMENT *(Concld.)*
April	20	Trading of Registered Interest and Principal Securities (STRIPS). Accordingly, the option of issuing new loans on price basis was introduced through a revised notification from the Central Government. Consequently, the first ever priced based auction was conducted by the Reserve Bank on May 11, 1999 with the two securities *viz*., 11.19 per cent Government Stock 2005 and 12.32 per cent Government Stock 2011 aggregating Rs.3,000 crore and Rs.2,000 crore, respectively.
		● State governments were allowed to avail of Special WMA against the collateral of their investments in auctioned Treasury Bills in addition to their holdings in government dated securities, effective May 7, 1999.
		● State governments were allowed to put bids on non-competitive basis in the auctions for 182 days and 364 days Treasury Bills, effective May 21, 1999.
	21	● The Reserve Bank announced a calendar of Treasury Bill issuance, valid till September 1999. The Reserve Bank also decided to issue 182-day Treasury Bills, effective May 26, 1999, on every Wednesday preceding the non-reporting Friday (364-day Treasury Bills are issued every Wednesday preceding the reporting Friday). While the notified amounts for 14-day, 91-day and 182-day Treasury Bills were fixed at Rs.100 crore, that for 364-day Treasury Bills was fixed at Rs.500 crore.
Sept.	28	● The Reserve Bank announced advance release calendar in respect of 14-day, 91-day, 182-day and 364-day Treasury Bill issuance, which would be valid up to March 2000.
Oct.	29	● Based on the recommendations of an Internal Working Group, the Reserve Bank decided to commence two-way operations in Treasury Bills with effect from February 2000.
2000		
March	1	● Vide its notification dated March 1, 2000, Government of India rescinded the 27th June 1969 notification barring ready forward transactions issued by Government of India under section 16 of the Securities Contracts (Regulation) Act, 1956 and delegated powers to the Reserve Bank under this Act for regulating ready forward contracts in government securities, money market securities, gold and gold related securities and derivatives based on these securities and in any debt securities issued by body corporates established by Central/State Government Act. Accordingly, the Reserve Bank issued a notification permitting all non-bank entities, who are maintaining SGL and current account with the Reserve Bank, Mumbai to undertake repos (including reverse repos).
April	1	● The arrangements for the fiscal year 2000-01 in respect of WMA to the Government of India and the rate of interest and the minimum balance required to the maintained with the Reserve Bank effective April 1, 2000 would be same as those in 1999-2000.
	27	● The restriction that no sale deal should be entered into without actually having the securities in the investment portfolio at the time of sale was removed and entities were permitted to sell the securities after allotment, thus enabling sale, settlement and transfer on the same day.
		● Special facility for securities settlement was proposed to be introduced for banks and primary dealers entities having SGL accounts for providing smooth securities settlement.
		III. FINANCIAL SECTOR MEASURES
1999		
April	7	● Primary (Urban) Co-operative Banks were allowed to invest their surplus funds in unsecured redeemable bonds, floated by nationalised banks, within the stipulated limit of 10 per cent of their deposits.
	12	● The Reserve Bank announced that NBFCs presently holding public deposits would be allowed, with immediate effect, to park an amount equivalent to the amount of outstanding public deposits together with the present value of future interest differentials (between the yield on investments and the obligations of the company to pay the rate of interest) in an escrow account subject to certain conditions to exit from public deposits.
	13	● The Reserve Bank announced the regulations for Mutual Benefit Companies (MBCs) which were yet to be notified as nidhis by Department of Company Affairs (DCA) of the Central Government. Such companies would be treated at par with the notified *nidhi* companies subject to certain conditions.
	20	● As per Monetary and Credit Policy Statement 1999-2000, banks were advised to classify a minimum of 75 per cent of their investment in approved securities as current investments for the year ended March 31, 2000.
		● It was decided that the investment by a bank or a financial institution (FI) in Tier II bonds issued by other banks would be subject to a ceiling of 10 per cent of the bank's or FI's total capital.
		● In certain situations (*e.g.*, cyclical downturns) where loans had been rescheduled, but borrowers had started servicing their loans on a regular basis after a short gap, the classification of loans as sub-

1999		III. FINANCIAL SECTOR MEASURES *(Contd.)*
April	20	standard for at least two years of satisfactory performance under the renegotiated or rescheduled terms was reduced to one year (or four quarters) if the interest and instalment of loans were serviced regularly as per the terms of rescheduling.
		● The Board of Directors of banks were provided with the freedom to prescribe detailed rules for determining the date of commencement of commercial production of units.
		● In respect of new NBFCs which are incorporated on or after April 20, 1999, the requirement of minimum NOF was raised to Rs.2 crore.
		● To ensure timely and adequate availability of credit to infrastructure projects, banks/FIs were advised to clearly delineate the procedure for approval of loan proposals and institute a suitable monitoring mechanism for reviewing applications pending beyond the specified period. Banks/FIs were also urged to set up a mechanism for monitoring the project implementation.
	23	● The Reserve Bank issued operational guidelines for financing of infrastructure projects to banks/FIs. Accordingly, banks were permitted to sanction term loans for technically feasible, financially viable and bankable projects undertaken by both public and private sector undertakings, subject to prescribed criteria. Banks were also permitted to issue inter-institutional guarantees subject to certain norms.
	24	● The Reserve Bank decided that for the purpose of capital adequacy, all-India term lending and refinance institutions may treat the 'grant equivalent' implicit in non-cumulative preference shares issued for a maximum period of 20 years at par with perpetual non-cumulative preference shares subject to certain conditions.
		● In order to encourage flow of finance for venture capital, the overall ceiling of investment by banks in ordinary shares, convertible debentures of corporates and units of mutual funds, *etc.*, of 5 per cent of their incremental deposits of the previous year was enhanced to the extent of banks' investment in venture capital funds which were registered with SEBI.
		● Interest rates applicable to bank loans extended to micro-credit organisations were left to the discretion of banks and de-linked from direct small loans applicable to individual beneficiaries.
May	21	● The Reserve Bank advised FIs, non-banking subsidiaries of commercial banks, primary (urban) co-operative banks and PDs/SDs in government securities to disclose information on certain crucial aspects of Y2K.
	22	● In respect of interest rates on deposits held under FCNR(B)/NRE Scheme, the Reserve Bank advised that the bank may, at its discretion, renew an overdue deposits or a portion thereof provided the overdue period from the date of maturity till the date of renewal (both days inclusive) does not exceed 14 days and the rate of interest payable on the amount of the deposit so renewed shall be the appropriate rate of interest for the period of renewal as prevailing on the date of maturity or on the date when the depositor seeks renewal, whichever is lower. Banks would be free to recover the interest to be paid for the overdue period, if the deposit is withdrawn before completion of minimum period prescribed under the schemes after renewal.
	25	● The Reserve Bank removed the ceiling on bank credit prescribed for all registered NBFCs engaged in the principal business of equipment leasing, hire purchase, loan and investment activities.
	27	● The Reserve Bank issued guidelines for constitution of Settlement Advisory Committees (SAC) and compromise settlement of NPAs of small sector by the public sector banks. The guidelines would apply to all NPAs in the SSI sector, small business including trading and personal segment and agricultural sector, which are chronic and at least 3 years old as on March 31, 1999 and would be operative up to September 30, 2000.
July	12	● Banks were advised that loss assets outstanding for more than two years and where legal action was not initiated may be reviewed henceforth at certain different levels.
	17	● With a view to bringing in uniformity in the accounting practices followed by banks undertaking equipment leasing activity departmentally, banks were advised to follow the 'Guidance Note on Accounting for Leases' issued by the Institute of Chartered Accountants of India (ICAI). As per the guidelines, the net lease rentals (finance charge) on the leased asset accrued and credited to income account before the asset became non performing, and remained unrealised, should be reversed or provided for in the current accounting period.
	30	● The Reserve Bank enhanced the financial limits for retail traders and for housing purposes from Rs.2 lakh to Rs.5 lakh.
	31	● The Reserve Bank evolved an educational loan scheme for students, with effect from August 1, 1999, in private professional colleges to facilitate financial assistance to students seeking admission to these colleges under free/merit and payment categories.
Aug.	2	● The Reserve Bank clarified that all Nidhi Companies, Chit Fund Companies and such other NBFCs including residuary non-banking financial companies (RNBCs) that held public deposits, were required to submit annual statutory return on deposits, as on March 31, 1999.

1999		III. FINANCIAL SECTOR MEASURES *(Contd.)*
Aug.	16	● The rates of interest on the foreign currency export credits which were to be fixed with reference to ruling LIBOR were permitted to be fixed with reference to EURO/EURIBOR, wherever applicable.
Sept.	7	● The Reserve Bank advised the Indian Banks' Association (IBA) and the Foreign Exchange Dealers Association of India (FEDAI) to totally dispense with the practice of fixing benchmark service charges on behalf of member banks including charges for forex transactions to give freedom to banks in prescribing service charges.
	8	● Indian Renewable Energy Development Agency Ltd. (IREDA) was included in the list of All-India Financial Institutions (AIFIs) whose bonds and debentures would qualify for risk weight of 20 per cent for capital adequacy ratio.
	15	● Scheduled commercial banks (SCBs) were advised to disclose as 'Notes to Accounts' in their balance sheets their exposure to sensitive sectors *viz.*, advances to capital market sector, advances to real estate sector and advances to commodities sector which includes cash crops, edible oils, agricultural produce and other sensitive commodities.
	21	● Scheduled Primary Co-operative Banks were permitted to rediscount bills discounted by NBFCs arising from sale of commercial vehicles (including light commercial vehicles) subject to normal lending safeguards.
	22	● The power of Chairman and Managing Director of public sector banks for waiver/write-off of loans was raised from the existing limit of Rs.10 lakh to Rs.50 lakh.
	23	● The Reserve Bank directed that the grant of advances against the security of Relief Bonds issued in different series would be eligible security for sanction of loans subject to certain conditions.
	30	● Banks were advised to include the flow of micro credit in their corporate strategy/plan and to review progress thereof at the highest level on a quarterly basis.
Oct.	7	● The Reserve Bank issued detailed guidelines for risk management system in banks. The guidelines broadly cover management of credit, market and operational risks. The guidelines on risk management together with the ALM guidelines would serve as benchmark for the banks which are yet to establish integrated risk management systems.
	12	● RRBs were allowed to invest in Tier-II Bonds issued by sponsor banks or other banks/FIs only to the extent of 10 per cent of RRBs owned funds, in aggregate.
	18	● In regard to income recognition, asset classification and provisioning for valuation of investment by banks in subsidiaries, banks were advised that long-term investments should be carried with the financial statements at carrying cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the investments, such reduction being determined and made for each investment individually. This methodology for valuation of investment in subsidiaries would be applicable from the year ending March 31, 2000. Banks were advised to submit a Report to the Reserve Bank giving details of the issue of subordinate debt for raising Tier II capital, such as the amount raised, the maturity of investment, and the rate of interest together with a copy of the offer document.
	21	● The Reserve Bank advised SCBs that in respect of agricultural advances as well as advances for other purposes granted by banks to ceded PACS/FSS under the on-lending system, only that particular credit facility granted to a PACS/FSS which is in default for a period of two harvest seasons (not exceeding two half years)/ two quarters, as the case may be, after it has become due will be classified as NPA and not all the credit facilities sanctioned to a PACS/FSS. However, other direct loans and advances, if any, granted by the bank to the member borrower of a PACS/FSS outside the on-lending arrangement will become NPA even if one of the credit facilities granted to the same borrower becomes NPA.
	29	● Banks were provided the freedom to charge interest rates without reference to prime lending rate (PLR) in certain categories *viz.*, (a) loans covered by refinance scheme of term-lending institutions, (b) lending to intermediary agencies, (c) discount of bills, and (d) advances/overdrafts against domestic/NRE/ FCNR(B) deposits.
		● The risk weight of 2.5 per cent for the risk arising out of market price variations was extended to encompass all investments, including securities outside the SLR, effective from the year ending March 31, 2001.
		● The exposure ceiling in respect of an individual borrower was lowered from the present level of 25 per cent to 20 per cent of the bank's capital funds, effective April 1, 2000.
		● Banks were permitted to reckon all indirect housing loans extended by them to housing intermediary agencies (irrespective of the per borrower size of the loan) as part of the housing finance allocation.

1999		III. FINANCIAL SECTOR MEASURES *(Contd.)*
Oct.	29	● Banks were given the freedom to decide the appropriate rate of interest in respect of the category of "Export Credit Not Otherwise Specified" at post-shipment stage. However, the procedure for ensuring that there is no deliberate attempt to delay repatriation of export receipts will remain in force.
Nov.	2	● With regard to bill finance for settlement of dues of SSI suppliers, the mandatory minimum 25 per cent for acceptance of bills was withdrawn.
	12	● The Reserve Bank issued guidelines to the banks for issuing of debit cards and smart cards with a view to helping banks to adopt appropriate safeguards in issuing of electronic cards to ease pressure on physical cash.
	15	● NBFCs were advised to give at least 3 months' public notice prior to the date of closure of any of their branches/offices in at least one leading national newspaper and a leading local vernacular language newspaper indicating therein the purpose of closure and arrangement being made to service the depositors. Similar prior notice by NBFCs was also required in case of sale or transfer of ownership by sale of share or transfer of control whether with or without sale of shares.
		● NBFC Directions on acceptance of public deposits were amended to exempt borrowings from mutual funds registered with SEBI from the purview of public deposits.
2000		
Jan.	7	● The Reserve Bank issued guidelines for FIs in respect of income recognition, asset classification, provisioning and other related matters and capital adequacy standards for take-out finance. The guidelines relate to both unconditional and conditional take-over.
	10	● Banks were required to segregate the debit and credit entries in inter-branch accounts pertaining to the period up to March 31, 1998 and outstanding as on March 31, 2001 and arrive at the net position. In case of a net debit, a provision equivalent to 100 per cent thereof may be made for the year ended March 2001.
	12	● Consequent upon the issuance of revised guidelines of inspection of Primary (Urban) Co-operative Banks, the system of periodical visits to urban banks by the Regional Heads was reviewed and the revised guidelines were issued by the Reserve Bank.
	13	● The Reserve Bank instructed that the provisions of Sections 45-IA, 45-IB and 45-IC of the Reserve Bank of India Act, 1934 shall not apply to any non-banking financial company which is (a) providing credit not exceeding Rs.50,000 for a business enterprise and Rs.1,25,000 for meeting the cost of a dwelling unit to any poor person for enabling him to raise his level of income and standard of living, (b) licensed under Section 25 of the Companies Act, 1956, (c) not accepting public deposits, and (d) is a mutual benefit company.
		● The Reserve Bank effected several amendments to NBFC Regulations: 1. NBFCs which were (i) engaged in micro financing activities, (ii) licensed under Section 25 of the Companies Act, 1956 and (iii) not accepting public deposits were exempted from the purview of registration, maintenance of liquid assets and transfer of profits to reserve fund. 2. The mutual benefit companies (MBCs) in existence as on January 9, 1997 and having net owned fund (NOF) of Rs.10 lakh were exempted from the requirements of registration, maintenance of liquid assets, creation of reserve fund and also from certain provisions of NBFC directions on acceptance of public deposits and prudential norms which do not apply to notified nidhi companies. 3. The Reserve Bank introduced certain regulations over opening and closing of branches with an obligation of the auditors to report non-compliance of these directions. NBFCs were directed to constitute Audit Committees, consisting of not less than three members of the Board of Directors, if they have assets of more than Rs. 50 crore as per the last audited Balance Sheet. NBFCs would be required to follow a uniform accounting year of March 31 every year with effect from the accounting year ending with March 31, 2001. They would also have to furnish information on suit-filed and decreed debts in the Prudented Norms Return submitted to the Reserve Bank. 4. NBFCs not holding public deposits were not required to submit liquid asset return. 5. NBFCs were allowed to maintain a part of the liquid assets (up to 5 per cent of public deposits) in the form of unencumbered term deposits with scheduled commercial banks. 6. Government Companies as described in Sec. 617 of Companies Act were exempted from core provisions of RBI Act and Directions except registration under Sec. 45-1A.
		● The Reserve Bank advised NBFCs which had not attained the stipulated minimum NOF of Rs. 25 lakh as on January 9, 2000 to immediately discontinue their business and inform the Reserve Bank of discontinuance. Such NBFCs were not allowed to accept or renew public deposits. They were to repay

2000		III. FINANCIAL SECTOR MEASURES *(Contd.)*
Jan.	13	the deposits already accepted as per the terms and conditions of acceptance. They should continue to comply with the provisions of Chapter III-B of the Reserve Bank of India Act and the directions issued there under it till all the depositors are repaid. The Reserve Bank also stated that it does not guarantee the repayment of deposits by any NBFC including those which have obtained the certificate of registration (CoR) under Section 45-IA of the Reserve Bank of India Act.
Feb.	7	● The Reserve Bank issued guidelines in respect of income recognition, asset classification and provisioning norms for export project finance.
	12	● Public sector banks were allowed to open savings bank accounts in the name of Zilla Parishads/Gram Panchayats in respect of funds released for implementation of various rural development/welfare programmes and/or subsidy/margin money linked programmes sponsored by the State Governments/ Central Government.
	18	● Banks were advised that micro-credit extended by them to individual borrowers either directly or through any intermediary would be reckoned as part of their priority sector lending.
	29	● The Reserve Bank issued guidelines for banks in respect of income recognition, asset classification, provisioning and other related matters and capital adequacy standards for take-out-finance which were similar to the guidelines issued earlier for FIs.
March	2	● The Reserve Bank delineated a broad coverage of infrastructure activities for the purpose of financing with the advice that the relaxation in group exposure norms with regard to financing of infrastructure projects would be available only in respect of four sectors *viz*., roads, power, telecommunication and ports.
April	24	● The Reserve Bank advised that (a) banks need to assign risk weight of 100 per cent to those State government guaranteed securities that are issued by the defaulting entities and not on all the securities issued or guaranteed by the State government concerned; (b) no provision need be made for a period of one year in respect of additional credit facilities granted to SSI units which are identified as sick where rehabilitation packages/nursing programme have been drawn by the banks themselves or under consortium arrangements; and (c) the general provision of 0.25 per cent on standard assets should be made on global portfolio basis and not on domestic advances alone.
		● It was decided that lending by banks to NBFCs for on-lending to agriculture should be reckoned as priority sector lending.
	27	● Banks were advised to voluntarily build-in the risk weighted components of their subsidiaries into their own balance sheet on notional basis at par with the risk weights applicable to banks' own assets.
		● The Reserve Bank announced a move towards risk-based supervision (RBS) of banks. The risk-based supervision approach entails monitoring of banks by allocating supervisory resources and focusing supervisory attention according to the risk profile of each institution.
		● The Reserve Bank decided to enhance the ceiling for classifying advances for financing distribution of inputs for allied activities, such as cattle-feed, poultry-feed *etc*., as indirect advances to agriculture to Rs.15 lakh from Rs.5 lakh.
		● The Reserve Bank announced that it proposes to extend to the NBFCs the guidelines on Asset Liability Management and Risk Management after getting the views of the industry. It also announced considering guidelines for NBFCs for their entry/participation in insurance business.
		● It was decided to grant freedom to banks to offer loans on fixed or floating interest rates subject to PLR stipulations and also to offer, at their discretion, differential rates of interest on NRE/FCNR(B) term deposits on size group basis subject to specified lines.
	28	● It was decided to authorise Regional Rural Banks (RRBs) which have minimum working capital of Rs.25 crore and satisfy other listed criteria to open/maintain Non-Resident (Ordinary/External) accounts in rupees.
May	26	● The exemption granted to RRBs from the practice of marking to market norms in respect of the SLR securities was further extended to another two financial years, *viz*., 2000-01 and 2001-02.
	27	● The Reserve Bank announced guidelines for constitution of Settlement Advisory Committee (SAC) for compromise settlement of NPAs of small sector by public sector banks.
June	9	● Any NBFC registered with the Reserve Bank having net owned fund of Rs.2 crore as per last audited balance sheet was permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation. All registered NBFCs that satisfy the eligibility criteria were permitted to undertake insurance business with risk participation, subject to safeguards.
	30	● The Reserve Bank announced rationalisation of some of the regulations applicable to NBFCs and RNBCs.

2000		**III. FINANCIAL SECTOR MEASURES** *(Concld.)*
June	**30**	Provisioning norms for NBFCs in respect of lease and hire purchase assets were rationalised. RNBCs were permitted to invest in the schemes of UTI and other mutual funds registered with SEBI. The floor/ ceiling on interest rates payable by RNBCs was lowered by two percentage points. Deposits from the relative of a Director of NBFC were exempted from the purview of public deposits. NBFCs were also advised to brand their certificates of registration as 'deposit taking company' or 'non-deposit taking company'.
July	**27**	● The Reserve Bank announced revised guidelines for recovery of dues relating to NPAs of public sector banks. These would cover NPAs relating to all sectors including the small sector and would remain operative up to March 31, 2001.
	31	● The Reserve Bank prepared a Discussion Paper on Prompt Corrective Action (PCA). The schedule of corrective actions under the broader PCA regime was worked out based on three parameters i.e., Capital to Risk Assets Ratio (CRAR), net NPAs and Return on Assets (RoA). Trigger points have been set under the three parameters taking into account the practicality of implementation of certain measures in the Indian context.
		IV. CAPITAL MARKET
		(i) Securities and Exchange Board of India (SEBI)
1999		
May	**20**	● SEBI made it mandatory for every stock exchange to sign up with depositories to provide the demat option to investors trading on the exchange.
June	**11**	● SEBI finalised the credit rating agency (CRA) norms. The regulations prohibit rating agencies from rating instruments floated by their promoters as also those of borrowers of the promoters' institution(s). CRAs were required to attain a minimum net worth of Rs.5 crore in three years. Also the listing norms at stock exchanges would be changed so as to ensure adequate disclosure to CRAs by the issuers.
Aug.	**17**	● SEBI relaxed the minimum initial public offering requirement for information technology (IT) companies from 25 per cent to 10 per cent of the post-equity issue. However, companies were required to make a public offer for at least Rs.50 crore and offer at least 20 lakh securities.
		● SEBI cleared the draft regulations for collective investment schemes (CIS) in line with the recommendations of the Dave Committee. The regulations stipulated that a minimum net worth of Rs.3 crore for new schemes and Rs.1 crore for existing schemes was to be attained in a year. Further, in five years, all schemes were required to attain a minimum net worth of Rs.5 crore. These also stipulated compulsory listing in stock exchanges and credit rating and prohibited them from offering assured returns. The CIS was also to be constituted as a two-tiered structure comprising a trust and a collective investment management company (CIMC). Existing schemes were to seek registration failing which their operations were to be wound up.
Sept.	**2**	● In order to ensure transparency and better price discovery, SEBI prohibited negotiated deals in securities. All negotiated deals were permitted as normal deals executed on the screens of stock exchanges. The negotiated deals were required to result in delivery.
	6	● SEBI relaxed the regulations pertaining to the registration of foreign institutional investors (FIIs). FIIs can now obtain registration from SEBI to a sub-account with only 20 investors as against 50 investors stipulated earlier.
Oct.	**8**	● SEBI made investment guidelines for mutual funds (MFs) more stringent. The new guidelines restricted MFs to invest no more than 10 per cent of NAV of a scheme in shares or share-related instruments of a single entity. MF's investment in rated debt-instrument of a single issuer was restricted to 15 per cent (up to 20 per cent with prior approval of Board of Trustees and AMC). The modified norms also specified a maximum limit of 25 per cent of NAV of any of its schemes for investment in listed group companies as against an umbrella limit of 25 per cent of NAV for all schemes taken together stipulated earlier.
		● SEBI modified 100 per cent book-building norms for public issues and allowed the issuer options to issue securities through either the existing guidelines or the modified guidelines. In the modified guidelines, (i) compulsory display of demand at the terminals was made optional; (ii) the reservation of 15 per cent of the issue size for individual investors could be clubbed with fixed-price offer; (iii) the issuer could be allowed to disclose either the issue size or the number of securities to be offered; and (iv) the allotment of book-built portion were required to be made in demat mode only.
		● Norms for IPO/offer for sale for companies in the information technology (IT) sector were modified in order to ensure that non-IT companies did not take advantage of relaxed norms for IPOs for IT sector

2000		IV. CAPITAL MARKET *(Contd.)*
		companies. The guidelines stipulated that IT companies making IPO must have track record of distributable profits in three out of five years in the IT business/from out of IT activities.
2000		
Jan.	**5**	● Following the enactment of Securities (Amendment) Act, 1999 SEBI gave in-principle approval to the National Stock Exchange and Bombay Stock Exchange to commence trading in derivatives.
	10	● Compulsory Rolling Settlement on a T+5 basis was introduced. Ten select scrips were chosen on the basis of the criteria that they should be in the compulsory demat list and have daily turnover of about Rs.1 crore or more.
	25	● SEBI amended Mutual Fund regulations whereby mutual funds were required to send a complete statement of their scheme portfolios to all unit holders within one month from the close of every half year.
Feb.	**3**	● SEBI issued guidelines for mutual funds to undertake trading in derivatives for purposes of hedging and balancing their portfolios.
	21	● SEBI started implementing the recommendations of Kumar Mangalam Birla Committee on Corporate Governance by instructing stock exchanges to modify their listing agreements with companies. Other 'mandatory' recommendations pertained to the composition of Board of Directors, appointment and structure of Audit Committee, shareholders' rights and disclosure of compliance of corporate governance, *etc.* These were applicable to companies (a) seeking new listing (with immediate effect) or (b) included in 'A' group of BSE or in S&P CNX Nifty (by end-March 2001) or (c) with paid-up capital of Rs.10 crore and above or companies with net worth of Rs.25 crore or above (by end-March 2002) or (d) which are listed and with a paid-up capital of Rs.3 crore and above (by end-March 2003).
April	**7**	● SEBI relaxed the IPO norms for companies in the media, entertainment and telecom sector by reducing the minimum level of public offering from 25 per cent to 10 per cent of post-equity issue. The size of the net offer to the public was stipulated at no less than Rs. 50 crore.
		● SEBI modified guidelines for 100 per cent one-stage book-building process. Under the new guidelines, a maximum of 60 per cent of the issue was allowed to be allotted to institutional investors and at least 15 per cent to non-institutional investors applying for more than 1000 shares. The remaining 25 per cent could be allotted to small investors on a pro-rata basis. 100 per cent one-stage book-building was permitted with bidding centres at all cities with stock exchanges.
May	**24**	● SEBI liberalised investment norms for mutual funds by allowing open-ended schemes to invest up to five per cent of their net asset value (NAV) in equity shares or equity related instruments of unlisted companies. Investment limit in such equities was kept unchanged at 10 per cent for closed-ended schemes.
June	**7**	● SEBI increased the maximum investment limit for mutual funds in listed companies from 5 per cent to 10 per cent of NAV in respect of open-ended funds. Also, any change in the fundamental attributes of a scheme was allowed to be made without the consent of three fourths of the unit holders provided that unit holders are given the exit option at NAV without any exit load.
	9	● SEBI issued a code of conduct on advertisement for mutual funds banning them from making claims based on past performance, *etc.* that might mislead the public.
	14	● In the secondary market SEBI permitted introduction of daily and weekly carry forward system with maturities of 1,2,3,4 and 5 days in the rolling settlement. It also permitted stock exchanges to introduce continuous net settlement (CNS).
	15	● The SEBI decided to tighten the entry norms for IPOs by modifying the Disclosure and Investor Protection (DIP) guidelines. According to the new guidelines, the IPOs of size upto 5 times the pre-issue net worth was allowed only if the company had a record of profitability and net worth as specified in the guidelines. Companies without such a track record or the issue size beyond 5 times the pre-issue net worth were allowed to make IPOs only through the book-building route with 60 per cent of the issue to be allotted to qualified institutional borrowers (QIBs). SEBI also stipulated a lock-in period of shares issued on preferential basis by listed companies to any person for a period of one year.
July	**3**	● Following the recommendations of the Committee on Accounting Standards (Chairman: Shri Y.H. Malegam) to improve transparency, SEBI made it mandatory for the listed companies to provide their half-yearly results on the basis of limited review by its auditors or chartered accountants to the stock exchanges.
	4	● SEBI issued guidelines specifying eligibility criteria and risk containment measures for automatic lending and borrowing mechanism (ALBM), a quasi-derivative instrument introduced by NSE, in line of the carry forward system.
		(ii) Government of India
1999		
Oct.	**27**	● The Union Government decided to empower the SEBI as the sole authority for regulating the issuance and transfer of shares of listed companies.

1999		**IV. CAPITAL MARKET** *(Concld.)*
Dec.	**2**	● The Insurance Regulatory and Development Authority Act 1999 (IRDA) was enacted to grant statutory status to the Insurance Regulatory and Development Authority. It also sought to throw open the Indian insurance industry to private Indian companies in which the maximum foreign holding was capped at 26 per cent.
	29	● The Securities Laws (Amendment) Act 1999 was enacted with the aim of broadening the definition of 'securities' so as to bring into its ambit the derivatives and instruments issued by collective investment schemes.
2000		
Feb.	**29**	● Pursuant to the proposals made in the Union Budget for 2000-2001, (i) venture capital funds were exempted from approval of tax authorities as also from income tax on income received in the hands of investors with effect from April 1, 2000; (ii) SEBI was made the single point nodal agency for registration and regulation of venture capital funds; (iii) the rate of dividend tax to be paid by companies and by mutual funds in respect of debt oriented schemes was raised from 10 per cent to 20 per cent with effect from June 1, 2000; (iv) tax benefits under sections 54EA and 54EB, arising out of sale of capital assets were withdrawn with effect from April 1, 2000, and; (v) the stock exchanges were exempted from income tax on contribution for setting up Investor's Protection Fund with effect from April 1, 2000.
		(iii) Reserve Bank of India
1999		
Oct.	**29**	● In its Monetary and Credit Policy for the second half of 1999-2000, the Reserve Bank decided to withdraw its regulations pertaining to money market mutual funds (MMMFs) in favour of SEBI for better investor protection. However, banks and financial institutions desirous of setting up MMMFs were to be required to seek clearance from the Reserve Bank.
		V. EXTERNAL SECTOR MANAGEMENT
		a) Trade Policy
1999		
April	**6**	● The DGFT laid down the guidelines for extension in export obligation period in respect of Advance Licences and Export Promotion Capital Goods (EPCG) Scheme. Subject to certain conditions, the maximum extension can be up to 18 months for Advance Licence and up to March 31, 2001 under the EPCG Scheme
	9	● The DGFT set up fast track counter to cater to the requirements of Status Holders (*i.e.*, export houses and various trading houses) in the context of Advance Licence and DEPB Scheme. Application for these facilities can be filled up either electronically or manually.
July	**29**	The DGFT made the following changes in the guidelines for import of second hand capital goods:- ● The Inter-Ministerial Restricted Item Licensing Committee in DGFT will normally allow import of such capital goods automatically that is not older than 5 years. ● The Committee will take into consideration the comparative advantages/benefits of such imports *vis-a-vis* new capital goods that are older than 5 years but less than 10 years old. ● Import of capital goods that are older than 10 years will normally not be allowed except for heavy equipment in the infrastructure and core sector industries. ● The imported capital goods will have to conform to the acceptable environmental and industrial safety norms. Apart from the criteria mentioned above, the Committee may fix any criteria as deemed necessary.
	30	● The restrictions regarding the minimum import prices for steel items for imports under Advance Licences, Annual Advance Licenses, Special Import Licences and Advance Intermediate Licences; and imports made by EOUs and units in EPZ were dispensed with.
Aug.	**19**	● Requests for procurement of capital goods against EPCG licences from indigenous sources need not be placed before the EPCG committee.
2000		
March	**31**	The amended EXIM Policy was announced. The salient features are as follows: ● For promoting export production without hassles, Special Economic Zones would be set up in different parts of the country. ● For enhancing the involvement of State Governments in export promotion efforts, a scheme of granting financial assistance to the states for the development of export related infrastructure on the basis of their export performance was evolved. ● In order to speed up transactions and to bring about transparency in filing, processing and disposal of application forms, emphasis would be placed on e-commerce.

2000		V. EXTERNAL SECTOR MANAGEMENT *(Contd.)*
March	**31**	● Several existing export promotion schemes have been rationalised. ● For encouraging export of quality/branded goods, double weightage on FOB or net foreign exchange earning (NFE) on exports made by units having ISO or equivalent status and value caps on the identified branded products will not be applicable under DEPB Scheme. ● Quantitative restrictions on 714 out of 1,429 items were removed by shifting them from the SIL List to the OGL List. The remaining items would be shifted to the OGL List by March 31, 2001 and the SIL List would be abolished. ● Import of second hand capital goods, which are less than 10 years old, will be allowed without obtaining any licence on surrender of SIL.
		b) Foreign Exchange Market
1999		
April	**24**	● Cut-off date for providing forward exchange cover to FIIs in respect of their equity investment was changed from June 11, 1998 to March 31, 1999 and ADs were permitted to provide forward exchange cover to FIIs to the extent of 15 per cent of their outstanding equity investment as at the close of business on 31st March 1999 converted into US dollar terms at the rate of US $ 1 = Rs.42.43, as well as for the entire amount of any additional investment made after March 31, 1999. The existing forward contracts booked in accordance with earlier instructions are allowed to continue even if the amount thereof exceeded 15 per cent of the value of investment as on March 31, 1999. ● ADs were permitted to allow the EEFC account holders the facility of making payments from such accounts for eligible purposes by issue of cheques to beneficiaries of the payments subject to certain conditions.
May	**19**	● ADs were empowered to renew the general permission granted by Reserve Bank to OCBs under the Portfolio Investment Scheme for a further period of five years. ● Foreign embassies/missions/diplomats were permitted to open foreign currency accounts with any AD in India without the approval of the Reserve Bank subject to certain conditions. Earlier such accounts were allowed to be opened only at select branches of State Bank of India. ● The Reserve Bank granted (a) exemption from the operation of provisions of Section 29(1)(b) of FERA, 1973 to non-resident holders of ADRs/GDRs to acquire the underlying shares released by the Indian custodian upon surrender of the ADRs/GDRs, and (b) general permission to company/depository concerned for entering an address outside India in its register of books in respect of such shares.
June	**2**	● ADs were permitted to grant credit facilities, fund based as well as non-fund based, according to their commercial judgement against the security of balances held in EEFC account.
	29	● The Reserve Bank granted general permission to foreign airline companies, which did not have a branch, office or a place of business in India, to carry on their normal commercial activity in India through their local agents. ADs were also permitted to allow local agents of such foreign airline companies to remit net surplus passage fare/freight collection subject to certain conditions.
July	**23**	● The ceiling on fast track route of the Reserve Bank for investment in Joint Ventures (JVs)/Wholly Owned Subsidiaries (WOS) in Nepal and Bhutan was raised from Rs.60 crore to Rs.120 crore and that in other SAARC countries and Myanmar from US $ 15 million to US $ 30 million.
	31	● Authorised dealers were allowed to extend the time for physical import of goods against advance remittances by one month (three months in the case of capital goods) over and above the stipulated three months (twelve months in the case of capital goods) from the date of remittance.
Aug.	**30**	● Procedure for release of exchange to students for studies abroad was simplified and students could approach any AD to draw exchange as per their eligibility and convenience.
	31	● Indian companies were permitted to issue Commercial Paper to Overseas Corporate Bodies (OCBs) on non-repatriation basis subject to the same terms and conditions stipulated for issuing commercial paper to NRIs.
Oct.	**5**	● It was decided to allow the ADs who have been permitted by the Reserve Bank to accept gold under Gold Deposit Scheme to use exchange-traded and over-the-counter hedging products available overseas to manage their price risk arising out of sale of gold. However, while using products involving options, authorised dealers may ensure that there is no net receipt of premium, either direct or implied. ● Banks which were allowed to enter into forward gold contracts in India in terms of the existing guidelines were also allowed to cover their price risk by hedging abroad.
	12	● General permission was granted to (i) Indian companies to issue rights/bonus shares to non-residents and to send such shares out of India and (ii) non-residents to acquire such rights/bonus shares, subject to certain conditions. It may be noted, however, that such issues resulting in increase in

1999		V. EXTERNAL SECTOR MANAGEMENT *(Contd.)*
Oct.	12	percentage of foreign equity as also issue of shares by companies whose original project cost was more than Rs.600 crore shall still require prior approval by the Union Government as per the existing procedure.
		● General permission was granted to a person resident outside India or a company incorporated outside India to acquire shares from the shareholders who had acquired such shares as signatories to the Memorandum and Articles of Association provided (i) the Indian company is permitted to become a 100 per cent owned subsidiary, (ii) the total number of shares so acquired does not exceed 500 and (iii) the face value of the shares to be transferred is less than 0.1 per cent of the paid-up capital of the Indian company. The company whose shares are so released and/or a depository have also been granted permission to enter an address outside India in their books in respect of such shares.
Nov.	1	● Simplifying the procedure for NRI/OCB investment in India, the Reserve Bank granted general permission to Indian companies for issuing non-convertible debentures to such investors on non-repatriation/ repatriation basis, subject to certain conditions. Further, all portfolio investments made by NRIs and/or OCBs on non-repatriation/repatriation basis in shares/debentures of Indian companies and other securities through designated branches of authorised dealers will not require specific permission from the Reserve Bank. Authorised dealers were permitted to grant loans and advances to Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs) against the security of shares/debentures/immovable property held by them in India, according to their commercial judgement and subject to certain conditions.
		● With a view to minimising the country's short-term external borrowing liabilities the minimum maturity of FCNR(B) deposits was raised to 1 year from 6 months.
	5	● With a view to promoting foreign direct investment by Indian companies under the Reserve Bank Fast Track Route and Normal Route the condition that the amount of investment should be repatriated in full by way of dividend, royalty, *etc*. within a period of five years was dispensed with.
	18	● It was decided that in the case of ECBs approved by the Government of India, authorised dealers designated by the borrowers may allow the remittance towards prepayment/part-prepayment of ECB to the extent such prepayment has been approved by the Government of India. In case of prepayment of ECBs approved by the Reserve Bank, the borrower may submit an application through the designated authorised dealer to the Reserve Bank of India with necessary documents.
	25	● General permission was granted to Indian mutual funds to issue units or similar instruments under schemes approved by SEBI to FIIs with repatriation benefits, subject to certain conditions.
2000		
Jan.	19	● It was decided that opening and closure of Vostro Accounts need not be reported to the Reserve Bank.
		● The permission given to ADs to grant foreign currency loans to FCNR(B) account holders was withdrawn.
		● The ADs were permitted to use funds in foreign currency accounts besides those in FCNR(B) accounts for making loans.
Mar.	31	● Expanding substantially the foreign investment under the Automatic Route of the Reserve Bank, the Union Government granted general permission under FERA, 1973 for issue of share to non-residents (which includes Foreign Direct Investment (FDI) and Non-Resident Indian (NRI)/Overseas Corporate Body (OCB) investment) subject to certain conditions.
		● It was decided that the aggregate amount of 'write-off' of unrealised export bills allowed by the AD at all branches put together during a calendar year should not exceed 10 per cent of the export proceeds realised by the exporter through the authorised dealer concerned during the previous calendar year as against 5 per cent of the export proceeds allowed hitherto.
April	22	● It was decided to raise the monetary ceiling of advance remittances undertaken by ADs on behalf of importers against bank guarantee from an international bank of repute situated outside India, furnished by an overseas supplier, from US$15,000 to US$25,000.
	24	● With a view to further liberalising investment by FIIs in Indian companies in the primary/secondary markets in India, Indian companies (other than banking companies) including those which have already enhanced the aggregate ceiling from the normal level of 24 per cent to 30 per cent were permitted to enhance the aggregate ceiling on investment up to 40 per cent of the issued and paid-up capital of the Indian companies, subject to certain conditions.
May	16	● The Diamond Dollar Account Scheme (DDAS) was introduced. Under this scheme, firms and companies dealing in the purchase/sale of diamonds, with a track record of at least three years in import/export of diamonds and having an average annual turnover of Rs. 5 crore or above during the preceding three licensing years (April-March) were permitted to carry out their business through designated Diamond

2000		V. EXTERNAL SECTOR MANAGEMENT *(Concld.)*
		Dollar Accounts with not more than two ADs. The Diamond Dollar Accounts were to be maintained in the form of current accounts with the balances subject to CRR and SLR requirements. Furthermore, firms and companies maintaining foreign currency accounts, excluding EEFC accounts, with banks in India or abroad, were not be eligible to maintain Diamond Dollar Accounts.
June	**1**	● The Foreign Exchange Management Act (FEMA) replaced the existing Foreign Exchange Regulation Act (FERA), 1973 with effect from June 1, 2000. The FEMA consolidated and amended the law relating to foreign exchange with the objectives of facilitating external trade and payments and of promoting the orderly development and maintenance of foreign exchange market in India.
	14	● The limit for ECB approvals given by the Reserve Bank was increased to US $ 100 million under all windows. Even in cases of pre-payments approved by the Government, the Reserve Bank was empowered to give all such approvals. The facility of domestic rupee denominated structured obligations to be credit enhanced by international banks/financial institutions/joint ventures was extended to those NBFCs, registered with the RBI, which had earned profits during the last three years and had “AA” or equivalent rating from a reputed credit rating agency.
July	**14**	● Foreign Direct Investment upto 100 per cent was allowed for business to business e-commerce subject to the condition that such companies divest 26 per cent of their equity in favour of the Indian public in five years, if these companies were listed in other parts of the world.
		● The dividend balancing condition was removed for FDI in 22 consumer industries.
		● The upper limit of Rs.1,500 crore for FDI in projects of electricity generation, transmission and distribution (other than atomic reactor power plants) was removed.
		● The level of FDI in oil refining sector under automatic route was raised from the existing 49 per cent to 100 per cent.

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APPENDIX TABLE I.1: SELECT MACROECONOMIC AND FINANCIAL INDICATORS

Item	1999-2000 P	1998-99	1997-98	1996-97	1995-96	Average 1990-91 to 1994-95 (5 years)	Average 1980-81 to 1989-90 (10 years)
1	2	3	4	5	6	7	8
1. Real GDP (% change)#	6.4RE	6.8QE	5.0	7.5	7.3	5.1	5.9
2. Industrial Production (% change)#	8.1	3.8	6.6	6.1	13.1	5.3	7.8$
3. Agricultural Production (% change)**	– 1.3 E	8.2 E	– 6.1	9.3	– 2.7	3.0	5.2
4. Foodgrains Production (Million tonnes)	205.9 A	203.0	192.3	199.4	180.4	180.0	146.5
5. Gross Domestic Saving Rate (% of GDP)#	..	22.3	24.7	23.3	25.5	23.5	20.0
6. Gross Domestic Investment Rate (% of GDP)#	..	23.4	26.2	24.6	27.2	25.0	22.0
7. Central Government Finances (% of GDP)#							
a) Total Revenue Receipts	9.2RE	8.5	8.8	9.3	9.3	10.1	10.3
b) Total Expenditure	15.6RE	15.9	15.3	14.8	15.1	17.9	18.8
c) Revenue Deficit	3.8RE	3.9	3.1	2.4	2.5	3.2	1.8
d) Fiscal Deficit	5.6RE	6.4	5.9	4.9	5.1	6.7	7.2
e) Net RBI credit to the Centre	– 0.3RE	0.7	0.9	0.1	1.7	0.9	2.2
f) Interest Payments	4.7RE	4.4	4.3	4.4	4.2	4.4	2.8
g) Internal Debt	37.4RE	26.1	25.7	25.3	26.0	28.6	26.5
8. Monetary Aggregates (% change)							
a) Broad Money (M_3)	13.9 +	19.4 +	18.0 +	16.2 +	13.6 +	18.2	17.2
b) Narrow Money (M_1)	10.2	15.4	11.3	12.0	11.7	19.0	15.1
c) Reserve Money	8.1	14.6	13.2	2.8	14.9	17.0	16.9
9. Scheduled Commercial Banks (% change)							
a) Aggregate Deposits	13.9 +	19.3 +	19.8 +	16.5 +	12.0 +	18.3	18.1
b) Bank Credit	18.2	13.8	16.4	9.6	20.1	16.1	16.8
c) Non-Food Credit	16.5	13.0	15.1	10.9	22.5	15.2	17.8
d) Investments in Government Securities	24.7	19.4	17.7	20.2	12.4	22.9	19.4
10. Wholesale Price Index (% change) #							
a) Point-to-Point	6.5	5.3	4.5	5.4	4.4	10.8	7.5
b) Average	3.3	5.9	4.4	4.6	8.1	10.7	8.0
11. Consumer Price Index - Industrial Workers (% change)							
a) Point-to-Point	4.8	8.9	8.3	10.0	8.9	10.6	8.9
b) Average	3.4	13.1	6.8	9.4	10.0	10.4	9.1
12. BSE Sensitive Index (% change)	41.4	-13.6	9.9	5.5	-17.3	42.9	22.3
13. Trade and Balance of Payments							
a) Exports in US $ (% change)	13.2	-5.1	4.6	5.3	20.8	10.0	8.1
b) Imports in US $ (% change)	11.4	2.2	6.0	6.7	28.0	7.3	7.2
c) Current Account (% of GDP)	– 0.9	– 1.0	– 1.4	– 1.2	– 1.7	– 1.4	– 2.0
d) Capital Account (% of GDP)	2.3	2.1	2.4	3.1	1.2	2.3	1.7
14. Foreign Exchange Reserves* (US $ Million)	38,036	32,490	29,367	26,423	21,687	13,865	5,579
15. External Debt* (US $ Million)	98,435	97,666	93,531	93,470	93,730	90,162	..
a) Debt-GDP Ratio	22.0	23.5	24.4	24.7	27.1	35.2	..
b) Debt-Service Ratio	16.0	18.0	19.0	21.2	24.3	29.0	..
16. Exchange Rate (Rupee/US$)							
a) High	42.4400	39.4800	35.6975	34.1400	31.3200	17.2801	7.7300
b) Low	43.6400	43.4200	40.3600	35.9600	37.9500	32.6458	17.1274

P Provisional. .. Not available. * As at the end of the period. A Advance estimates as on June 29, 2000.
** On the basis of agricultural production index with base: triennium ending 1981-82 = 100.
# Base : 1993-94 =100 for columns 2 to 6 and 1980-81=100 for columns 7 and 8.
E Estimated. RE : Revised Estimates. QE : Quick Estimates.
$ Average for 1981-82 to 1989-90 (9 years).
+ Revised in line with the new accounting standards and consistent with the methodology suggested by the Working Group on Money Supply : Analytics and Methodology of Compilation (June 1998). The revision is in respect of pension and provident funds with commercial banks which are classified as other demand and time liabilities and includes those banks which have reported such changes so far.

APPENDIX TABLE I.2: INTEREST RATE STRUCTURE OF SCHEDULED COMMERCIAL BANKS

(Per cent per annum)

Item	Rates as on								
	August 2000	June 6, 2000	Apr. 7, 2000	Feb. 25, 2000	Jan. 28, 2000	Aug. 27, 1999	Aug. 13, 1999	July 30, 1999	March 12, 1999
1	2	3	4	5	6	7	8	9	10
A. Lending Rates									
Size of Credit Limit									
1. 1.Up to Rs. 2 lakh #	Not exceeding PLR	Not exceeding PLR	Not exceeding PLR	Not exceeding PLR	Not exceeding PLR	Not exceeding PLR	Not exceeding PLR	Not exceeding PLR	Not exceeding PLR
2. Over Rs.2 lakh: (Prime Lending Rate)*	11.25-12.0	11.25-11.75	11.25-12.50	12.00-12.50	12.00-12.50	12.00-12.50	12.00-12.50	12.00	12.00-13.00
a. Maximum Spread over PLR	3.50-4.00	3.50-4.00	3.50-4.00	3.50-4.00	3.50-4.00	3.50-4.00	3.50-4.00	3.50-4.00	3.50-4.00
B. Deposit Rates									
Category of Account									
1. Current	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
2. Savings	4.00	4.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50
3. Term-Deposits @									
a)Up to and including one year	4.50-7.50	4.50-7.50	4.50-7.50	5.00-7.50	5.00-7.50	5.00-7.50	5.00-8.00	5.00-8.75	5.00-9.00
b)> 1-2 years	8.0-8.5	8.00-8.50	8.00-9.00	8.00-9.00	8.00-9.00	8.00-9.00	8.00-9.50	8.00-9.75	9.00-10.50
c)> 2-3 years	8.5-9.0	8.50-9.0	8.50-9.50	9.50	9.50	9.50	9.50	9.50-10.25	9.50-11.00
d)> 3 years	9.5-10.0	9.50	9.50-10.50	10.00-10.50	10.50	10.00-10.50	10.00-10.50	10.50-11.00	10.50-11.50
Memo Item :									
Bank Rate # #	8.0 (July 21, 2000)	7.0	7.0 (April 1, 2000)	8.0	8.0	8.0	8.0	8.0	8.0 (March 1, 1999)

* Data relates to major public sector banks.

Effective April 1998, credit limits of over Rs. 25,000 and up to Rs. 2 lakh have been merged and are specified as up to Rs. 2 lakh.

@ The minimum maturity period of term deposits is 15 days, effective April 29, 1998. Data relate to major public sector banks.

The change in the Bank Rate was made effective from the close of business of respective dates indicated in the bracket.

APPENDIX TABLE I.3: INTEREST RATES ON EXPORT CREDIT

(Per cent per annum)

Export Credit	Rates Effective May 26, 2000	Oct. 29, 1999	Apr. 1, 1999	Aug. 6, 1998	Apr. 30, 1998	Jan. 1, 1998
1	2	3	4	5	6	7
1. Pre-shipment Credit						
i) Up to 180 days	10.00	10.00	10.00	9.00	11.00	12.00
ii) Beyond 180 days and up to 270 days	13.00	13.00	13.00	12.00	14.00	14.00
iii) Against incentives receivable from Government covered by ECGC Guarantee up to 90 days	10.00	10.00	10.00	9.00	11.00	12.00
2. Post-shipment Credit						
i) Demand Bills for transit period (as specified by FEDAI)	Not exceeding 10.00	Not exceeding 10.00	Not exceeding 10.00	9.00	Not exceeding 11.00	Not exceeding 11.00
ii) Usance Bills (for total period comprising usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable)	Not exceeding	Not exceeding	Not exceeding		Not exceeding	Not exceeding
a) Up to 90 days	10.00	10.00	10.00	9.00	11.00	11.00
b) Beyond 90 days and up to six months from the date of shipment	12.00	12.00	12.00	11.00	13.00	13.00
c) Beyond six months from the date of shipment (Min.)	—	—	—	—	—	20.00*
iii) Against incentives receivable from Government covered by ECGC Guarantee (up to 90 days)	Not exceeding 10.00	Not exceeding 10.00	Not exceeding 10.00	9.00	Not exceeding 11.00	Not exceeding 11.00
iv) Against undrawn balance (up to 90 days)	Not exceeding 10.00	Not exceeding 10.00	Not exceeding 10.00	9.00	Not exceeding 11.00	Not exceeding 11.00
v) Against retention money (for supplies portion only) payable within one year from the date of shipment (up to 90 days)	Not exceeding 10.00	Not exceeding 10.00	Not exceeding 10.00	9.00	Not exceeding 11.00	Not exceeding 11.00
3. Deferred Credit						
Deferred credit for the period beyond 180 days	Free	Free	Free	Free	Free	Free
4. Export Credit, not otherwise specified						
a) Pre-shipment credit	Free	Free	Free	Free	Free	
b) Post-shipment credit	25.00 (Min.)	Free	20.00 (Min.)	20.00 (Min.)	20.00 (Min.)	20.00* (Min.)

Min. Minimum. — : Not Applicable.

* Chronic cases, *i.e.*, overdues as on July 1, 1997 are exempted.

Note: 'Free' means banks are free to charge interest at rates decided by them keeping in view the PLR and spread guidelines.

APPENDIX TABLE II.1: SECTORAL COMPOSITION AND GROWTH RATES OF REAL GROSS DOMESTIC PRODUCT (AT 1993-94 PRICES)

(Per cent)

Sector	Growth Rate				Share in real GDP		
	1999-2000#	1998-99*	1997-98@	1992-93 to 1999-2000	1999-2000#	1998-99*	1997-98@
1	2	3	4	5	6	7	8
1. Agriculture and Allied Activities	1.3	7.2	– 1.9	3.8	25.5	26.8	26.7
of which :							
Agriculture	..	7.6	– 2.2	..	..	24.7	24.5
2. Industry	7.5	3.7	4.9	7.2	22.2	22.0	22.7
of which :							
a) Mining and quarrying	0.3	– 0.5	9.0	3.4	2.2	2.3	2.5
b) Manufacturing	8.5	3.6	4.0	7.8	17.5	17.2	17.7
c) Electricity, gas and water supply	7.4	7.9	7.2	7.3	2.5	2.5	2.5
3. Services	8.7	8.0	9.2	7.7	52.3	51.2	50.6
of which :							
a) Construction	9.1	5.7	10.3	5.5	5.2	5.0	5.1
b) Trade, hotels and restaurants	6.7$	8.4	4.5	8.1$	21.4$	14.0	13.8
c) Transport, storage and communication	..	7.4	8.3	..	..	7.3	7.3
d) Financing, insurance, real estate and business services	10.6	6.1	11.8	8.3	12.5	12.1	12.2
e) Community, social and personal services	10.0	10.9	12.2	7.4	13.2	12.7	12.3
4. Gross Domestic Product at factor cost	**6.4**	**6.8**	**5.0**	**6.4**	**100.0**	**100.0**	**100.0**

Revised Estimates. * Quick Estimates. @ Provisional Estimates.

.. Not available.

$ Corresponds to 'trade, hotels and restaurants' and 'transport, storage and communication'.

Note: The average growth rates for the period 1992-93 to 1999-2000 (column 5) are calculated by using the growth rates upto 1993-94 as per the 1980-81 series and from 1994-95 to 1999-2000 as per the 1993-94 series.

Source: Central Statistical Organisation (CSO).

APPENDIX TABLE II.2: QUARTERLY GROWTH RATES AND SECTORAL COMPOSITION OF GROSS DOMESTIC PRODUCT (AT 1993-94 PRICES)

(Per cent)

Sector	1999-2000				1998-99				1997-98			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Agriculture and Allied Activities	4.9 (25.9)	3.5 (20.6)	– 0.3 (31.3)	– 1.3 (23.6)	4.3 (26.3)	5.6 (21.1)	7.2 (33.2)	10.8 (25.6)	– 1.9 (26.7)	– 3.0 (21.6)	3.0 (32.9)	– 6.9 (24.8)
2. Industry	5.5 (22.3)	6.6 (24.5)	8.3 (21.1)	9.2 (21.4)	4.2 (22.6)	4.0 (24.3)	2.8 (20.6)	3.7 (21.0)	3.9 (23.0)	5.3 (25.3)	5.8 (21.3)	4.6 (21.7)
of which :												
a) Manufacturing	6.5 (17.5)	6.8 (19.2)	9.7 (16.7)	10.5 (16.9)	3.7 (17.6)	3.8 (19.0)	2.8 (16.1)	4.2 (16.4)	2.9 (18.0)	4.2 (19.8)	5.5 (16.6)	3.6 (16.8)
b) Mining and quarrying	– 2.1 (2.2)	0.0 (2.4)	0.4 (2.1)	2.4 (2.2)	0.9 (2.4)	2.4 (2.5)	– 1.9 (2.2)	– 2.8 (2.3)	9.9 (2.5)	9.0 (2.7)	8.7 (2.4)	8.6 (2.5)
c) Electricity, gas and water supply	5.6 (2.6)	11.2 (2.9)	6.2 (2.3)	6.6 (2.3)	11.2 (2.7)	6.4 (2.8)	7.1 (2.3)	7.2 (2.3)	6.1 (2.5)	9.4 (2.8)	4.6 (2.3)	8.5 (2.3)
3. Services	8.6 (51.8)	6.2 (54.8)	9.0 (47.6)	10.5 (55.0)	7.4 (51.0)	11.4 (54.6)	6.9 (46.2)	7.0 (53.4)	9.0 (50.3)	5.8 (53.1)	6.6 (45.9)	14.4 (53.5)
of which :												
a) Trade, hotels, restaurants, transport, storage and communication	6.1 (20.9)	5.5 (22.5)	6.4 (21.2)	8.7 (21.1)	7.3 (21.0)	10.2 (22.5)	7.5 (21.0)	7.5 (20.8)	6.6 (20.8)	5.4 (22.1)	7.6 (20.8)	3.7 (20.8)
b) Financing, insurance, real estate and business services	10.0 (13.2)	9.6 (12.7)	9.6 (9.9)	12.3 (14.3)	4.3 (12.8)	5.8 (12.3)	7.7 (9.6)	6.8 (13.7)	16.1 (13.0)	1.3 (12.6)	– 5.8 (9.4)	34.2 (13.8)
c) Community, social and personal services	11.2 (12.4)	3.3 (14.0)	14.0 (11.7)	11.5 (14.6)	10.5 (11.9)	21.2 (14.3)	6.6 (10.9)	7.1 (14.0)	6.8 (11.4)	11.3 (12.8)	14.1 (10.8)	15.4 (14.0)
d) Construction	8.8 (5.3)	9.4 (5.6)	7.9 (4.8)	10.0 (5.0)	8.3 (5.2)	6.3 (5.5)	3.2 (4.7)	5.1 (4.9)	6.8 (5.1)	6.0 (5.6)	14.1 (4.8)	14.1 (5.0)
4. Gross Domestic Product at factor cost	**6.9 (100.0)**	**5.7 (100.0)**	**5.8 (100.0)**	**7.2 (100.0)**	**5.8 (100.0)**	**8.3 (100.0)**	**6.1 (100.0)**	**7.2 (100.0)**	**4.7 (100.0)**	**3.6 (100.0)**	**5.2 (100.0)**	**6.2 (100.0)**

Notes: 1. Figures in brackets are percentage shares to GDP.
2. Quarters Q1, Q2 , Q3 and Q4 denote April-June, July-September, October-December and January-March, respectively.
3. Data are provisional.

Source: Central Statistical Organisation (CSO).

APPENDIX TABLE II.3: GROSS DOMESTIC SAVING AND INVESTMENT

Item	Per cent of GDP (at current market prices)				Amount in Rupees crore		
	1998-99*	1997-98@	1996-97	1990-91 to 1995-96#	1998-99*	1997-98@	1996-97
1	2	3	4	5	6	7	8
1. Household Saving	18.5	19.0	17.1	18.8	3,25,456	2,88,550	2,33,508
of which :							
a) Financial Assets	10.9	10.4	10.4	10.1	1,92,261	1,57,526	1,41,627
b) Physical Assets	7.6	8.6	6.7	8.7	1,33,195	1,31,024	91,881
2. Private corporate sector	3.8	4.3	4.5	3.5	67,573	64,786	61,101
3. Public sector	—	1.4	1.7	1.5	572	21,079	22,958
4. Gross Domestic Saving	**22.3**	**24.7**	**23.3**	**23.7**	**3,93,601**	**3,74,415**	**3,17,567**
5. Net capital inflow	1.0	1.5	1.3	1.6	18,088	22,302	17,738
6. Gross Domestic Capital Formation	**23.4**	**26.2**	**24.6**	**25.3**	**4,11,689**	**3,96,717**	**3,35,305**
7. Errors and omissions	1.5	2.8	2.7	1.4	27,171	42,718	37,236
8. Gross Capital Formation	**21.8**	**23.4**	**21.9**	**23.9**	**3,84,518**	**3,53,999**	**2,98,069**
of which :							
a) Public sector	6.6	6.7	7.0	8.7	1,16,162	1,01,108	95,410
b) Private corporate sector	7.7	8.0	8.1	6.5	1,35,161	1,21,867	1,10,778
c) Household sector	7.6	8.6	6.7	8.7	1,33,195	1,31,024	91,881

* Quick Estimates. @ Provisional Estimates. — Negligible

\# The average saving/net capital inflow/investment figures as per cent of GDP for the period 1990-91 to 1995-96 are calculated by using the data upto 1992-93 as per the 1980-81 series and from 1993-94 to 1995-96 as per the 1993-94 series.

Source: Central Statistical Organisation (CSO).

APPENDIX TABLE II.4: GROSS FINANCIAL SAVING OF THE HOUSEHOLD SECTOR : PERCENTAGE DISTRIBUTION

Item	1998-99*	1997-98@	1996-97	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91
1	2	3	4	5	6	7	8	9	10
1. Financial Saving (Gross)	**100.0 (12.4)**	**100.0 (12.1)**	**100.0 (11.7)**	**100.0 (10.4)**	**100.0 (14.4)**	**100.0 (12.8)**	**100.0 (11.4)**	**100.0 (11.0)**	**100.0 (11.0)**
a) Currency	10.1 (1.3)	7.0 (0.8)	8.6 (1.0)	13.4 (1.4)	10.9 (1.6)	12.2 (1.6)	8.2 (0.9)	12.0 (1.3)	10.6 (1.2)
b) Deposits	41.8 (5.2)	47.5 (5.7)	48.2 (5.6)	42.1 (4.4)	45.5 (6.6)	42.6 (5.4)	42.5 (4.8)	28.9 (3.2)	33.3 (3.7)
i) with banks	30.8	38.3	25.6	26.5	35.3	27.9	33.6	21.3	27.2
ii) with non-banking companies	7.0	4.2	16.4	10.7	7.9	10.6	7.5	3.3	2.2
iii) with co-operative banks & societies	4.1	5.1	6.4	5.9	3.0	5.2	3.2	5.0	4.7
iv) trade debt (net)	– 0.1	– 0.1	– 0.2	– 1.0	– 0.8	– 1.1	– 1.7	– 0.6	– 0.8
c) Shares and debentures	2.5 (0.3)	2.4 (0.3)	6.6 (0.8)	7.4 (0.8)	11.9 (1.7)	13.5 (1.7)	17.2 (2.0)	23.3 (2.6)	14.3 (1.6)
i) private corporate business	1.5	1.6	3.6	6.7	8.0	7.5	8.4	6.0	4.1
ii) co-operative banks and societies	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
iii) units of UTI	0.3	0.3	2.4	0.2	2.7	4.3	7.0	13.3	5.8
iv) bonds of PSUs	0.0	0.1	0.1	0.1	0.1	0.5	0.1	0.8	0.8
v) mutual funds (other than UTI)	0.7	0.3	0.3	0.3	1.1	1.2	1.6	3.1	3.3
d) Claims on government	12.3 (1.5)	12.1 (1.5)	7.4 (0.9)	7.8 (0.8)	9.1 (1.3)	6.3 (0.8)	4.9 (0.6)	7.2 (0.8)	13.5 (1.5)
i) investment in government securities	1.7	1.5	0.4	0.4	0.1	0.4	0.0	-0.4	0.2
ii) investment in small savings *etc.*	10.6	10.6	7.0	7.4	9.0	5.9	4.9	7.6	13.2
e) Insurance funds	10.5 (1.3)	10.6 (1.3)	10.1 (1.2)	11.3 (1.2)	7.8 (1.1)	8.7 (1.1)	8.8 (1.0)	10.3 (1.1)	9.5 (1.0)
i) life insurance funds	10.0	9.9	9.5	10.5	7.2	8.0	8.0	9.4	8.5
ii) postal insurance	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
iii) state insurance	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.7	0.7
f) Provident and pension funds	22.7 (2.8)	20.5 (2.5)	19.1 (2.2)	18.1 (1.9)	14.7 (2.1)	16.7 (2.1)	18.4 (2.1)	18.3 (2.0)	18.9 (2.1)

* Quick Estimates. @ Provisional Estimates.

Notes: 1. Figures up to 1992-93 are as per the 1980-81 series and those from 1993-94 to 1998-99 are as per the 1993-94 series of the National Accounts Statistics.

2. Figures in brackets are percentage to GDP at current market prices.

Source: Central Statistical Organisation (CSO).

APPENDIX TABLE II.5: AGRICULTURAL PRODUCTION

(Million tonnes)

Crop	1999-2000 A	1998-99	1997-98	1996-97
1	2	3	4	5
1. All Crops: Annual Growth Rate $	**– 1.3 E**	**8.2 E**	**– 6.1**	**9.3**
i) Foodgrains	1.0 E	5.8 E	– 3.2	10.1
ii) Non-foodgrains	– 4.6 E	11.6 E	– 10.0	8.3
2. Foodgrains (a+b)	**205.9**	**203.0**	**192.3**	**199.4**
i) Rice	88.3	86.0	82.5	81.7
ii) Wheat	74.3	70.8	66.3	69.4
iii) Coarse cereals	30.4	31.5	30.4	34.1
iv) Pulses	13.1	14.8	13.0	14.3
a) *Kharif*	**103.9**	**103.4**	**101.6**	**103.9**
i) Rice	75.6	73.0	72.5	71.3
ii) Coarse cereals	23.5	25.2	24.8	27.1
iii) Pulses	4.8	5.2	4.3	5.5
b) *Rabi*	**102.0**	**99.7**	**90.7**	**95.5**
i) Rice	12.6	13.0	10.0	10.4
ii) Wheat	74.3	70.8	66.3	69.4
iii) Coarse cereals	6.9	6.3	5.6	7.0
iv) Pulses	8.3	9.6	8.7	8.8
3. Non-foodgrains				
i) Oilseeds++	21.2	25.2	21.3	24.4
ii) Sugarcane	309.3	295.7	279.5	277.6
iii) Cotton @	12.0	12.2	10.9	14.2
iv) Jute & Mesta +	10.6	9.7	11.0	11.1
v) Tea *	805.6	870.4	810.6	780.3
vi) Coffee *	292.0	265.0	228.0	205.0

A Advance estimates as on June 29, 2000. E Estimated.

$ Based on Index of Agricultural Production with base: triennium ending 1981-82 = 100.

+ Million bales of 180 kg. each.

++ For nine oilseeds out of eleven in all.

@ Million bales of 170 kg. each.

* Million kg. and data for tea on a calendar year basis.

Sources: Ministry of Agriculture, Government of India, Tea Board and Coffee Board.

APPENDIX TABLE II.6: PROCUREMENT, OFF-TAKE AND STOCK OF FOODGRAINS

(Million tonnes)

Fiscal year	Procurement			Off-take			Stock*		
	Rice	Wheat	Total	Rice	Wheat	Total @	Rice	Wheat	Total @
1	2	3	4	5	6	7	8	9	10
1995-96	9.91	12.33	22.24	14.00	12.82	26.82	13.06	7.76	20.82
1996-97	11.86	8.16	20.02	12.44	13.26	25.69	13.17	3.24	16.41
1997-98	14.52	9.30	23.82	11.36	7.76	19.12	13.05	5.08	18.12
1998-99	11.53	12.65	24.18	11.83	8.90	20.73	11.74	9.92	21.66
1999-2000	16.56	14.14	30.70	12.06	9.87	21.93	14.93	13.08	28.01
First Quarter (April-June) #									
1999-2000	1.84	14.13	15.97	2.76	1.26	4.03	10.74	21.64	32.37
2000-01	1.99	16.16	18.15	2.33	0.99	3.32	14.49	27.76	42.25

* Stock as on April 1.

@ Includes coarse grains.

\# Procurement and off-take upto June 30 and stock as on July 1.

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

APPENDIX TABLE II.7: TRENDS IN INDEX OF INDUSTRIAL PRODUCTION *
(BASE : 1993-94=100)

Sector	Mining & Quarrying		Manufacturing		Electricity		General	
Weight	10.47		79.36		10.17		100.00	
Period	Index	Growth Rate (Per cent)	Index	Growth Rate (Per cent)	Index	Growth Rate (Per cent)	Index	Growth Rate (Per cent)
1	2	3	4	5	6	7	8	9
1995-96	117.9	9.5	124.5	14.1	117.3	8.1	123.1	13.1
1996-97	115.6	– 1.9	133.6	7.3	122.0	4.0	130.6	6.1
1997-98	122.4	5.9	142.5	6.6	130.0	6.6	139.1	6.6
1998-99	120.3	– 1.8	148.3	4.1	138.4	6.4	144.4	3.8
1999-2000 P	121.2	0.8	162.0	9.2	146.8	6.1	156.2	8.1
1998-99								
April-June	116.4	– 0.3	142.4	4.2	138.0	10.2	139.3	4.4
July-September	114.0	– 0.5	143.1	3.9	134.3	4.6	139.2	3.6
October-December	122.7	– 1.4	148.6	3.2	135.6	5.4	144.5	2.9
January-March	127.9	– 4.6	159.3	5.1	145.6	5.6	154.6	4.2
April-September	115.2	– 0.4	142.8	4.1	136.2	7.4	139.2	4.0
October-March	125.3	– 3.0	153.9	4.2	140.6	5.5	149.6	3.6
1999-2000								
April-June	115.1	– 1.1	151.9	6.7	144.2	4.5	147.3	5.8
July-September	116.5	2.2	153.0	6.9	149.3	11.1	148.8	6.9
October-December	122.2	– 0.4	164.6	10.8	142.6	5.2	157.9	9.3
January-March	130.9	2.3	178.3	12.0	151.0	3.7	170.5	10.3
April-September	115.8	0.5	152.5	6.8	146.7	7.8	148.1	6.4
October-March	126.6	1.0	171.5	11.4	146.8	4.4	164.2	9.8

P Provisional.

* Data are revised from 1993-94 onwards.

Source: Central Statistical Organisation, Government of India.

APPENDIX TABLE II.8: GROWTH IN INDEX OF SEVENTEEN MAJOR GROUPS OF MANUFACTURING SECTOR (BASE : 1993-94 = 100)

Industry Group	Weight	Index		Percentage Variation		Relative Contribution (Per cent)	
		1999-2000 P	1998-99	1999-2000 P	1998-99	1999-2000 P	1998-99
1	2	3	4	5	6	7	8
I. Acceleration (during 1999-2000)							
1. Non-metallic mineral products	4.40	220.8	177.5	24.4	8.3	17.6	12.9
2. Basic chemicals & chemical products (except products of petroleum and coal)	14.00	183.4	149.8	22.5	6.6	43.5	28.1
3. Machinery and equipment other than transport equipment	9.57	181.8	154.4	17.7	1.2	24.2	3.6
4. Leather and leather & fur products	1.14	135.5	119.1	13.7	8.1	1.7	2.2
5. Wool, silk and man-made fibre textiles	2.26	197.8	176.8	11.9	2.8	4.4	2.3
6. Cotton textiles	5.52	123.7	115.9	6.8	– 7.7	4.0	– 11.5
7. Basic metal and alloy industries	7.45	146.9	139.9	5.0	– 2.5	4.8	– 5.8
8. Food products	9.08	140.3	134.7	4.1	0.7	4.7	1.8
9. Textile products (including wearing apparel)	2.54	156.1	153.1	2.0	– 3.5	0.7	– 3.1
II. Deceleration (during 1999-2000)							
10. Beverages, tobacco and related products	2.38	192.1	178.5	7.6	12.9	3.0	10.5
11. Paper & paper products and printing, publishing & allied industries	2.65	180.5	169.8	6.3	16.0	2.6	13.4
12. Transport equipment and parts	3.98	180.3	176.5	2.1	15.4	1.4	20.3
III. Negative (during 1999-2000)							
13. Jute and other vegetable fibre textiles (except cotton)	0.59	105.0	106.0	– 0.9	– 7.3	– 0.1	– 1.1
14. Rubber, plastic, petroleum and coal products	5.73	137.2	138.7	– 1.1	11.3	– 0.8	17.3
15. Metal products and parts (except machinery and equipment)	2.81	137.8	139.5	– 1.2	17.1	– 0.4	12.3
16. Other manufacturing industries	2.56	142.5	169.7	– 16.0	1.0	-6.4	1.0
17. Wood and wood products, furniture & fixtures	2.70	101.4	121.0	– 16.2	– 5.8	– 4.9	– 4.3
Manufacturing (Total)	**79.36**	**162.0**	**148.3**	**9.2**	**4.1**	**100.0**	**100.0**

P Provisional.

Note: The relative contribution is computed as the ratio (in percentage terms) of the change in the index of the respective industry group to the change in the overall index adjusted for the weight of the relevant industry group.

Source: Central Statistical Organisation, Government of India.

APPENDIX TABLE II.9: FREQUENCY DISTRIBUTION OF GROWTH RATES OF SEVENTEEN MAJOR INDUSTRY GROUPS OF MANUFACTURING SECTOR - 1994-95 TO 1999-2000

(Number of years)

Industry Group	Weight	Negative %	0-5 %	5-10 %	10-15 %	15+ %	5+ % (Col.5+6+7)
1	2	3	4	5	6	7	8
1. Food products	9.08	1	3	1	0	1	2
2. Beverages, tobacco and related products	2.38	0	1	1	3	1	5
3. Cotton textiles	5.52	2	1	1	2	0	3
4. Wool, silk and man-made fibre textiles	2.26	0	1	0	4	1	5
5. Jute and other vegetables fibre textiles (except cotton)	0.59	4	0	1	0	1	2
6. Textile products (including wearing apparel)	2.54	2	1	2	0	1	3
7. Wood and wood products, furniture and fixtures	2.70	4	0	1	0	1	2
8. Paper and paper products and printing, publishing and allied industries	2.65	0	0	4	0	2	6
9. Leather, leather & fur products	1.14	1	1	2	2	0	4
10. Basic chemicals and chemical products (except products of petroleum and coal)	14.00	0	1	2	2	1	5
11. Rubber, plastic, petroleum and coal products	5.73	1	1	3	1	0	4
12. Non-metallic mineral products	4.40	0	0	3	1	2	6
13. Basic metal and alloy industries	7.45	1	1	2	1	1	4
14. Metal products and parts (except machinery and equipment)	2.81	2	0	3	0	1	4
15. Machinery and equipment other than transport equipment	9.57	0	2	1	0	3	4
16. Transport equipment and parts	3.98	0	2	0	2	2	4
17. Other manufacturing industries	2.56	2	1	1	0	2	3

Source: Central Statistical Organisation, Government of India.

APPENDIX TABLE II.10: USE-BASED CLASSIFICATION OF INDUSTRIAL PRODUCTION (BASE : 1993-94=100)

Industry Group	Weight	Index	Growth Rate (Per cent)				
		1999-2000 P	1999-2000 P	1998-99	1997-98	1996-97	1995-96
1	2	3	4	5	6	7	8
1. Basic Goods	35.51	141.2	5.1 (20.7)	1.5 (13.0)	6.5 (33.6)	3.0 (17.4)	10.7 (29.2)
2. Capital Goods	9.69	159.4	5.4 (6.7)	11.5 (28.8)	5.8 (8.4)	11.4 (17.0)	5.4 (4.0)
3. Intermediate Goods	26.44	179.4	15.4 (53.5)	5.9 (43.6)	8.0 (33.7)	8.1 (36.1)	19.3 (37.9)
4. Consumer Goods	28.36	152.1	5.4 (18.7)	1.9 (14.3)	5.5 (24.3)	6.2 (29.8)	12.8 (28.7)
a) Consumer Durables	5.11	195.4	13.3 (9.9)	4.6 (7.3)	7.8 (7.1)	4.6 (4.6)	25.8 (10.8)
b) Consumer Non-durables	23.25	142.6	3.2 (8.7)	1.2 (7.0)	4.9 (17.2)	6.6 (25.1)	9.8 (17.9)
General	**100.00**	**156.2**	**8.1 (100.0)**	**3.8 (100.0)**	**6.6 (100.0)**	**6.1 (100.0)**	**13.1 (100.0)**

P Provisional.

Note: Figures in brackets are relative contributions. The relative contribution is computed as the ratio (in percentage terms) of the change in the index of the respective industry group to the change in the overall index adjusted for the weight of the relative industry group.

Source: Central Statistical Organisation, Government of India.

APPENDIX TABLE II.11: GROWTH OF INFRASTRUCTURE INDUSTRIES (BASE : 1993-94=100)

Industry	Weight in IIP	Index 1999-2000P	Growth Rate (Per cent) 1999-2000	1998-99	1997-98	1996-97	1995-96
1	2	3	4	5	6	7	8
1. Electricity	10.17	148.4	7.1 (30.9)	6.6 (86.3)	6.6 (42.9)	3.7 (36.5)	8.3 (29.3)
2. Coal	3.22	121.6	3.3 (3.9)	– 2.0 (-7.6)	3.5 (6.9)	5.9 (17.1)	6.3 (6.7)
3. Steel	5.13	185.0	13.6 (35.3)	1.4 (11.1)	6.3 (25.4)	5.7 (34.3)	21.8 (42.1)
4. Cement	1.99	174.9	14.0 (13.3)	5.7 (16.3)	9.1 (12.5)	9.6 (19.0)	11.5 (8.0)
5. Petroleum Crude	4.17	118.4	– 2.2 (–3.5)	– 3.4 (–17.3)	2.9 (7.6)	– 4.6 (–20.0)	7.0 (11.2)
6. Petroleum Refinery Products	2.00	160.8	25.2 (20.1)	5.2 (12.4)	3.7 (4.5)	7.0 (12.5)	4.0 (2.7)
Composite Index of Infrastructure Industries#	**26.68**	**150.4**	**8.7 (100.0)**	**2.8 (100.0)**	**5.7 (100.0)**	**3.7 (100.0)**	**10.5 (100.0)**

P Provisional. # Estimate based on weighted industry-wise index.

Note: Figures in brackets are relative contributions. The relative contribution is computed as the ratio (in percentage terms) of the change in the index of the respective industry group to the change in the overall index adjusted for the weight of the relative industry group.

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

APPENDIX TABLE III.1: VARIATIONS IN MONEY STOCK

(Amount in Rupees crore)

Item	Outstanding as on March 31, 2000	Variations							
		1999-2000		1998-99		First Quarter			
						2000-01		1999-2000 #	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8	9	10
I. Broad Money (M_3) (1+2+3)	**11,17,202**	**1,36,182**	**13.9**	**1,59,688**	**19.4**	**52,061**	**4.7**	**33,719**	**3.4**
1. Currency with the Public	1,88,705	19,761	11.7	23,366	16.1	8,922	4.7	13,523	8.0
2. Aggregate Deposits with Banks (a+b)	9,25,387	1,17,108	14.5	1,36,068	20.2	41,749	4.5	18,862	2.3
a) Demand Deposits	1,48,806	12,418	9.1	17,663	14.9	– 80	– 0.1	– 10,205	– 7.5
b) Time Deposits $	7,76,581	1,04,689	15.6	1,18,404	21.4	41,829	5.4	29,067	4.3
3. 'Other' Deposits with the RBI	3,109	-687	-18.1	255	7.2	1,389	44.7	1,334	35.2
II. Narrow Money (M_1) [I.1+I.2(a)+I.3]	**3,40,620**	**31,492**	**10.2**	**41,284**	**15.4**	**10,232**	**3.0**	**4,652**	**1.5**
III. Sources of Money Stock (M_3) (1+2+3+4-5)									
1. Net Bank Credit to Government (A+B)	**4,41,754**	**55,077**	**14.2**	**56,080**	**17.0**	**28,912**	**6.5**	**28,390**	**7.3**
A. Net RBI credit to Government (a+b)	1,48,264	– 4,275	-2.8	17,379	12.9	8,323	5.6	5,240	3.4
a. Net RBI credit to Central Government	1,39,829	– 5,587	-3.8	11,800	8.8	14,412	10.3	11,279	7.8
b. Net RBI credit to State Governments	8,435	1,312	18.4	5,579	361.5	– 6,089	– 72.2	– 6,039	– 84.8
B. Other banks' credit to Government	2,93,490	59,352	25.3	38,701	19.8	20,589	7.0	23,150	9.9
2. Bank Credit to Commercial Sector (a+b)	**5,78,538**	**82,548**	**16.6**	**62,680**	**14.5**	**20,068**	**3.5**	**2,666**	**0.5**
a) RBI's credit to commercial sector	15,270	3,044	24.9	4,040	49.4	– 3,199	– 20.9	– 1,240	– 10.1
b) Other banks' credit to commercial sector	5,63,268	79,504	16.4	58,640	13.8	23,267	4.1	3,906	0.8
3. Net Foreign Exchange Assets of Banking Sector (a+b)	**2,05,648**	**27,794**	**15.6**	**39,758**	**28.8**	**– 1,824**	**– 0.9**	**6,145**	**3.5**
a) RBI's net foreign exchange assets	1,65,880	27,927	20.2	22,063	19.0	– 1,824	– 1.1	5,215	3.8
b) Other banks' net foreign exchange assets	39,768	-132	-0.3	17,695	79.7	0	0.0	930	2.3
4. Government's Currency Liabilities to the Public	**4,262**	**416**	**10.8**	**494**	**14.7**	**7**	**0.2**	**174**	**4.5**
5. Banking Sector's Net Non-monetary Liabilities other than Time Deposits (a+b)	**1,13,000**	**29,653**	**35.6**	**– 676**	**– 0.8**	**-4,898**	**– 4.3**	**3,657**	**4.4**
a) Net non-monetary liabilities of the RBI	70,147	9,666	16.0	17,199	39.7	7,674	10.9	4,772	7.9
b) Net non-monetary liabilities of other banks (residual)	42,852	19,987	87.4	– 17,874	– 43.9	– 12,572	– 29.3	– 1,115	– 4.9
Memo Items : Select Monetary Ratios									
1. M_3 Multiplier	3.99								
2. Bank Reserves to Aggregate Deposits Ratio (%)	9.6								
3. Currency to Aggregate Deposits Ratio (%)	20.4								

Data are provisional. $ Includes Resurgent India Bonds worth Rs. 17,945 crore since August 28, 1998.

Pertains to July 2, 1999.

Note: 1. Monetary aggregates as on end-March are based on data pertaining to end-March in respect of the Reserve Bank and the last reporting friday of March in respect of scheduled commercial banks.

2. Revised in line with the new accounting standards and consistent with the methodology suggested by the Working Group on Money Supply : Analytics and Methodology of Compilation (June 1998). The revision is in respect of pension and provident funds with commercial banks which are classified as other demand and time liabilities and includes those banks which have reported such changes so far.

APPENDIX TABLE III.2: VARIATIONS IN RESERVE MONEY

(Amount in Rupees crore)

Item	Outstand-ing as on March 31, 2000 P	Variations							
		Financial Year				First Quarter			
		1999-2000		1998-99		2000-01 P		1999-2000 P	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8	9	10
I. Reserve Money (1+2+3)	**2,80,314**	**20,969**	**8.1**	**32,943**	**14.6**	**– 5,896**	**– 2.1**	**1,937**	**0.7**
1. Currency in Circulation	1,96,745	20,899	11.9	24,791	16.4	9,010	4.6	12,915	7.3
2. Bankers' Deposits with the RBI	80,460	757	0.9	7,898	11.0	– 16,295	– 20.3	– 12,312	– 15.4
of which:									
Scheduled Commercial Banks	77,781	75	0.1	7,620	10.9	– 16,849	– 21.7	– 12,190	– 15.7
3. Other' Deposits with the RBI	3,109	– 687	– 18.1	255	7.2	1,389	44.7	1,334	35.1
II. Sources of Reserve Money (1+2+3+4+5-6)									
1. Net RBI Credit to Government (a+b)	1,48,264	– 4,275	– 2.8	17,379	12.9	8,323	5.6	5,240	3.4
a) Net RBI credit to Central Government (i-ii)	**1,39,829**	**– 5,587**	**– 3.8**	**11,800**	**8.8**	**14,412**	**10.3**	**11,279**	**7.8**
i) Claims on Central Government	1,42,052	– 6,292	– 4.2	12,048	8.8	12,290	8.7	8,453	5.7
ii) Deposits of Central Government	2,223	– 704	– 24.1	248	9.3	– 2,123	– 95.5	– 2,826	– 96.6
b) Net RBI credit to State Governments (i-ii)	8,435	1,312	18.4	5,579	361.5	– 6,089	– 72.2	– 6,039	– 84.8
i) Claims on State Governments	8,435	1,312	18.4	5,579	361.5	– 6,048	– 71.7	– 6,000	– 84.2
ii) Deposits of State Governments	0	0	- -	0	- -	41	—	39	—
2. RBI's Claims on Commercial and Co-operative Banks	16,785	3,523	26.6	6,165	86.9	– 1,529	– 9.1	– 2,681	– 20.2
of which:									
Loans and Advances to Scheduled Commercial Banks	9,513	3,256	52.0	5,419	646.1	– 800	– 8.4	– 1,982	– 31.7
3. RBI's Credit to Commercial Sector	15,270	3,044	24.9	4,040	49.4	– 3,199	– 20.9	– 1,240	– 10.1
4. Net Foreign Exchange Assets of the RBI	**1,65,880**	**27,927**	**20.2**	**22,063**	**19.0**	**– 1,824**	**– 1.1**	**5,215**	**3.8**
5. Government's Currency Liabilities to the Public	4,262	416	10.8	494	14.7	7	0.2	174	4.5
6. Net Non-monetary Liabilities of the RBI	70,147	9,666	16.0	17,199	39.7	7,674	10.9	4,772	7.9
7. Net Domestic Assets of the RBI (1+2+3+5-6)	**1,14,433**	**– 6,958**	**– 5.7**	**10,880**	**9.8**	**– 4,072**	**– 3.6**	**– 3,278**	**– 2.7**

P Provisional. - - Not applicable. # Pertains to July 2, 1999.

APPENDIX TABLE III.3: IMPORTANT BANKING INDICATORS – SCHEDULED COMMERCIAL BANKS

(Amount in Rupees crore)

Item	Outstanding as March 24, 2000	Variations							
		Financial Year				First Quarter			
		1999-2000		1998-99		2000-01		1999-2000 ##	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8	9	10
1. Gross Demand and Time Liabilites (2+3+4+6)	**9,48,358**	**1,27,915**	**15.6**	**1,41,712**	**20.9**	**35,284**	**3.7**	**14,588**	**1.8**
2. Aggregate Deposits (a+b)	**8,13,344**	**99,319**	**13.9**	**1,15,540**	**19.3**	**37,081**	**4.6**	**15,170**	**2.1**
(i) **Excluding RIBs (a+b(i))**	7,95,399	99,319	14.3	97,595	16.3	37,081	4.7	15,170	2.2
a. Demand deposits	1,27,366	9,943	8.5	14,910	14.5	917	0.7	– 9,333	– 7.9
b. Time deposits	6,85,978	89,376	15.0	1,00,630	20.3	36,164	5.3	24,503	4.1
b(i). Excl. RIBs	6,68,033	89,376	15.4	82,685	16.7	36,164	5.4	24,503	4.2
3. Other Borrowings #	2,734	1,594	139.8	– 139	– 10.9	– 310	– 11.3	124	10.8
4. Other Demand and Time Liabilities	78,442	18,369	30.6	13,394	28.7	– 2,464	– 3.1	1,916	3.2
5. Borrowings from the RBI	6,491	3,597	124.3	2,499	633.4	2,222	34.2	1,382	47.7
6. Inter– Bank Liabilities	53,838	8,634	19.1	12,917	40.0	977	1.8	– 2,620	– 5.8
7. Bank Credit (a+b)	**4,35,958**	**67,121**	**18.2**	**44,758**	**13.8**	**19,303**	**4.4**	**1,654**	**0.4**
a. Food Credit	25,691	8,875	52.8	4,331	34.7	7,491	29.2	5,174	30.8
b. Non-food Credit	4,10,267	58,246	16.5	40,427	13.0	11,812	2.9	– 3,520	– 1.0
8. Investments (a+b)	**3,08,944**	**54,349**	**21.3**	**35,890**	**16.4**	**18,738**	**6.1**	**21,866**	**8.6**
a. Government securities	2,78,456	55,239	24.7	36,260	19.4	18,236	6.5	21,900	9.8
b. Other approved securities	30,488	– 889	– 2.8	– 371	– 1.2	502	1.6	– 33	– 0.1
9. Cash in hand	5,330	968	22.2	754	20.9	233	4.4	– 159	– 3.7
10. Balances with the RBI	57,419	– 6,129	– 9.6	5,850	10.1	3,513	6.1	2,068	3.3
11. Inter-Bank Assets	43,448	8,661	24.9	10,544	43.5	– 5,739	– 13.2	– 1,013	– 2.9
12. Credit-Deposit Ratio (%)	53.6	—	67.6	—	38.7	—	52.1	—	10.9
13. Non-food Credit-Deposit Ratio (%)	50.4	—	58.6	—	35.0	—	31.9	—	– 23.2
14. Investment-Deposit Ratio (%)	38.0	—	54.7	—	31.1	—	50.5	—	144.1
Memo Items :									
I. Non-Deposit Resources (1-2-11+II)	91,954	19,850	27.5	15,815	28.1	3,897	4.2	388	0.5
II. Bills Rediscounted with Financial Institutions	388	– 85	– 18.0	187	65.4	– 45*	– 11.6*	– 43*	– 9.1*
III. Call Money Borrowings from Financial Institutions@	7,770	1,289	19.9	695	12.0	761*	9.8*	– 744*	– 11.5*

P Provisional. — Not applicable. ## Pertains to July 2, 1999.

Other than from RBI/IDBI/NABARD/EXIM Bank. @ Inclusive of borrowings by Primary Dealers.

* April-June.

Note: Revised in line with the new accounting standards and consistent with the methodology suggested by the Working Group on Money Supply: Analytics and Methodology of Compilation (June 1998). The revision is in respect of pension and provident funds with commercial banks which are classified as other demand and time liabilities and includes those banks which have reported such changes so far.

APPENDIX TABLE III.4: SECTORAL DEPLOYMENT OF GROSS BANK CREDIT

(Amount in Rupees crore)

Sector	Outstanding as on March 24, 2000	Variations	
		1999-2000	1998-99
1	2	3	4
I. Gross Bank Credit (1+2)	**4,00,818**	**58,806**	**41,729**
1. Public Food Procurement Credit	25,367	8,551	4,331
2. Non-food Gross Bank Credit	3,75,451	50,255 (100.0)	37,398 (100.0)
A. Priority Sectors	1,31,847	17,236 (34.3)	15,104 (40.4)
a) Agriculture	44,381	4,747 (9.4)	4,765 (12.7)
b) Small Scale Industries	51,813	3,330 (6.6)	4,975 (13.3)
c) Other Priority Sectors	35,653	9,159 (18.2)	5,364 (14.3)
B. Industry (Medium and Large)	1,47,299	16,783 (33.4)	12,986 (34.7)
C. Wholesale Trade (other than food procurement)	16,818	2,853 (5.7)	748 (2.0)
D. Other Sectors	79,487	13,383 (26.6)	8,560 (22.9)
of which :			
a) Housing	14,100	2,696	2,347
b) Consumer Durables	3,855	765	563
c) Non-Banking Financial Companies	7,178	1,096	– 145
d) Loans to Individuals against Shares and Debentures/Bonds	2,146	521	– 279
e) Real Estate Loans	1,644	19	– 274
f) Other Non-Priority Sector Personal Loans	15,429	3,140	2,156
g) Advances against Fixed Deposits	18,876	3,770	3,291
h) Tourism and Tourism related Hotels	900	288	– 210
II. Export Credit [included under item I(2)]	**39,118**	**3,227 (6.4)**	**1,944 (5.2)**
III. Net Bank Credit (including inter-bank participations)	**3,98,205**	**58,728**	**42,212**

Note: 1. Data are provisional and relate to 50 selected scheduled commercial banks which account for about 90 - 95 per cent of bank credit of all scheduled commercial banks. Gross bank credit data include bills rediscounted with RBI, IDBI, EXIM Bank, other approved financial institutions and inter-bank participations. Net bank credit data are exclusive of bills rediscounted with RBI, IDBI, EXIM Bank and other approved financial institutions.

2. Figures in brackets are proportions to incremental non-food gross bank credit.

APPENDIX TABLE III.5: INDUSTRY-WISE DEPLOYMENT OF GROSS BANK CREDIT

(Rupees crore)

Sector	Outstanding as on March 24, 2000	Variations	
		1999-2000	1998-99
1	2	3	4
Industry (Small, Medium and Large)	**1,99,112**	**20,113**	**17,961**
1. Coal	1,126	12	313
2. Mining	1,240	– 120	385
3. Iron and Steel	18,799	508	2,524
4. Other Metals and Metal Products	6,294	376	725
5. All Engineering	23,069	1,556	– 1,320
of which :			
Electronics	5,133	261	400
6. Electricity	7,438	625	2,161
7. Cotton Textiles	11,682	1,252	1,099
8. Jute Textiles	894	50	– 245
9. Other Textiles	13,003	1,003	1,349
10. Sugar	3,832	494	379
11. Tea	1,034	209	-203
12. Food Processing	5,986	1,236	616
13. Vegetable Oils (including *vanaspati)*	2,958	248	414
14. Tobacco and Tobacco Products	993	– 12	– 71
15. Paper and Paper Products	3,143	205	196
16. Rubber and Rubber Products	2,063	49	-520
17. Chemicals, Dyes, Paints *etc.*	23,440	3,511	1,809
of which :			
a) Fertilisers	4,577	1,000	667
b) Petro-Chemicals	6,185	1,437	1,792
c) Drugs and Pharmaceuticals	5,693	370	104
18. Cement	3,624	878	244
19. Leather and Leather Products	2,664	122	64
20. Gems and Jewellery	5,406	1,282	594
21. Construction	2,736	167	– 77
22. Petroleum	8,969	3,453	– 639
23. Automobiles including trucks	4,028	900	258
24. Computer Software	1,022	275	131
25. Infrastructure	7,243	1,298	2,782
of which :			
a) Power	3,289	1,180	1,412
b) Telecommunications	1,992	– 281	228
c) Roads and Ports	1,962	399	1,142
26. Other Industries	36,426	536	4,993

Note: Data are provisional and relate to 50 selected scheduled commercial banks.

APPENDIX TABLE III.6: RESERVE BANK'S ACCOMMODATION TO SCHEDULED COMMERCIAL BANKS

(Amount in Rupees crore)

Item	2000-01	1999-2000				1998-99
	June **	March	December	September	June	March
1	2	3	4	5	6	7
1. Export Credit Refinance						
a) Limit	11,506	10,579	8,578	7,100	8,151	7,269
b) Outstanding	7,175	6,291	2,471	4,109	3,863	2,617
2. General Refinance						
a) Limit		—	—	—	—	1,115
b) Outstanding		—	—	—	—	19
3. Special Liquidity Support						
a) Limit		—	—	—	—	3,235*
b) Outstanding		—	—	—	—	258
4. Collateralised Lending Facility (CLF)						
a) Limit	1,314	1,314	1,314	1,314	1,314	—
b) Outstanding	95	161	12	90	—	—
5. Additional Collateralised Lending Facility (ACLF)						
a) Limit	1,314	1,314	1,314	1,314	1,314	—
b) Outstanding	—	39	12	5	—	—
6. Special Liquidity Support						
a) Outstanding	—	—	59	—	—	—
Memo Items :						
1. Aggregate Export Credit $	41,958	40,460	38,325	36,611	37,846	36,827
2. Export Credit eligible for Refinance	35,914	34,576	32,545	30,834	32,195	30,945
3. Aggregate Export Credit as percentage of Net Bank Credit	9.45	9.32	9.34	9.68	10.34	10.06

$ Inclusive of Rupee export credit, pre-shipment credit in foreign currency (PCFC), rediscounting of export bills abroad (EBR) and overdue export credit.

* Operating limit.

** Data pertain to June 2, 2000.

Note: 1. Data pertain to the last reporting Friday of the month.

2. General refinance facility (GRF), was introduced with effect from April 26, 1997 and was available to banks up to April 20, 1999.
3. Consequent on withdrawal of GRF in April 1999, refinance under the CLF/ACLF has been made available to all scheduled commercial banks. ACLF has been phased out with the introduction of liquidity adjustment facility (LAF), effective June 5, 2000.
4. Special Liquidity Facility, which was introduced effective September 17, 1998 to tide over unanticipated liquidity problems of those scheduled commercial banks which were temporarily deploying the rupee resources available against Resurgent India Bonds (RIBs) in Government securities sold by the Reserve Bank through the open market operations on or after September 17, 1998. This facility was in operation up to March 31, 1999.
5. A special liquidity support facility was introduced for the period from December 1, 1999 to January 31, 2000 to enable the banks to meet any unanticipated additional demand for curency in the context of century date change.

APPENDIX TABLE III.7: VARIATIONS IN INDEX NUMBERS OF WHOLESALE PRICES (BASE : 1993– 94 = 100)

(Per cent)

Major Group/Sub-group/Commodity	Weight	Variations				End–June	
		Point-to-point basis		Average basis		Point-to-point basis	
		1999-00	1998-99	1999-00	1998-99	2000P	1999
1	2	3	4	5	6	7	8
All Commodities	**100.000**	**6.5**	**5.3**	**3.3**	**5.9**	**6.2**	**2.2**
I. Primary Articles	**22.025**	**4.0**	**7.6**	**1.1**	**12.0**	**4.4**	**0.1**
1. Food articles	15.402	7.1	9.3	3.8	12.7	5.4	2.3
a) Cereals	4.406	4.7	22.7	17.8	9.0	1.5	22.5
i) Rice	2.449	3.3	19.3	17.2	8.8	0.5	22.5
ii) Wheat	1.384	5.1	25.3	15.2	9.8	5.6	17.4
b) Pulses	0.603	10.7	0.1	3.7	9.8	7.5	11.9
c) Fruits and vegetables	2.917	– 0.7	2.6	– 16.9	29.8	3.4	– 26.3
d) Milk	4.367	15.8	8.1	8.5	8.4	12.4	8.8
e) Eggs, fish and meat	2.208	10.1	4.1	2.7	4.9	11.1	– 1.2
f) Condiments and spices	0.662	1.0	6.1	2.9	24.6	– 10.1	12.6
g) Other food articles	0.239	– 15.2	– 24.4	– 7.4	– 8.3	– 15.1	– 10.2
i) Tea	0.157	– 15.6	– 24.1	1.9	– 6.5	– 17.5	– 0.6
ii) Coffee	0.082	– 14.5	– 24.8	– 21.7	– 10.9	– 10.0	– 25.4
2. Non– food articles	6.138	– 3.5	2.7	– 5.8	10.4	2.6	– 6.7
a) Fibres	1.523	– 3.6	– 6.3	– 10.4	7.1	6.9	– 12.8
Raw cotton	1.357	– 7.0	– 6.5	– 11.7	7.4	4.9	– 14.3
b) Oilseeds	2.666	– 8.0	4.9	– 10.2	15.8	– 0.2	– 11.9
3. Minerals	0.485	– 11.6	17.8	– 0.5	11.1	– 11.4	21.3
II. Fuel, Power, Light and Lubricants	**14.226**	**26.7**	**3.2**	**9.0**	**3.2**	**26.8**	**3.0**
1. Coking coal	0.241	0.0	0.0	0.0	3.4	0.0	0.0
2. Mineral oils	6.990	41.6	– 1.1	11.8	3.1	41.8	1.8
3. Electricity	5.484	15.1	9.6	7.5	3.4	15.1	5.3
III. Manufactured Products	**63.749**	**2.4**	**4.9**	**2.7**	**4.4**	**1.8**	**2.9**
1. Sugar, *Khandsari* and *Gur*	3.93	2.9	14.6	1.6	14.2	4.1	– 0.3
a) Sugar	3.62	3.6	0.8	1.5	1.2	5.0	0.0
b) *Khandsari*	0.17	0.0	– 5.7	– 5.1	8.3	0.0	– 6.3
c) *Gur*	0.06	4.0	– 6.2	– 0.5	3.6	2.1	– 2.9
2. Edible oils	2.76	– 17.9	12.7	– 12.3	22.8	– 13.6	– 10.9
3. Cotton textiles	4.22	– 1.9	1.2	– 0.3	1.7	1.8	0.5
4. Chemicals and chemical products	11.93	5.5	11.0	6.4	6.3	3.7	8.4
5. Cement	1.73	– 0.7	5.6	– 1.9	1.5	– 3.1	– 2.6
6. Iron and steel	3.64	1.3	0.9	1.3	2.3	1.3	1.1
7. Machinery and tools	8.36	– 0.5	1.1	0.1	0.6	2.2	0.4
8. Transport equipments and parts	4.30	4.7	2.3	3.0	2.8	4.1	2.1

P Provisional.

APPENDIX TABLE III.8: VARIATIONS IN WHOLESALE PRICES – WEIGHTED CONTRIBUTIONS (BASE : 1993-94 = 100)

(Per cent)

Major Group/Sub-group/Commodity	Weight	Point-to-point basis		Average basis		End-June Point-to-point basis	
		1999-2000	1998-99	1999-2000	1998-99	2000 P	1999
1	2	3	4	5	6	7	8
All Commodities	**100.000**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
I. Primary Articles	**22.025**	**14.6**	**33.5**	**8.1**	**46.6**	**17.1**	**1.4**
1. Food articles	15.402	18.8	29.1	20.1	34.9	15.2	18.4
a) Cereals	4.406	3.8	19.4	25.8	6.9	1.3	45.6
i) Rice	2.449	1.4	9.0	13.4	3.7	0.2	24.8
ii) Wheat	1.384	1.3	6.7	6.9	2.4	1.4	11.0
b) Pulses	0.603	1.1	0.0	0.8	1.1	0.9	3.5
c) Fruits and vegetables	2.917	– 0.3	1.5	– 19.8	15.7	1.7	– 50.6
d) Milk	4.367	10.5	6.5	10.9	5.8	9.1	16.9
e) Eggs, fish and meat	2.208	4.1	2.1	2.2	2.2	4.7	– 1.4
f) Condiments and spices	0.662	0.2	1.2	0.9	3.6	– 1.8	5.6
g) Other food articles	0.239	– 0.5	– 1.4	– 0.6	– 0.4	– 0.6	– 1.3
i) Tea	0.157	– 0.3	– 0.9	0.1	– 0.2	– 0.5	0.0
ii) Coffee	0.082	– 0.2	– 0.6	– 0.7	– 0.2	– 0.1	– 1.3
2. Non-food articles	6.138	– 3.4	3.3	– 11.7	11.1	2.6	– 20.4
a) Fibres	1.523	– 0.9	– 2.2	– 5.6	2.1	1.7	– 10.7
Raw cotton	1.357	– 1.6	– 2.1	– 5.8	2.0	1.1	– 11.0
b) Oilseeds	2.666	– 3.2	2.4	– 8.8	6.9	– 0.1	– 15.5
3. Minerals	0.485	– 0.7	1.2	– 0.1	0.7	– 0.7	3.2
II. Fuel, Power, Light and Lubricants	**14.226**	**63.1**	**9.6**	**41.4**	**8.3**	**65.7**	**20.7**
1. Coking coal	0.241	0.0	0.0	0.0	0.2	0.0	0.0
2. Mineral oils	6.990	45.6	– 1.6	25.7	3.8	47.8	5.9
3. Electricity	5.484	15.0	11.2	13.9	3.6	15.5	14.7
III. Manufactured Products	**63.749**	**22.9**	**56.6**	**49.9**	**45.2**	**17.2**	**78.1**
1. Sugar, *Khandsari* and *Gur*	3.929	1.9	10.8	2.1	9.5	2.8	– 0.5
a) Sugar	3.619	1.9	0.6	1.6	0.7	2.8	0.0
b) *Khandsari*	0.173	0.0	– 0.2	– 0.3	0.2	0.0	– 0.5
c) *Gur*	0.060	0.0	– 0.1	0.0	0.0	0.0	– 0.1
2. Edible oils	2.755	– 7.2	5.9	– 10.2	9.0	– 5.2	– 13.3
3. Cotton textiles	4.215	– 1.3	1.0	– 0.5	1.3	1.2	1.0
4. Chemicals and chemical products	11.931	10.8	25.2	24.1	13.1	7.6	46.2
5. Cement	1.731	– 0.2	1.7	– 0.9	0.4	– 0.8	– 2.0
6. Iron and steel	3.637	0.7	0.6	1.3	1.4	0.7	1.8
7. Machinery and tools	8.363	– 0.5	1.5	0.2	0.7	2.4	1.3
8. Transport equipments and parts	4.295	2.9	1.8	3.7	2.0	2.6	3.9

P Provisional.

APPENDIX TABLE III.9: ANNUALISED VARIATIONS IN PRICE INDICES
(Point-to-Point Basis)

(Per cent)

Year/ Month	Wholesale Price Index @	CPI for Industrial Workers $	CPI for Urban Non-manual Employees +	CPI for Agricultural Labourers*
1	2	3	4	5
1996-97	5.4 (4.6)	10.0 (9.4)	10.2 (9.3)	10.5 (9.0)
1997-98	4.5 (4.4)	8.3 (6.8)	7.2 (6.9)	3.8 (3.4)
1998-99	5.3 (5.9)	8.9 (13.1)	9.0 (11.3)	8.8 (11.0)
1999-2000	6.5 (3.3)	4.8 (3.4)	5.0 (4.5)	3.4 (4.4)
1998-99				
April	5.0	8.2	7.8	4.6
May	5.8	10.5	9.2	7.0
June	6.6	12.4	10.5	8.9
July	7.1	14.8	13.1	10.7
August	6.9	15.0	12.7	11.8
September	5.9	16.3	13.0	12.9
October	7.2	18.6	14.5	15.6
November	7.3	19.7	15.5	18.3
December	5.2	15.3	12.4	15.1
January	4.6	9.4	9.3	9.1
February	5.3	8.6	8.6	8.8
March	5.3	8.9	9.0	8.8
1999-2000				
April	3.9	8.4	7.9	8.1
May	3.1	7.7	7.5	8.0
June	2.2	5.3	6.1	6.7
July	2.0	3.2	4.2	5.2
August	2.8	3.2	4.5	5.1
September	3.2	2.1	3.8	4.4
October	3.2	0.9	2.9	3.6
November	2.8	0.0	2.0	1.9
December	3.3	0.5	2.6	2.0
January	3.6	2.6	3.8	2.7
February	4.4	3.6	4.4	3.0
March	6.5	4.8	5.0	3.4
2000-01				
April	6.0	5.5	6.2	4.1
May	6.6 P	5.0	5.8	4.0
June	6.2 P	5.2	5.8	..

P Provisional. .. Not Available.
@ Base: 1993-94=100. $ Base: 1982=100.
+ Base: 1984-85=100. * Base: 1986-87=100.

Note: Figures in brackets are on average basis.

APPENDIX TABLE IV.1: MEASURES OF DEFICIT OF THE CENTRAL GOVERNMENT

(Rupees crore)

Year	Fiscal Deficit		Primary Deficit		Net RBI Credit $	Revenue Deficit
	Gross	Net	Gross	Net		
1	2	3	4	5	6	7
1990-91	44,632	30,692	23,134	17,924	14,746	18,562
1991-92	36,325	24,624	9,729	8,961	5,508	16,261
1992-93	40,173	30,232	9,098	11,644	4,257	18,574
1993-94	60,257	45,994	23,516	24,331	260	32,716
1994-95	57,703	40,313	13,644	12,050	2,130	31,029
1995-96	60,243	42,432	10,198	10,806	19,855	29,731
1996-97	66,733	46,394	7,255	9,022	1,934	32,654
1997-98	88,937	63,062	23,300	22,748	12,914	46,449
1998-99	1,13,349	79,944	35,467	32,124	11,800	67,909
1999-2000 (RE)	1,08,898	96,116	17,473	38,835	– 5,587	73,532
2000-2001 (BE)	1,11,275	1,00,344	10,009	35,799	..	77,425
	As Percentage to GDP at Current Market Prices *					
1990-91	8.33	5.73	4.32	3.35	2.75	3.47
1991-92	5.89	3.99	1.58	1.45	0.89	2.64
1992-93	5.69	4.28	1.29	1.65	0.60	2.63
1993-94	7.01	5.35	2.74	2.83	0.03	3.81
1994-95	5.71	3.99	1.35	1.19	0.21	3.07
1995-96	5.10	3.59	0.86	0.91	1.68	2.52
1996-97	4.90	3.41	0.53	0.66	0.14	2.40
1997-98	5.87	4.16	1.54	1.50	0.85	3.06
1998-99	6.43	4.54	2.01	1.82	0.67	3.85
1999-2000(RE)	5.59	4.93	0.90	1.99	– 0.29	3.77
2000-2001(BE)	5.10 #	4.60 @	0.46 @	1.64 @	..	3.55 @
Average (1991-92 to 1998-99)	5.83	4.16	1.49	1.50	0.64	3.00

RE Revised Estimates. BE Budget Estimates. .. Not Available. (–) Indicates Surplus.

$ As per Reserve Bank records after closure of Government accounts.

* The GDP figures are based on new series with 1993-94 as base year from 1993-94 onwards, prior to that GDP base is at 1980-81 prices.

As per the Union Budget Speech 2000-2001.

@ Worked out on the basis of the implicit nominal GDP underlying the Budget Estimates of GFD/GDP ratio of 5.1 per cent for 2000-01.

Note: The revenue deficit denotes the difference between revenue receipts and revenue expenditure. The net RBI credit to the Central Government is the sum of the increase in the RBI's holdings of i) Treasury Bills, ii) Government of India dated securities, iii) rupee coins and iv) Loans and Advances from the Reserve Bank to Centre since April 1, 1997 adjusted for changes in Centre's cash balances with the Reserve Bank. The gross fiscal deficit is the excess of total expenditure including loans, net of recovery over revenue receipts (including external grants) and non-debt capital receipts. GFD excludes loans to States / Union Territories against Small Saving collection from 1999-2000 onwards. The net fiscal deficit is the difference between gross fiscal deficit and net lending. The gross primary deficit is the difference between the gross fiscal deficit and interest payments. The net primary deficit denotes net fiscal deficit *minus* net interest payments.

Source: Central Government budget documents and Reserve Bank records.

APPENDIX TABLE IV.2: MAJOR ITEMS OF RECEIPTS AND EXPENDITURES OF THE CENTRAL GOVERNMENT

(Rupees crore)

Item	2000-2001 (BE)	1999-2000 (RE)	1999-2000 (BE)	1998-99	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93	1991-92	Average 1991-92 to 1998-99
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Total Receipts	3,38,487	3,03,738	2,83,882	2,79,366	2,32,963	1,87,823	1,68,468	1,59,778	1,30,893	1,10,306	1,04,559	
(2+5)	(15.51)	(15.58)	(14.20)	(15.85)	(15.37)	(13.79)	(14.25)	(15.82)	(15.23)	(15.63)	(16.95)	(15.36)
2. Revenue Receipts	2,03,673	1,79,504	1,82,840	1,49,510	1,33,886	1,26,279	1,10,130	91,083	75,453	74,128	66,031	
(3+4)	(9.33)	(9.21)	(9.15)	(8.48)	(8.83)	(9.27)	(9.32)	(9.02)	(8.78)	(10.50)	(10.71)	(9.36)
3. Tax Revenue	1,46,209	1,26,469	1,32,365	1,04,652	95,672	93,701	81,939	67,454	53,449	54,044	50,069	
(Net to Centre)	(6.70)	(6.49)	(6.62)	(5.94)	(6.31)	(6.88)	(6.93)	(6.68)	(6.22)	(7.66)	(8.12)	(6.84)
4. Non-tax Revenue	57,464	53,035	50,475	44,858	38,214	32,578	28,191	23,629	22,004	20,084	15,962	
of which :	(2.63)	(2.72)	(2.53)	(2.54)	(2.52)	(2.39)	(2.39)	(2.34)	(2.56)	(2.85)	(2.59)	(2.52)
a) Interest Receipts	36,721	34,144	33,034	30,061	25,323	22,106	18,419	15,797	15,078	12,487	10,933	
	(1.68)	(1.75)	(1.65)	(1.71)	(1.67)	(1.62)	(1.56)	(1.56)	(1.75)	(1.77)	(1.77)	(1.68)
b) Dividend and Profits	11,204	9,311	9,483	9,410	5,181	3,854	3,248	2,716	2,451	2,493	1,058	
	(0.51)	(0.48)	(0.47)	(0.53)	(0.34)	(0.28)	(0.27)	(0.27)	(0.29)	(0.35)	(0.17)	(0.31)
5. Capital Receipts	1,34,814	1,24,234	1,01,042	1,29,856	99,077	61,544	58,338	68,695	55,440	36,178	38,528	
	(6.18)	(6.37)	(5.05)	(7.37)	(6.54)	(4.52)	(4.94)	(6.80)	(6.45)	(5.12)	(6.25)	(6.00)
6. Total Expenditure	3,38,487	3,03,738	2,83,882	2,79,366	2,32,053	2,01,007	1,78,275	1,60,739	1,41,853	1,22,618	1,11,414	
(7 + 8)	(15.51)	(15.58)	(14.20)	(15.85)	(15.31)	(14.76)	(15.08)	(15.92)	(16.51)	(17.37)	(18.06)	(16.11)
7. Revenue	2,81,098	2,53,036	2,36,987	2,17,419	1,80,335	1,58,933	1,39,861	1,22,112	1,08,169	92,702	82,292	
Expenditure *of which :*	(12.88)	(12.98)	(11.86)	(12.34)	(11.90)	(11.67)	(11.83)	(12.09)	(12.59)	(13.13)	(13.34)	(12.36)
a) Interest	1,01,266	91,425	88,000	77,882	65,637	59,478	50,045	44,060	36,741	31,075	26,596	
Payments	(4.64)	(4.69)	(4.40)	(4.42)	(4.33)	(4.37)	(4.23)	(4.36)	(4.28)	(4.40)	(4.31)	(4.34)
b) Subsidies	22,800	25,692	23,798	24,786	19,505	16,364	13,372	12,932	12,682	11,995	12,253	
	(1.04)	(1.32)	(1.19)	(1.41)	(1.29)	(1.20)	(1.13)	(1.28)	(1.48)	(1.70)	(1.99)	(1.43)
c) Defence	40,661	35,873	33,464	29,861	26,174	20,997	18,841	16,426	14,978	12,109	11,442	
	(1.86)	(1.84)	(1.67)	(1.69)	(1.73)	(1.54)	(1.59)	(1.63)	(1.74)	(1.72)	(1.86)	(1.69)
8. Capital	57,389	50,702	46,895	61,947	51,718	42,074	38,414	38,627	33,684	29,916	29,122	
Disbursements *of which :*	(2.63)	(2.60)	(2.35)	(3.51)	(3.41)	(3.09)	(3.25)	(3.82)	(3.92)	(4.24)	(4.72)	(3.75)
Capital Outlay	32,919	25,184	24,400	17,909	17,525	14,195	14,099	14,891	13,230	13,619	11,400	
	(1.51)	(1.29)	(1.22)	(1.02)	(1.16)	(1.04)	(1.19)	(1.47)	(1.54)	(1.93)	(1.85)	(1.40)
9. Developmental	1,34,637	1,33,039	1,24,138	1,37,257	110,994	94,197	84,427	82,803	72,464	65,479	59,313	
Expenditure * *of which :*	(6.17)	(6.82)	(6.21)	(7.79)	(7.32)	(6.92)	(7.14)	(8.20)	(8.43)	(9.28)	(9.62)	(7.11)
Social Sector	30,661	32,126	30,259	29,012	24,755	20,209	18,701	15,178	12,020	7,261	6,817	
	(1.41)	(1.65)	(1.51)	(1.65)	(1.63)	(1.48)	(1.58)	(1.50)	(1.40)	(1.03)	(1.11)	(1.22)
10. Non-Developmental	2,13,580	1,80,219	1,68,991	1,50,298	127,820	112,217	98,632	82,402	73,586	60,584	55,170	
Expenditure *	(9.79)	(9.24)	(8.45)	(8.53)	(8.43)	(8.24)	(8.34)	(8.16)	(8.56)	(8.58)	(8.94)	(7.41)
Memo Items :												
1. Interest Payments as per cent of Revenue Receipts	49.72	50.93	48.13	52.09	49.02	47.10	45.44	48.37	48.69	41.92	40.28	46.62
2. Revenue Deficit as per cent of Gross Fiscal Deficit	69.58	67.52	67.72	59.91	52.23	48.93	49.35	53.77	54.29	46.24	44.77	51.19
3. Net RBI Credit to the Centre as per cent of Gross Fiscal Deficit	..	– 5.13	..	10.41	14.52	2.90	32.96	3.69	0.43	10.60	15.16	11.33

BE Budget Estimates. RE Revised Estimates. .. Not Available.

* Data on developmental and non-developmental expenditures are inclusive of Commercial Departments.

Note: Figures in brackets are percentages to GDP. GDP figures are based on new series with 1993-94 as base year from 1993-94 onwards, prior to that GDP base is at 1980-81 prices.

Source: Central Government budget documents and Reserve Bank records.

APPENDIX TABLE IV.3: DIRECT AND INDIRECT TAX REVENUES OF CENTRAL AND STATE GOVERNMENTS

(Rupees crore)

Year		Centre (Gross)			States @			Centre & States Combined		
		Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total
1		2	3	4	5	6	7	8	9	10
1990-91		11,024	46,489	57,513	3,243	26,808	30,051	14,267	73,297	87,564
	(a)	19.2	80.8	100.0	10.8	89.2	100.0	16.3	83.7	100.0
	(b)	2.1	8.7	10.7	0.6	5.0	5.6	2.7	13.7	16.4
1991-92		15,207	52,059	67,266	3,840	31,568	35,408	19,047	83,627	102,674
	(a)	22.6	77.4	100.0	10.8	89.2	100.0	18.6	81.4	100.0
	(b)	2.5	8.4	10.9	0.6	5.1	5.7	3.1	13.6	16.6
1992-93		18,132	56,434	74,566	4,353	35,573	39,926	22,485	92,007	114,492
	(a)	24.3	75.7	100.0	10.9	89.1	100.0	19.6	80.4	100.0
	(b)	2.6	8.0	10.6	0.6	5.0	5.7	3.2	13.0	16.2
1993-94		20,298	55,392	75,690	5,032	41,545	46,577	25,330	96,937	122,267
	(a)	26.8	73.2	100.0	10.8	89.2	100.0	20.7	79.3	100.0
	(b)	2.4	6.4	8.8	0.6	4.8	5.4	2.9	11.3	14.2
1994-95		26,966	65,328	92,294	7,014	48,765	55,779	33,980	114,093	148,073
	(a)	29.2	70.8	100.0	12.6	87.4	100.0	22.9	77.1	100.0
	(b)	2.7	6.5	9.1	0.7	4.8	5.5	3.4	11.3	14.7
1995-96		33,563	77,661	111,224	8,040	55,587	63,627	41,603	133,248	174,851
	(a)	30.2	69.8	100.0	12.6	87.4	100.0	23.8	76.2	100.0
	(b)	2.8	6.6	9.4	0.7	4.7	5.4	3.5	11.3	14.8
1996-97		38,891	89,871	128,762	8,403	62,675	71,078	47,294	152,546	199,840
	(a)	30.2	69.8	100.0	11.8	88.2	100.0	23.7	76.3	100.0
	(b)	2.9	6.6	9.5	0.6	4.6	5.2	3.5	11.2	14.7
1997-98		48,274	90,946	139,220	6,469 #	71,624	78,093	54,743	1,62,570	2,17,313
	(a)	34.7	65.3	100.0	8.3	91.7	100.0	25.2	74.8	100.0
	(b)	3.2	6.0	9.2	0.4	4.7	5.2	3.6	10.7	14.3
1998-99 *		46,595	97,202	143,797	10,708	77,743	88,451	57,303	174,945	232,248
	(a)	32.4	67.6	100.0	12.1	87.9	100.0	24.7	75.3	100.0
	(b)	2.6	5.5	8.2	0.6	4.4	5.0	3.3	9.9	13.2
1999-2000 *		59,235	117,625	176,860	13,062	98,320	111,382	72,297	215,945	288,242
(BE)	(a)	33.5	66.5	100.0	11.7	88.3	100.0	25.1	74.9	100.0
	(b)	3.0	5.9	8.8	0.7	4.9	5.6	3.6	10.8	14.4
1999-2000 *		58,074	111,905	169,979	12,829	92,806	105,635	70,903	204,711	275,614
(RE)	(a)	34.2	65.8	100.0	12.1	87.9	100.0	25.7	74.3	100.0
	(b)	3.0	5.7	8.7	0.7	4.8	5.4	3.6	10.5	14.1
2000-2001 *		72,105	128,183	200,288	13,425	106,675	120,100	85,530	234,858	320,388
(BE)	(a)	36.0	64.0	100.0	11.2	88.8	100.0	26.7	73.3	100.0
	(b)	3.3	5.9	9.2	0.6	4.9	5.5	3.9	10.8	14.7
Memo Items :										
1991-92 to	(a)	28.8	71.2	100.0	11.2	88.8	100.0	22.4	77.6	100.0
1998-99	(b)	2.7	6.8	9.5	0.6	4.8	5.4	3.3	11.5	14.8
(Average)										

RE Revised Estimates. BE Budget Estimates.

@ Excluding States' share in Central taxes as reported in Central Government budget documents.

Adjusted for States' share in VDIS collection.

* Regarding State Governments, provisional data relate to the budgets of 24 States including the National Capital Territory of Delhi.

(a) Represents percentages to total tax revenue.

(b) Represents percentages to GDP. Since GDP figures are based on new series with 1993-94 as base year from 1993-94 onwards, prior to that GDP base is at 1980-81 prices. The ratios, therefore, will not match with those published earlier.

Source: Central and State Government budget documents.

APPENDIX TABLE IV.4: FINANCING OF GROSS FISCAL DEFICIT OF THE CENTRAL GOVERNMENT

(Rupees crore)

Year	Internal Finance				External Finance	Total Finance/ Gross Fiscal Deficit (5+6)
	Market Borrowings #	Other borrowings and Liabilities @	91-day Treasury Bills $	Total (2+3+4)		
1	2	3	4	5	6	7
1980-81	2,679	1,862	2,477	7,018	1,281	8,299
	(32.3)	(22.4)	(29.9)	(84.6)	(15.4)	(100.0)
1985-86	4,884	10,209	5,315	20,408	1,449	21,857
	(22.4)	(46.7)	(24.3)	(93.4)	(6.6)	(100.0)
1990-91	8,001	22,103	11,347	41,451	3,181	44,632
	(18.0)	(49.5)	(25.4)	(92.9)	(7.1)	(100.0)
1991-92	7,510	16,539	6,855	30,904	5,421	36,325
	(20.7)	(45.5)	(18.9)	(85.1)	(14.9)	(100.0)
1992-93	3,676	18,866	12,312	34,854	5,319	40,173
	(9.2)	(47.0)	(30.6)	(86.8)	(13.2)	(100.0)
1993-94	28,928	15,295	10,960	55,183	5,074	60,257
	(48.0)	(25.4)	(18.2)	(91.6)	(8.4)	(100.0)
1994-95	20,326	32,834	961	54,121	3,582	57,703
	(35.2)	(56.9)	(1.7)	(93.8)	(6.2)	(100.0)
1995-96	33,087	17,031	9,807	59,925	318	60,243
	(54.9)	(28.3)	(16.3)	(99.5)	(0.5)	(100.0)
1996-97	20,012	30,550	13,184	63,746	2,987	66,733
	(30.0)	(45.8)	(19.7)	(95.5)	(4.5)	(100.0)
1997-98	32,499	56,257	– 910	87,846	1,091	88,937
	(36.5)	(63.3)	– (1.0)	(98.8)	(1.2)	(100.0)
1998-99	68,988	42,650	– 209	1,11,429	1,920	1,13,349
	(60.9)	(37.6)	– (0.2)	(98.3)	(1.7)	(100.0)
1999-2000 (BE)	57,461	21,649	—	79,110	845	79,955
	(71.9)	(27.1)	—	(98.9)	(1.1)	(100.0)
1999-2000 (RE)	77,065	27,457	3,470	1,07,992	906	1,08,898
	(70.8)	(25.2)	(3.2)	(99.2)	(0.8)	(100.0)
2000-2001 (BE)	76,383	34,936	—	1,11,319	– 44	1,11,275
	(68.6)	(31.4)	—	(100.0)	—	(100.0)

RE Revised Estimates. BE Budget Estimates. – Negligible.

\# Includes Zero Coupon Bonds, loans in conversion of maturing Treasury Bills, 364-day Treasury Bills, *etc.* since 1993-94.

@ Other borrowings and liabilities comprise small savings, state provident funds, special deposits, reserve funds,Treasury Bills excluding 364-day Treasury Bills, etc. With effect from 1999-2000, small savings and public provident funds are represented through Centre's investment in government securities.

$ Variations in 91-day Treasury Bills issued net of changes in cash balances with RBI up to March 31, 1997. Since April 1, 1997 these figures represents draw down of cash balances.

Note: Figures in brackets represent percentages to total finance (gross fiscal deficit).

Source: Central Government Budget Documents and Reserve Bank records.

APPENDIX TABLE IV.5: BUDGETARY OPERATIONS OF STATE GOVERNMENTS

A: Measures of Deficit of State Governments

(Rupees crore)

Year	Fiscal Deficit		Primary Deficit		Net RBI Credit*	Conven-tional Deficit	Revenue Deficit
	Gross	Net	Gross	Net			
1	2	3	4	5	6	7	8
1990-91	18,787	14,532	10,132	8,280	420	– 72	5,309
1991-92	18,900	15,746	7,956	10,123	– 340	156	5,651
1992-93	20,892	15,770	7,681	6,497	176	– 1,829	5,114
1993-94	20,596	16,263	4,795	5,188	591	462	3,812
1994-95	27,697	23,507	8,284	9,459	48	– 4,468	6,156
1995-96	31,426	26,695	9,494	10,556	16	– 2,849	8,201
1996-97	37,251	33,460	11,675	16,055	898	7,041	16,114
1997-98	44,200	39,135	14,087	16,932	1,543	– 2,103	16,333
1998-99 @	74,129	66,035	38,467	37,842	5,579	3,229	43,912
1999-2000 (RE) @	94,383	84,956	49,110	48,311	1,312	9,191	56,815
2000-2001 (BE) @	85,971	76,680	32,117	31,778	..	4,358	43,942
As Percentage to GDP at Current Market Prices							
1990-91	3.5	2.7	1.9	1.5	0.1	—	1.0
1991-92	3.1	2.6	1.3	1.6	– 0.1	—	0.9
1992-93	3.0	2.2	1.1	0.9	—	– 0.3	0.7
1993-94	2.4	1.9	0.6	0.6	0.1	0.1	0.4
1994-95	2.7	2.3	0.8	0.9	—	– 0.4	0.6
1995-96	2.7	2.3	0.8	0.9	—	– 0.2	0.7
1996-97	2.7	2.5	0.9	1.2	0.1	0.5	1.2
1997-98	2.9	2.6	0.9	1.1	0.1	– 0.1	1.1
1998-99 @	4.2	3.7	2.2	2.1	0.3	0.2	2.5
1999-2000 (RE) @	4.8	4.4	2.5	2.5	0.1	0.5	2.9
2000-2001 (BE) @	3.9	3.5	1.5	1.5	..	0.2	2.0

B: Select Budgetary Variables of State Governments

(Per cent)

Item	2000-2001@ (BE)	1999-2000@ (RE)	1998-99@	1990-99 (Average)
1	2	3	4	5
1. GFD / Total Expenditure (excluding recoveries)	26.4	30.8	29.8	20.3
2. Revenue Deficit / Revenue Expenditure	15.5	21.1	20.1	8.0
3. Conventional Deficit / Aggregate Disbursements	1.3	2.8	1.2	– 0.2
4. Revenue Deficit / GFD	51.1	60.2	59.2	32.1
5. Non-Developmental Revenue Expenditure / Revenue Receipts +	50.8	50.1	48.2	38.3
6. Interest Payments/Revenue Receipts +	22.4	21.3	20.5	15.9
7. Developmental Expenditure / GDP	9.2	10.1	9.2	10.5
of which :				
Social Sector Expenditure / GDP	5.7	6.4	5.6	5.9
8. Non-Developmental Expenditure / GDP	5.7	5.6	4.9	4.6
9. States' Tax Revenue/GDP	5.7	5.4	5.0	5.5
10. States' Non Tax Revenue / GDP	1.4	1.5	1.4	1.8

RE Revised Estimates. BE Budget Estimates. .. Not Available. – Negligible. GFD Gross Fiscal Deficit.

(-) Indicates surplus for the deficit indicators.

* Data pertain to State governments having accounts with the Reserve Bank.

@ Provisional data relate to the budgets of 24 State governments including the National Capital Territory of Delhi, of which 4 states are Vote-on-Account.

+ Includes Additional Resource Mobilisation (ARM) of Rs.2423.8 crore in 2000-2001 (B.E.).

Note: 1. The net RBI credit to State governments refers to the increase in loans and Advances given to them by the RBI, net of their incremental deposits with the RBI.

2. ARM has been tentatively placed at Rs.2423.8 crore in 2000-2001 (B.E.) as per budget speeches. These have been included in Revenue Receipts, in the absence of detailed break ups.

3. The ratio for 1993-94 onwards are based on new GDP series (with 1993-94 base).

Source: Budget documents of State Governments and Reserve Bank records.

APPENDIX TABLE IV.6: COMBINED RECEIPTS AND DISBURSEMENTS OF CENTRAL AND STATE GOVERNMENTS

(Rupees crore)

Item	2000-2001 (BE)	1999-2000 (RE)	1999-2000 (BE)	1998-99 (Accounts)	Percentage Variation	
					Col.2 over Col.3	Col.3 over Col.5
1	2	3	4	5	6	7
I. Total Receipts (A+B)	**5,87,700**	**5,51,313**	**5,15,780**	**4,62,176**	**6.6**	**19.3**
A. Revenue Receipts (1+2)	3,82,601	3,46,927	3,52,747	2,85,494	10.3	21.5
1. Tax Receipts (a+b)	3,20,388	2,75,614	2,88,242	2,32,247	16.2	18.7
a) Direct taxes	85,530	70,903	72,297	57,303	20.6	23.7
b) Indirect taxes	2,34,858	2,04,711	2,15,945	1,74,944	14.7	17.0
2. Non-tax Receipts	62,213	71,313	64,505	53,247	– 12.8	33.9
of which:						
Interest receipts	15,213	17,661	15,070	16,165	– 13.9	9.3
B. Capital Receipts	2,05,099	2,04,386	1,63,033	1,76,682	0.3	15.7
of which:						
a) State Provident funds (net)	18,959	21,241	15,618	16,072	–10.7	32.2
b) Recovery of loans & advances	6,431	6,953	4,859	7,061	– 7.5	– 1.5
II. Total Disbursements (A+B+C)	**5,92,058**	**5,60,504**	**5,18,206**	**4,65,405**	**5.6**	**20.4**
A. Developmental Expenditure (a+b+c)	2,90,932	2,84,469	2,64,338	2,40,494	2.3	18.3
a) Revenue	2,28,124	2,28,294	2,09,815	1,94,446	– 0.1	17.4
b) Capital	46,556	38,926	38,432	29,490	19.6	32.0
c) Loans and Advances	16,252	17,249	16,091	16,558	– 5.8	4.2
B. Non-Developmental Expenditure (a+b+c)	2,91,995	2,60,400	2,48,367	2,11,854	12.1	22.9
a) Revenue	2,70,769	2,43,897	2,33,312	1,99,355	11.0	22.3
of which: Interest payments	1,24,660	1,11,587	1,07,103	92,179	11.7	21.1
b) Capital	19,501	14,399	13,709	11,049	35.4	30.3
c) Loans and Advances	1,725	2,104	1,346	1,450	– 18.0	45.1
C. Others (a + b) @	9,131	15,635	5,501	13,057	– 41.6	19.7
a) Revenue	5,074	5,083	3,782	3,514	– 0.2	44.6
b) Capital	4,057	10,552	1,719	9,543	– 61.6	10.6
III. Overall Surplus (+) / Deficit (-)	**– 4,358**	**– 9,191**	**– 2,426**	**– 3,229**		
Memorandum Items :						
1. Expenditure on Social Sector #	1,55,346 (7.1)	1,56,870 (8.0)	1,45,240 (7.3)	1,28,224 (7.3)	– 1.0	22.3
2. Total Social Services *of which:*	1,28,849 (5.9)	1,27,152 (6.5)	1,16,908 (5.8)	1,02,029 (5.8)	1.3	24.6
i) Education	64,071 (2.9)	64,613 (3.3)	58,838 (2.9)	51,954 (2.9)	– 0.8	24.4
ii) Medical, Public Health and Family Welfare and Water Supply & Sanitation	29,977 (1.4)	27,354 (1.4)	26,694 (1.3)	23,186 (1.3)	9.6	18.0
3. Combined Domestic Liabilities $	14,00,738 (64.2)	11,82,816 (60.7)	11,40,027* (57.0)	9,77,719 (55.5)	18.4	21.0
a) Centre	11,22,895 (51.5)	9,73,141 (49.9)	9,34,429 (46.7)	8,34,552 (47.3)	15.4	16.6
b) States	4,94,843 (22.7)	4,17,998 (21.4)	4,10,389* (20.5)	3,41,679 (19.4)	18.4	22.3

RE Revised Estimates. BE Budget Estimates.

@ Comprise discharge of internal debt, compensation and assignments to local bodies and *Panchayati Raj* institutions in respect of State governments.

Social Sector expenditure comprises outlay on social services, rural development and food subsidy. Rural development, although forms a part of economic services, is included in social sector expenditure on account of its immense importance for development of social infrastructure in rural areas.

$ Domestic liabilities of the Centre and States do not add up to the combined domestic liabilities on account of inter-governmental adjustments.

* Regarding State Governments, data relate to the budgets of 26 States including National Capital Territory of Delhi.

Note: 1. Figures in brackets are percentages to Gross Domestic Product at current market prices with revised base at 1993-94 prices.
2. Data include commercial departments in respect of the Central Government's revenue account.
3. Regarding State Governments, data relate to the budgets of 24 States including National Capital Territory of Delhi.

Source: Budget Documents of Government of India and State Governments.

APPENDIX TABLE IV.7: OUTSTANDING INTERNAL LIABILITIES OF THE CENTRAL GOVERNMENT

(Rupees crore)

Year	Internal Debt	Small Savings Deposits, Provident Funds and other Accounts	Reserve Fund and Deposits	Total Internal Liabilities (2+3+4)
1	2	3	4	5
1990-91	1,54,004	1,07,107	21,922	2,83,033
	(28.8)	(20.0)	(4.1)	(52.9)
1991-92	1,72,750	1,21,500	23,464	3,17,714
	(28.0)	(19.7)	(3.8)	(51.5)
1992-93	1,99,100	1,36,802	23,753	3,59,655
	(28.2)	(19.4)	(3.4)	(50.9)
1993-94	2,45,712	1,60,355	24,556	4,30,623
	(28.6)	(18.7)	(2.9)	(50.1)
1994-95	2,66,467	1,92,222	28,993	4,87,682
	(26.4)	(19.0)	(2.9)	(48.3)
1995-96	3,07,868	2,13,435	33,680	5,54,983
	(26.0)	(18.1)	(2.8)	(47.0)
1996-97	3,44,476	2,39,042	37,919	6,21,437
	(25.3)	(17.6)	(2.8)	(45.6)
1997-98	3,88,998	2,91,867	42,097	7,22,962
	(25.7)	(19.3)	(2.8)	(47.7)
1998-99	4,59,696	3,33,261	41,595	8,34,552
	(26.1)	(18.9)	(2.4)	(47.3)
1999-2000(RE)	7,28,627	1,98,612	45,902	9,73,141
	(37.4)	(10.2)	(2.4)	(49.9)
2000-2001(BE)	8,21,250	2,47,538	54,107	11,22,895
	(37.6)	(11.3)	(2.5)	(51.5)

RE Revised Estimates BE Budget Estimates.

Note: 1. Figures in brackets represent percentages to GDP at current market prices. The ratios from 1993-94 are based on the new series (1993-94), prior to that GDP base is at 1980-81 prices.

2. The sharp increase in internal debt and corresponding decline in small savings, provident funds and other accounts in 1999-2000 is due to conversion of other liabilities (small savings, deposits and public provident funds) amounting to Rs. 1,80,273 crore into Central Government securities under the new accounting system of the National Small Savings Fund (NSSF) with effect from the fiscal year 1999-2000.

Source: Central Government Budget Documents.

APPENDIX TABLE IV.8: FINANCING OF STATE GOVERNMENTS' GROSS FISCAL DEFICIT

(Rupees crore)

Year	Loans from the Central Govern-ment (net)	Market Borrow-ings (net)	Others #	Gross Fiscal Deficit (2+3+4)	States' Outstanding Liabilities (end-March)			States' Outstanding Liabilities as per cent to GDP at current market prices
					Total $	Loans and Advances from the Centre	Market Loans	
1	2	3	4	5	6	7	8	9
1990-91	9,978 (53.1)	2,556 (13.6)	6,253 (33.3)	18,787 (100.0)	1,10,289	74,117	15,618	20.6
1991-92	9,373 (49.6)	3,305 (17.5)	6,222 (32.9)	18,900 (100.0)	1,26,338	83,491	18,923	20.5
1992-93	8,921 (42.7)	3,500 (16.8)	8,471 (40.5)	20,892 (100.0)	1,42,178	92,412	22,426	20.1
1993-94	9,533 (46.3)	3,620 (17.6)	7,443 (36.1)	20,596 (100.0)	1,60,077	1,01,945	26,058	18.6
1994-95	14,760 (53.3)	4,075 (14.7)	8,862 (32.0)	27,697 (100.0)	1,84,527	1,16,705	30,133	18.3
1995-96	14,801 (47.1)	5,888 (18.7)	10,737 (34.2)	31,426 (100.0)	2,12,225	1,31,505	36,021	18.0
1996-97	17,547 (47.1)	6,515 (17.5)	13,189 (35.4)	37,251 (100.0)	2,43,525	1,49,053	42,536	17.9
1997-98	23,676 (53.6)	7,280 (16.5)	13,244 (29.9)	44,200 (100.0)	2,81,207	1,72,729	49,816	18.6
1998-99*	30,965 (41.8)	9,160 (12.4)	34,004 (45.9)	74,129 (100.0)	3,41,679	2,03,694	58,976	19.4
1999-2000 (RE)*	39,873 (42.2)	9,841 (10.4)	44,669 (47.3)	94,383 (100.0)	4,17,998	2,43,567	68,817	21.4
2000-2001 (BE)*	41,441 (48.2)	9,909 (11.5)	34,621 (40.3)	85,971 (100.0)	4,94,843	2,85,008	78,726	22.7

RE Revised Estimates. BE Budget Estimates.

\# Include loans from financial institutions, provident funds, reserve funds, deposits and advances, *etc*.

$ Includes internal debt, loans and advances from the Central Government and Provident Funds, *etc*.

* Provisional data relate to the budgets of 24 State governments including National Capital Territory of Delhi.

Note: 1. Figures in brackets are percentages to the Gross Fiscal Deficit.

2. Data on outstanding liabilities of the State governments have been revised taking into account the latest available information.

3. GFD adjusted for provisional ARM of Rs.2,423.8 crore in 2000-2001 (BE).

Source: Budget Documents of State governments and Combined Finance and Revenue Accounts of the Union and State governments.

APPENDIX TABLE IV.9: MARKET BORROWINGS OF CENTRAL AND STATE GOVERNMENTS AND THEIR SPONSORED INSTITUTIONS

(Rupees crore)

Government/Authority	Gross			Repayments			Net		
	2000-2001 (BE)	1999-2000 +	1998-99+	2000-2001 (BE)	1999-2000 +	1998-99+	2000-2001 (BE)	1999-2000 +	1998-99 +
1	2	3	4	5	6	7	8	9	10
1. Central Government (a+b)	1,17,704	99,630	93,953	41,321	26,553	31,050	76,383	73,077	62,903
a) Dated Securities	..	86,630	83,753	28,321 $	16,353	14,803	..	70,277	68,950
b) 364-day Treasury Bills	..	13,000	10,200	13,000	10,200	16,247	..	2,800	-6,047
2. State Governments	11,420	13,706	12,114	420	1,301	1,414	11,000 $$	12,405	10,700
3. Institutions Sponsored by Central Government @	—	—	341	—	—	141	—	—	200
4. Institutions Sponsored by State Governments (data relate to SFCs and SLDBs/ SCARDBs only) #	504	367 (510)	463 (583)	81	178	222	423	350	389
Grand Total (1+2+3+4)	**1,29,628**	**1,13,703**	**1,06,871**	**41,822**	**28,032**	**32,827**	**87,806**	**85,832**	**74,192**

.. Not Available BE Budget Estimates. + Actuals as per Reserve Bank Records.

– Not applicable.

$ Repayments as per Reserve Bank records.

@ Market borrowing of these institutions was effectively discontinued from 1999-2000.

$$ As per provisional allocation from Central Government.

Short fall in gross allocation in relation to net allocation and repayments during 1998-99 and 1999-2000 is due to non-allocation of borrowings to some SFCs.

Note: Figures in brackets represent allocated amount.

Source: Central Government Budget Documents and Reserve Bank records.

APPENDIX TABLE V.1: ISSUE OF CERTIFICATES OF DEPOSIT BY SCHEDULED COMMERCIAL BANKS

(Amount in Rupees crore)

Fortnight ended	Total Outstan-ding	Rate of Discount (Per cent)@	Fortnight ended	Total Outstan-ding	Rate of Discount (Per cent)@	Fortnight ended	Total Outstan-ding	Rate of Discount (Per cent)@
1	2	3	4	5	6	7	8	9
1998			**1999**			**2000**		
January 2	6,876	6.50 - 11.75	January 1	3,667	8.00 - 17.35	January 14	1,401	8.50 - 11.00
16	7,088	7.00 - 13.00	15	3,824	8.50 - 17.50	28	1,385	8.00 - 11.00
30	9,732	7.00 - 26.00	29	3,689	9.00 - 12.50	February 11	1,374	8.00 - 11.00
February 13	9,921	6.50 - 37.00	February 12	4,549	8.00 - 12.75	25	1,280	7.75 - 13.24
27	12,313	8.75 - 26.00	26	4,171	9.50 - 17.32	March 10	1,243	7.85 - 12.78
March 13	13,414	8.25 - 26.00	March 12	3,897	7.75 - 12.55	24	1,227	7.50 - 12.00
27	14,296	7.20 - 26.00	26	3,717	8.00 - 12.50	April 7	1,264	6.50 - 14.00
April 10	14,584	8.25 - 24.00	April 9	3,494	7.00 - 12.50	21	1,273	6.75 - 11.00
24	13,888	8.00 - 26.00	23	3,421	7.00 - 11.75	May 5	872	8.00 - 12.82
May 8	11,351	7.50 - 16.50	May 7	3,364	8.00 - 13.00	19	945	8.00 - 11.70
22	10,920	6.00 - 16.50	21	2,744	8.00 - 12.00	June 2	933	8.00 - 11.16
June 5	10,945	6.00 - 13.25	June 4	2,346	8.50 - 13.00	16	974	5.50 - 13.35
19	9,754	6.50 - 13.65	18	2,268	7.50 - 11.00			
July 3	7,886	6.00 - 12.75	July 2	2,111	6.25 - 11.50			
17	7,287	8.00 - 12.50	16	2,217	6.25 - 10.90			
31	7,147	8.00 - 12.82	30	2,091	7.50 - 11.00			
August 14	6,722	8.00 - 12.50	August 13	2,003	6.50 - 11.00			
28	6,545	6.75 - 15.00	27	1,921	8.00 - 11.50			
September 11	5,772	7.75 - 13.50	September 10	1,932	8.50 - 14.20			
25	5,686	8.25 - 12.60	24	1,933	6.25 - 11.75			
October 9	6,132	7.75 - 13.50	October 8	1,868	6.75 - 11.00			
23	6,214	8.25 - 13.00	22	1,754	6.75 - 13.40			
November 6	5,858	8.25 - 13.63	November 5	1,705	8.25 - 11.93			
20	5,881	8.00 - 15.55	19	1,453	7.50 - 11.25			
December 4	4,517	6.75 - 12.50	December 3	1,498	8.00 - 11.00			
18	4,186	8.25 - 15.50	17	1,467	8.50 - 11.00			
			31	1,418	8.50 - 11.00			

@ Effective disount rate range per annum.

APPENDIX TABLE V.2: COMMERCIAL PAPER*

(Amount in Rupees crore)

Date		Total Outstanding	Typical Effective Rates of Discount (Per cent)	Fortnight ended		Total Outstanding	Typical Effective Rate of Discount (Per cent)
1		2	3	4		5	6
1998							
January	15	5,249	9.75 - 11.50	April	15	5,029	9.15 - 12.00
	31	4,724	10.50 - 11.25		30	5,833	9.10 - 12.75
February	15	4,124	10.50 - 11.50	May	15	6,590	9.33 - 12.50
	28	3,139	10.95 -15.45		31	6,899	9.00 - 12.50
March	15	2,387	14.75 - 15.75	June	15	7,363	9.10 - 12.50
	31	1,500	14.22 - 15.50		30	7,679	9.30 - 12.38
April	15	1,030	13.00 - 15.25	July	15	6,311	9.30 - 12.00
	30	1,941	11.00 - 13.75		31	7,239	9.25 - 12.10
May	15	3,270	9.00 - 11.75	August	15	7,419	9.05 - 12.25
	31	3,834	10.00 - 12.00		31	7,678	9.10 - 12.50
June	15	4,023	10.25 - 12.25	September	15	7,293	9.61 - 12.70
	30	4,172	10.50 - 12.50		31	7,658	10.00 - 13.00
July	15	3,912	10.00 - 12.25	October	15	6,689	9.91 - 11.75
	31	4,102	10.00 - 12.25		31	6,161	10.20 - 12.50
August	15	4,620	9.75 - 11.55	November	15	6,153	9.40 - 12.50
	31	5,107	8.50 - 11.00		30	6,524	10.00 - 12.80
September	15	4,786	10.00 - 12.25	December	15	7,565	10.00 - 12.40
	30	4,588	11.00 - 13.00		31	7,803	9.90 - 12.27
October	15	4,803	10.35 - 12.75				
	31	4,874	10.50 - 12.90	**2000**			
November	15	5,475	10.25 - 12.50	January	15	7,747	9.05 - 11.65
	30	5,534	10.25 - 12.75		31	7,814	9.00 - 13.00
December	15	5,679	10.40 - 12.00	February	15	7,693	9.25 - 12.05
	31	5,474	10.55 - 11.90		28	7,216	9.20 - 11.00
1999				March	15	6,438	9.85 - 12.25
January	15	5,411	9.75 - 13.00		31	5,663	10.00 - 12.00
	31	5,261	9.60 - 13.45	April	15	5,633	9.58 - 12.25
February	15	5,151	10.15 - 12.75		30	5,606	9.35 - 11.00
	28	5,368	10.20 - 13.00	May	15	6,599	9.00 - 11.50
March	15	5,149	8.50 - 13.25		30	7,232	8.20 - 12.50
	31	4,770	9.10 - 13.25	June	15	7,485	8.90 - 11.50
					30	7,627	9.25 - 11.75
				July	15	7,127	9.35 - 11.65

* Issued at face value by companies.

APPENDIX TABLE V.3: NEW CAPITAL ISSUES BY NON-GOVERNMENT PUBLIC LIMITED COMPANIES

(Amount in Rupees crore)

Security & Type of Issue	1999-2000		1998-1999		1997-1998	
	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5	6	7
1. Equity Shares (a+b)	**69** **(48)**	**2,752.5** **(2,169.3)**	**33** **(19)**	**2,562.7** **(1,325.8)**	**89** **(29)**	**1,162.4** **(653.5)**
a) Prospectus	46 (32)	1,657.4 (1,405.9)	15 (7)	340.5 (181.0)	48 (4)	382.9 (151.3)
b) Rights	23 (16)	1,095.1 (763.4)	18 (12)	2,222.2 (1,144.8)	41 (25)	779.5 (502.2)
2. Preference Shares (a+b)	—	—	**3**	**59.7**	**1**	**4.3**
a) Prospectus	—	—	—	—	—	—
b) Rights	—	—	3	59.7	1	4.3
3. Debentures (a+b)	**10**	**2,400.8**	**12**	**2,390.7**	**12**	**1,971.6**
a) Prospectus	9	2,370.8	9	2,261.3	6	1,028.2
b) Rights	1	30.0	3	129.4	6	943.4
of which:						
i) Convertible (a+b)	2	50.8	5	190.7	10	1,471.6
a) Prospectus	1	20.8	2	61.3	4	528.2
b) Rights	1	30.0	3	129.4	6	943.4
ii) Non-Convertible (a+b)	8	2,350.0	7	2,200.0	2	500.0
a) Prospectus	8	2,350.0	7	2,200.0	2	500.0
b) Rights	—	—	—	—	—	—
4. Total (1+2+3)	**79**	**5,153.3**	**48**	**5,013.1**	**102**	**3,138.3**
a) Prospectus	55	4,028.2	24	2,601.8	54	1,411.1
b) Rights	24	1,125.1	24	2,411.3	48	1,727.2

Note:
1. Data are provisional.
2. Equity shares exclude bonus shares.
3. Figures in brackets indicate data in respect of premium on capital issues which are included in respective totals.
4. Figures exclude data on private placement and offer for sale.
5. Preference shares include cumulative convertible preference shares and equi-preference shares.
6. Convertible debentures include partly convertible debentures.
7. Non-convertible debentures include secured premium notes and secured deep discount bonds.
8. Debentures include bonds.
9. Data are compiled from prospectus/circulars/advertisements issued by companies, replies given by the companies to the Reserve Bank's questionnaire, information received from stock exchanges, press reports, *etc.*

APPENDIX TABLE V.4: SHARE PRICE INDICES

Year/Month	BSE SENSEX (Base: 1978-79=100)				S&P CNX Nifty (Base: 3.11.1995=1000)			
	Average@	High	Low	End of the Year/Month	Average@	High	Low	End of the Year/Month
1	2	3	4	5	6	7	8	9
1997-98 (April-March)	3,813 (9.9)	4,548	3,210	3,893 (15.8)	1,088 (8.0)	1,293	941	1,117 (15.3)
1998-99								
(April-March)	3,295 (-13.6)	4,281	2,764	3,740 (-3.9)	955 (-12.2)	1,213	809	1,078 (-3.5)
1999-2000								
(April-March)	4,659 (41.4)	5,934	3,245	5,001 (33.7)	1,369 (43.3)	1,756	931	1,528 (41.8)
1999								
April	3,450	3,686	3,245	3,326	994	1,063	931	978
May	3,880	4,124	3,378	3,964	1,110	1,180	971	1,132
June	4,067	4,255	3,902	4,141	1,165	1,214	1,121	1,188
July	4,526	4,729	4,145	4,542	1,295	1,350	1,183	1,310
August	4,663	4,906	4,488	4,898	1,344	1,423	1,285	1,412
September	4,725	4,833	4,571	4,764	1,385	1,415	1,351	1,413
October	4,835	5,075	4,445	4,445	1,434	1,505	1,325	1,325
November	4,589	4,741	4,271	4,622	1,365	1,409	1,270	1,376
December	4,802	5,006	4,615	5,006	1,436	1,488	1,389	1,480
2000								
January	5,407	5,518	5,205	5,205	1,608	1,639	1,546	1,546
February	5,651	5,934	5,216	5,447	1,687	1,756	1,550	1,655
March	5,262	5,642	5,001	5,001	1,606	1,713	1,528	1,528
Memo Items@:	1999-2000	1998-99	1997-98	1996-97	1999-2000	1998-99	1997-98	1996-97
a) Co-efficient of variation (%)	13.2	11.8	7.9	8.6	14.7	11.4	7.2	9.3
b) Dispersion (Range)	2,689	1,517	1,338	13	825	404	353	408

@ Based on daily indices.

Note: 1. Figures are rounded off to the nearest digit.

2. Figures in brackets are percentage variations over the previous year.

Sources: The Stock Exchange, Mumbai and the National Stock Exchange.

APPENDIX TABLE V.5: ASSISTANCE SANCTIONED AND DISBURSED BY FINANCIAL INSTITUTIONS

(Rupees crore)

Institution	1999-2000P		1998-99P		1997-98	
	S	D	S	D	S	D
1	2	3	4	5	6	7
A. All India Development Banks (1to 5)	**87,631.2** (84,657.0)	**54,157.0** (51,861.0)	**71,695.7** (68,782.2)	**46,495.4** (44,199.9)	**65,937.9** (63,139.6)	**43,021.2** (41,285.3)
1. IDBI	28,307.7 (28,066.1)	17,059.3 (16,829.9)	23,744.7 (23,653.1)	14,470.1 (14,368.0)	23,982.0 (23,608.9)	15,170.0 (14,835.1)
2. IFCI	2,376.2	2,992.5	4,525.4	4,826.5	7,693.2	5,650.4
3. ICICI	44,478.8	25,835.7	32,370.6	19,225.1	24,717.5	15,806.9
4. SIDBI	10,264.7 (7,532.1)	6,963.5 (4,896.9)	8,879.8 (6,057.9)	6,285.2 (4,091.8)	7,484.2 (5,059.0)	5,240.7 (3,839.7)
5. IIBI	2,203.8	1,306.0	2,175.2	1,688.5	2,061.0	1,153.2
B. Specialised Financial Institutions (6 to 8)	**246.4**	**259.8**	**241.3**	**160.8**	**352.6**	**224.6**
6. IVCF	8.1	11.9	10.7	10.4	9.9	18.2
7. ICICI Venture	155.9	136.2	19.4	18.1	22.6	19.6
8. TFCI	82.4	111.7	211.2	132.3	320.1	186.8
C. Investment Institutions (9 to 11)	**15,689.4**	**12,648.9**	**10,042.9**	**9,647.0**	**9,178.2**	**8,611.6**
9. LIC	6,810.5	5,611.4	4,829.6	4,824.9	3,472.6	3,909.9
10. UTI	6,737.2	5,069.9	3,898.6	3,435.9	4,532.8	3,557.9
11. GIC $	2,141.7	1,967.6	1,314.7	1,386.2	1,172.8	1,143.8
D. Total Assistance by All-India Financial Institutions (A+B+C)	**1,03,567.0**	**67,065.7**	**81,979.9**	**56,303.2**	**75,468.7**	**51,857.4**
E. State-level Institutions (12 and 13)	..	..	**3,460.4**	**2,989.5**	**4,421.2**	**3,526.4**
12. SFCs	..	..	1,864.5	1,626.7	2,626.1	2,110.2
13. SIDCs	..	..	1,595.9	1,362.8	1,795.1	1,416.2
F. Total Assistance by All Financial Institutions	..	..	**82,526.8**	**56,997.2**	**77,091.6**	**53,647.9**

P Provisional. .. Not available. S Sanctions. D Disbursements.

$ GIC data include figures for public sector bonds.

Note: 1. Data in parentheses and total assistance by AFIs are adjusted for inter-institutional flows. This involves adjustment with regard to IDBI/SIDBI's refinance to SFCs and SIDCs.

2. The IRBI was converted into a full-fledged development financial institution and was renamed as Industrial Investment Bank of India Limited (IIBI), with effect from March 27, 1997.

3. TDICI Limited was renamed as ICICI Venture Funds Management Company Limited with effect from October 8, 1998.

4. (IVCF) IFCI Venture Capital Funds Ltd. (erstwhile RCTC).

Source: IDBI and respective financial institutions.

APPENDIX TABLE V.6: PROFILE OF CENTRAL GOVERNMENT DATED SECURITIES

(Amount in Rupees crore)

Items	1999-2000	1998-99	1997-98
1	2	3	4
1. Gross Borrowing	86,630	83,753	43,390
2. Repayments	16,353	14,803	10,903
3. Net Borrowings	70,277	68,950	32,487
4. Weighted Average Maturity (year)	12.64	7.71	6.59
5. Weighted Average Yield (per cent)	11.77	11.86	11.82
6. A. Maturity Distribution – Amount			
a) Up to 5 Years	- -	26,399	16,704
b) Above 5 and up to 10 Years	30,000	46,030	26,686
c) Above 10 Years	56,630	11,324	- -
Total	86,630	83,753	43,390
B. Maturity Distribution - Per cent			
a) Up to 5 Years	- -	31.52	36.87
b) Above 5 and up to 10 Years	35.00	54.96	63.13
c) Above 10 Years	65.00	13.52	- -
Total	100.00	100.00	100.00
7. Yield - Per cent			
Minimum	10.72 (8 years, 3 months)	11.10 (5 years)	10.85 (4 years)
Maximum	12.45 (19 years, 8 months)	12.6 (20 years)	13.05 (10 years)
Average	11.75	11.94	12.07
8. Yield - Maturity Distribution-wise			
A. less than 10 years			
Minimum	10.72 (8 years, 3 months)	11.1 (5 years)	10.85 (4 years)
Maximum	11.74 (7 years, 11 months)	11.98 (6 years)	12.69 (5 years)
Average	11.3	11.63	11.84
B. 10 years			
Minimum	11.48	11.7	12.15
Maximum	11.99	12.25	13.05
Average	11.69	12.14	12.75
C. Above 10 years			
Minimum	10.76 (14 years, 9 months)	12.25 (12 years)	- -
Maximum	12.45 (19 years, 8 months)	12.6 (12 years)	- -
Average	11.92	12.41	- -
Memo Items :			
1. Initial Subscriptions by RBI	27,000	38,205	13,028
2. Open Market Operations by RBI - Net Sales	35,369	26,348	7,614
3. Monetised Deficit	-5,587	11,800	12,914
4. Ways and Means Advances to Centre (Outstandings) (as on March 31)	982	3,042	2,000

- - Not Applicable.

APPENDIX TABLE V.7: ISSUE OF CENTRAL GOVERNMENT DATED SECURITIES

(Amount in Rupees crore)

Date of Issue	Nomenclature of Loan	Residual Maturity (Year/Month)	Allocation to PDs (Devolve-ment)	Subscrip-tion by RBI	Gross Amount Raised	Cut-off Price/Yield
1	2	3	4	5	6	7
07-Apr-99	11.99 per cent Government Stock, 2009	10	0	0	3,000	11.99
07-Apr-99	12.40 per cent Government Stock, 2013* $	14/4	0	3,000	3,000	12.33
10-Apr-99	11.68 per cent Government Stock, 2006	7	0	0	3,000	11.68
13-Apr-99	12.60 per cent Government Stock, 2018* $	19/8	0	4,000	4,000	12.45
23-Apr-99	12.40 per cent Government Stock, 2013* $	14/4	0	5,000	5,000	12.24
12-May-99	11.19 per cent Government Stock, 2005 $	6/3	0	0	3,000	99.21/11.36
12-May-99	12.32 per cent Government Stock, 2011 $	11/9	0	0	2,000	101.65/12.05
20-May-99	12.60 per cent Government Stock, 2018* $	19/5	0	4,000	4,000	12.42
04-June-99	11.99 per cent Government Stock, 2009* $	9/10	0	2,000	2,000	101.40/11.74
04-June-99	11.98 per cent Government Stock, 2004* $	5/3	0	3,000	3,000	102.85/11.24
17-June-99	12.32 per cent Government Stock, 2011 $	11/7	270	0	2,000	102.18/11.96
17-June-99	12.40 per cent Government Stock, 2013 $	14/2	0	0	3,000	101.68/12.14
02-July-99	11.90 per cent Government Stock, 2007 $	7/11	1,195	0	2,500	100.80/11.74
02-July-99	12.30 per cent Government Stock, 2016@	17	0	0	2,130	12.30
16-July-99	12.32 per cent Government Stock, 2011 $	11/6	1,327	0	2,500	102.14/11.97
16-July-99	12.30 per cent Government Stock, 2016* $	17	0	2,500	2,500	12.30
30-July-99	12.30 per cent Government Stock, 2016 $	17	0	0	2,000	100.43/12.23
06-Aug-99	11.99 per cent Government Stock, 2009 $	10	0	0	3,000	102.90/11.48
28-Aug-99	11.99 per cent Government Stock, 2009 $	10	0	0	2,500	102.25/11.59
29-Sep-99	12.32 per cent Government Stock, 2011 $	11/4	0	0	2,500	103.57/11.73
08-Oct-99	11.90 per cent Government Stock, 2007 $	7/6	0	0	3,000	102.71/11.35
08-Oct-99	12.60 per cent Government Stock, 2018 $	19/1	0	0	2,000	104.05/12.05
22-Oct-99	12.29 per cent Government Stock, 2010* $	10/3	0	3,500	3,500	103.75/11.65
12-Nov-99	11.83 per cent Government Stock, 2014	15	0	0	3,500	11.83
24-Nov-99	11.68 per cent Government Stock, 2006 $	6/4	0	0	2,000	102.88/11.03
24-Nov-99	12.30 per cent Government Stock, 2016 $	16/7	0	0	3,000	103.49/11.81
10-Jan-00	11.83 per cent Government Stock, 2014 $	14/10	0	0	5,000	102.18/11.51
21-Jan-00	12.00 per cent Government Stock, 2008 $	8/3	0	0	3,000	106.83/10.73
11-Feb-00	11.83 per cent Government Stock, 2014 $	14/9	0	0	3,000	107.74/10.77
11-Feb-00	12.30 per cent Government Stock, 2016 $	16/5	0	0	2,000	111.40/10.80
13-Apr-00	12.29 per cent Government Stock, 2010 $	9/9	0	0	5,000	112.32/10.26
22-Apr-00	9.90 per cent Government Stock, 2005	5	0	0	3,000	100.07/9.88
22-Apr-00	10.70 per cent Government Stock, 2020	20	2,575	0	3,000	100.00/10.70
04-May-00	12.25 per cent Government Stock, 2010$	10/2	480	515	6,000	110.60/10.52
16-May-00	11.10 per cent Government Stock, 2003 $	2/11	0	0	2,500	104.01/9.47
16-May-00	11.68 per cent Government Stock, 2006 $	5/11	0	0	2,500	107.65/9.93
19-May-00	10.79 per cent Government Stock, 2015 @@	15	—	—	2,683	10.79
30-May-00	10.95 per cent Government Stock, 2011 #	11	—	4886	5,000	10.95
09-June-00	11.90 per cent Government Stock, 2007 $	6/11	935	1560	4,000	105.75/10.71
03-July-00	10.95 per cent Governmet Stock, 2011 $P	10/11	—	3000	3,000	99.10/11.09
13-July-00	10.20 per cent Government Stock, 2005 #	5	—	—	3,000	10.20

— Not Applicable. * Private placement with RBI. $ Reissues. @ Tap issues closed on the same day.

@@ Tap issue closed on 23/05/2000. P Private placement with RBI. # Yield based Auctions.

APPENDIX TABLE V.8: PROFILE OF TREASURY BILLS

(Amounts in Rupees crore)

Item	1999-2000	1998-99	1997-98
1	2	3	4
1. Implicit Yield at cut-off price (per cent)			
14-day Treasury bills			
Minimum	6.52	5.47	4.95
Maximum	8.87	9.39	7.30
Average	8.23	7.79	5.80
91-day Treasury bills			
Minimum	8.25	7.17	5.72
Maximum	9.46	10.05	7.33
Average	9.03	8.57	6.83
182-day Treasury bills			
Minimum	8.96	- -	- -
Maximum	9.97	- -	- -
Average	9.68	- -	- -
364-day Treasury bills			
Minimum	9.31	7.97	7.98
Maximum	10.33	10.72	9.42
Average	10.09	9.51	8.46
2. Gross Issues			
14-day Treasury bills	16,453	18,150	69,237
91-day Treasury bills	8,155	16,697	13,200
182-day Treasury bills	2,900	- -	- -
364-day Treasury bills	13,000	10,200	16,247
3. Net Issues			
14-day Treasury bills	125	-40	240
91-day Treasury bills	20	-100	-4,100
182-day Treasury bills	1,300	- -	- -
364-day Treasury bills	2,800	-6,047	8,006
4. Outstanding at Year/Period End			
14-day Treasury bills	325	200	240
91-day Treasury bills	1,520	1,500	1,600
182-day Treasury bills	1,300	- -	- -
364-day Treasury bills	13,000	10,200	16,247

- - Not applicable.

APPENDIX TABLE V.9: SECONDARY MARKET TRANSACTIONS IN GOVERNMENT SECURITIES

(Amount in Rupees crore)

Item	Transactions in Government Securities											
	1999-2000											
	April	May	June	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1	2	3	4	5	6	7	8	9	10	11	12	13
I. OUTRIGHT TRANSACTIONS												
1. Central Government Securities	28,974 (89.86)	32,350 (89.82)	25,039 (88.70)	31,964 (88.97)	39,250 (90.00)	20,817 (88.61)	25,656 (86.67)	39,905 (92.93)	36,276 (88.02)	42,808 (90.46)	59,318 (91.82)	22,928 (73.28)
2. State Government Securities	29 (0.09)	1,115 (3.10)	255 (0.90)	130 (0.36)	450 (1.03)	284 (1.21)	97 (0.33)	375 (0.87)	209 (0.51)	169 (0.36)	319 (0.49)	199 (0.64)
3. Treasury Bills (a+b+c+d)	3,241 (10.05)	2,552 (7.09)	2,937 (10.40)	3,832 (10.67)	3,910 (8.97)	2,391 10.18	3,848 (13.00)	2,659 (6.19)	4,730 (11.48)	4,348 (9.19)	4,967 (7.69)	8,160 (26.08)
a) 14 Days	275 (0.85)	540 (1.50)	527 (1.86)	427 (1.19)	310 (0.71)	128 (0.54)	166 (0.56)	469 (1.09)	460 (1.12)	673 (1.42)	364 (0.56)	207 (0.66)
b) 91 Days	485 (1.50)	472 (1.31)	495 (1.75)	730 (2.03)	595 (1.36)	493 (2.10)	325 (1.10)	436 (1.02)	858 (2.08)	1,117 (2.36)	881 (1.36)	832 (2.66)
c) 182 Days	— —	— —	85 (0.30)	324 (0.90)	146 (0.33)	189 (0.81)	174 (0.59)	333 (0.78)	489 (1.19)	536 (1.13)	230 (0.36)	302 (0.97)
d) 364 Days	2,480 (7.69)	1,541 (4.28)	1,830 (6.48)	2,350 (6.54)	2,859 (6.56)	1,582 (6.73)	3,182 (10.75)	1,420 (3.31)	2,923 (7.09)	2,023 (4.27)	3,491 (5.40)	6,819 (21.79)
Total (1+2+3)	32,244 (100.00)	36,017 (100.00)	28,231 (100.00)	35,926 (100.00)	43,611 (100.00)	23,493 (100.00)	29,601 (100.00)	42,939 (100.00)	41,215 (100.00)	47,324 (100.00)	64,605 (100.00)	31,287 (100.00)
II. REPO TRANSACTIONS												
1. Central Government Securities	4,275 (95.62)	4,441 (97.16)	3,299 (95.96)	5,507 (93.93)	4,507 (90.38)	4,908 (90.04)	5,216 (91.78)	5,872 (89.92)	8,957 (82.48)	7,810 (87.47)	8,579 (92.34)	12,354 (97.53)
2. Treasury Bills (a+b+c+d)	196 (4.38)	130 (2.84)	139 (4.04)	356 (6.07)	480 (9.62)	543 (9.96)	467 (8.22)	659 (10.08)	1,902 (17.52)	1,119 (12.53)	712 (7.66)	313 (2.47)
a) 14 Days	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)
b) 91 Days	0 (0.00)	0 (0.00)	75 (2.18)	8 (0.14)	0 (0.00)	0 (0.00)	0 (0.00)	35 (0.54)	0 (0.00)	85 (0.95)	0 (0.00)	0 (0.00)
c) 182 Days	— —	— —	0 (0.00)	40 (0.68)	191 (3.83)	164 (3.01)	137 (2.41)	20 (0.31)	195 (1.80)	0 0.00	110 (1.18)	0 0.00
d) 364 Days	196 (4.38)	130 (2.84)	64 (1.86)	308 (5.25)	289 (5.79)	379 (6.95)	330 (5.81)	604 (9.24)	1,707 (15.72)	1,034 (11.58)	602 (6.48)	313 (2.47)
Total (1+2)	4,471 (100.00)	4,571 (100.00)	3,438 (100.00)	5,863 (100.00)	4,987 (100.00)	5,451 (100.00)	5,683 (100.00)	6,530 (100.00)	10,859 (100.00)	8,929 (100.00)	9,291 (100.00)	12,667 (100.00)
III. Grand Total (I+II)	**36,715**	**40,588**	**31,669**	**41,789**	**48,598**	**28,944**	**35,284**	**49,469**	**52,074**	**56,253**	**73,896**	**43,954**
I as percentage of III	87.82	88.74	89.14	85.97	89.74	81.17	83.89	86.80	79.15	84.13	87.43	71.18
II as percentage of III	12.18	11.26	10.86	14.03	10.26	18.83	16.11	13.20	20.85	15.87	12.57	28.82

Notes: 1. Figures in brackets indicate percentages to total outright/repo transactions.

2. Repos transactions exclude second leg of transactions.

APPENDIX TABLE VI.1: INDIA'S OVERALL BALANCE OF PAYMENTS

Item	Rupees crore				US $ million			
	1999-2000	1998-99	1997-98	1996-97	1999-2000	1998-99	1997-98	1996-97
1	2	3	4	5	6	7	8	9
A. Current Account								
1. Exports, f.o.b.	1,65,993	1,44,436	1,32,703	1,21,193	38,285	34,298	35,680	34,133
2. Imports, c.i.f.	2,40,112	1,99,914	1,90,508	1,73,753	55,383	47,544	51,187	48,948
3. Trade Balance	– 74,119	– 55,478	– 57,805	– 52,560	– 17,098	– 13,246	– 15,507	– 14,815
4. Invisibles, net	56,120	38,691	36,922	36,279	12,935	9,208	10,007	10,196
a) 'Non-factor' Services	16,762	9,117	4,943	2,622	3,856	2,165	1,319	726
b) Income	– 15,431	– 14,968	– 13,204	– 11,768	– 3,559	– 3,544	– 3,521	– 3,307
c) Private Transfers	53,132	43,242	43,765	43,968	12,256	10,280	11,830	12,367
d) Official Transfers	1,657	1,300	1,413	1,457	382	307	379	410
5. Current Account Balance	– 17,999	– 16,787	– 20,883	– 16,282	– 4,163	– 4,038	– 5,500	– 4,619
B. Capital Account								
1. External Assistance, net	3,915	3,484	3,463	3,998	901	820	907	1,109
a) Disbursements	13,339	11,506	10,827	10,893	3,074	2,726	2,885	3,056
b) Amortisation	– 9,424	– 8,022	– 7,364	– 6,895	– 2,173	– 1,906	– 1,978	– 1,947
2. Commercial Borrowings, net	1,360	18,556	14,558	10,004	313	4,362	3,999	2,848
a) Disbursements	13,823	30,623	27,211	26,867	3,187	7,226	7,371	7,571
b) Amortisation	– 12,463	– 12,067	– 12,653	– 16,863	– 2,874	– 2,864	– 3,372	– 4,723
3. Short-term Credit, net	1,633	– 3,116	– 530	2,979	377	– 748	– 96	838
4. NRI Deposits, net	9,271	7,310	4,325	11,894	2,140	1,742	1,125	3,350
5. Foreign Investment, net	22,501	10,169	19,961	21,829	5,191	2,412	5,390	6,153
6. Rupee Debt Service	– 3,059	– 3,308	– 2,784	– 2,542	– 711	– 802	– 767	– 727
7. Other Capital, net @	8,769	3,260	– 2,388	– 5,547	2,031	779	– 714	– 1,565
8. Capital Account	44,390	36,355	36,605	42,615	10,242	8,565	9,844	12,006
C. Errors & Omissions	1,379	– 1,323	931	– 2,114	323	– 305	167	– 594
D. Overall Balance (A(5)+B(8)+C)	**27,770**	**18,245**	**16,653**	**24,220**	**6,402**	**4,222**	**4,511**	**6,793**
E. Monetary Movements (F+G)	– 27,770	– 18,245	– 16,653	– 24,220	– 6,402	– 4,222	– 4,511	– 6,793
F. IMF, Net	– 1,122	– 1,652	– 2,286	– 3,461	– 260	– 393	– 618	– 975
G. Reserves and Monetary Gold (Increase -, Decrease +)	**– 26,648**	**– 16,593**	**– 14,367**	**– 20,759**	**– 6,142**	**– 3,829**	**– 3,893**	**– 5,818**

@ Includes delayed export receipts, advance payments against imports, loans to non-residents by residents and banking capital.

Note: 1. Gold and silver brought by returning Indians have been included under imports, with a *contra* entry in private transfer receipts.

2. Data on exports and imports differ from those given by Directorate General of Commercial Intelligence and Statistics, Ministry of Commerce, Government of India, on account of difference in coverage, valuation and timing.

APPENDIX TABLE VI.2: INDIA'S FOREIGN TRADE

Item	Rupees crore			US $ million			SDR million		
	1999-00 P	1998-99	1997-98	1999-00 P	1998-99	1997-98	1999-00 P	1998-99	1997-98
1	2	3	4	5	6	7	8	9	10
I. Exports (a+b)	**1,62,925** **(16.6)**	**1,39,753** **(7.4)**	**1,30,101** **(9.5)**	**37,599** **(13.2)**	**33,219** **(– 5.1)**	**35,006** **(4.6)**	**27,642** **(13.8)**	**24,299** **(-5.4)**	**25,674** **(10.0)**
a. POL @	130 (– 65.5)	376 (– 71.3)	1,311 (– 23.3)	30 (– 66.5)	89 (– 74.6)	353 (– 26.8)	22 (– 66.3)	65 (– 74.7)	259 (– 23.0)
b. Non-oil	1,62,795 (16.8)	1,39,377 (8.2)	1,28,790 (10.0)	37,569 (13.4)	33,129 (– 4.4)	34,654 (5.0)	27,620 (14.0)	24,234 (– 4.6)	25,416 (10.4)
II. Imports (a+b)	**2,04,583** **(14.7)**	**1,78,332** **(15.7)**	**1,54,176** **(11.0)**	**47,212** **(11.4)**	**42,389** **(2.2)**	**41,484** **(6.0)**	**34,710** **(11.9)**	**31,007** **(1.9)**	**30,425** **(11.4)**
a. Oil & POL	45,421 (68.7)	26,919 (– 11.3)	30,341 (– 14.8)	10,482 (63.8)	6,399 (– 21.6)	8,164 (– 18.7)	7,706 (64.6)	4,681 (– 21.8)	5,988 (– 14.5)
b. Non-oil	1,59,161 (5.1)	1,51,413 (22.3)	1,23,835 (19.9)	36,730 (2.1)	35,990 (8.0)	33,321 (14.5)	27,004 (2.6)	26,327 (7.7)	24,438 (20.4)
III. Trade Balance (I-II)	**– 41,658**	**– 38,579**	**– 24,076**	**– 9,613**	**– 9,170**	**– 6,478**	**– 7,068**	**– 6,708**	**– 4,751**
a. Oil Balance (I.a-II.a)	– 45,291	– 26,543	– 29,030	– 10,452	– 6,309	– 7,811	– 7,684	– 4,615	– 5,729
b. Non-oil Balance (I.b-II.b)	3,634	– 12,036	4,955	839	– 2,861	1,333	617	– 2,093	978

P Provisional.

@ Petroleum, oil and lubricants.

Note: Figures in brackets relate to percentage variations over the previous year.

Source: DGCI & S.

APPENDIX TABLE VI.3: INDIA'S EXPORTS OF PRINCIPAL COMMODITIES

Commodity Group	Rupees crore					US $ million				
				Percentage Variation					Percentage Variation	
	1999-00 P	1998-99	1997-98	1999-00 P over 1998-99	1998-99 over 1997-98	1999-00 P	1998-99	1997-98	1999-00 P over 1998-99	1998-99 over 1997-98
1	2	3	4	5	6	7	8	9	10	11
I. Primary Products	**27,753**	**29,146**	**28,570**	**– 4.8**	**2.0**	**6,405**	**6,928**	**7,687**	**– 7.6**	**– 9.9**
	(17.0)	**(20.9)**	**(22.0)**			**(17.0)**	**(20.9)**	**(22.0)**		
A. Agricultural & Allied Products	**23,824**	**25,387**	**24,626**	**– 6.2**	**3.1**	**5,498**	**6,034**	**6,626**	**– 8.9**	**– 8.9**
	(14.6)	**(18.2)**	**(18.9)**			**(14.6)**	**(18.2)**	**(18.9)**		
of which :										
1. Tea	1,766	2,265	1,876	– 22.0	20.7	407	538	505	– 24.3	6.6
2. Coffee	1,364	1,728	1,696	– 21.1	1.9	315	411	456	– 23.4	– 10.0
3. Rice	3,105	6,281	3,371	– 50.6	86.3	717	1,493	907	– 52.0	64.6
4. Oil Meal	1,603	1,942	3,435	– 17.4	– 43.5	370	462	924	– 19.8	– 50.1
5. Marine Products	5,114	4,369	4,487	17.1	– 2.6	1,180	1,038	1,207	13.6	– 14.0
B. Ores & Minerals	**3,929**	**3,759**	**3,943**	**4.5**	**– 4.7**	**907**	**893**	**1,061**	**1.5**	**– 15.8**
	(2.4)	**(2.7)**	**(3.0)**			**(2.4)**	**(2.7)**	**(3.0)**		
II. Manufactured Goods	**1,27,719**	**1,08,506**	**98,660**	**17.7**	**10.0**	**29,474**	**25,791**	**26,547**	**14.3**	**– 2.8**
	(78.4)	**(77.6)**	**(75.8)**			**(78.4)**	**(77.6)**	**(75.8)**		
of which :										
A. Leather & Manufactures	**6,666**	**6,987**	**6,157**	**– 4.6**	**13.5**	**1,538**	**1,661**	**1,657**	**– 7.4**	**0.2**
	(4.1)	**(5.0)**	**(4.7)**			**(4.1)**	**(5.0)**	**(4.7)**		
B. Chemicals & Related Products	**19,548**	**16,867**	**16,339**	**15.9**	**3.2**	**4,511**	**4,009**	**4,396**	**12.5**	**– 8.8**
	(12.0)	**(12.1)**	**(12.6)**			**(12.0)**	**(12.1)**	**(12.6)**		
1. Basic Chemicals, Pharmaceuticals & Cosmetics	12,764	11,168	10,487	14.3	6.5	2,946	2,655	2,822	11.0	– 5.9
2. Plastic & Linoleum	2,544	1,984	1,911	28.2	3.8	587	472	514	24.5	– 8.3
3. Rubber, Glass, Paints & Enamels, *etc.*	3,039	2,656	2,646	14.4	0.4	701	631	712	11.1	– 11.3
4. Residual Chemicals & Allied Products	1,201	1,059	1,294	13.5	– 18.2	277	252	348	10.2	– 27.7
C. Engineering Goods	**21,503**	**18,780**	**19,832**	**14.5**	**– 5.3**	**4,962**	**4,464**	**5,336**	**11.2**	**– 16.3**
	(13.2)	**(13.4)**	**(15.2)**			**(13.2)**	**(13.4)**	**(15.2)**		
D. Textiles	**39,918**	**34,932**	**31,541**	**14.3**	**10.7**	**9,212**	**8,303**	**8,487**	**10.9**	**– 2.2**
	(24.5)	**(25.0)**	**(24.2)**			**(24.5)**	**(25.0)**	**(24.2)**		
of which :										
1. Cotton Yarn, Fabrics, Made-ups, *etc.*	13,602	11,661	12,132	16.6	– 3.9	3,139	2,772	3,264	13.2	– 15.1
2. Readymade garments	20,809	18,364	14,406	13.3	27.5	4,802	4,365	3,876	10.0	12.6
3. Manmade yarn, fabrics, made-ups, *etc.*	3,555	2,945	2,991	20.7	– 1.5	820	700	805	17.2	– 13.0
E. Gems and Jewellery	**33,089**	**24,945**	**19,867**	**32.6**	**25.6**	**7,636**	**5,929**	**5,346**	**28.8**	**10.9**
	(20.3)	**(17.8)**	**(15.3)**			**(20.3)**	**(17.8)**	**(15.3)**		
F. Handicrafts	**2,905**	**2,664**	**1,954**	**9.0**	**36.3**	**670**	**633**	**526**	**5.9**	**20.4**
	(1.8)	**(1.9)**	**(1.5)**			**(1.8)**	**(1.9)**	**(1.5)**		
G. Carpets	**2,628**	**2,287**	**2,028**	**14.9**	**12.8**	**606**	**544**	**546**	**11.6**	**– 0.4**
	(1.6)	**(1.6)**	**(1.6)**			**(1.6)**	**(1.6)**	**(1.6)**		
1. Handmade	2,205	1,722	1,526	28.1	12.8	509	409	411	24.3	– 0.3
2. Millmade	380	431	392	– 11.8	9.9	88	102	106	– 14.4	– 2.9
3. Silk	43	134	110	– 68.0	22.5	10	32	29	– 68.9	8.2
III. Petroleum, Crude & Products	**130**	**376**	**1,311**	**– 65.5**	**– 71.3**	**30**	**89**	**353**	**– 66.5**	**– 74.6**
	(0.1)	**(0.3)**	**(1.0)**			**(0.1)**	**(0.3)**	**(1.0)**		
IV. Others	**7,324**	**1,725**	**1,560**	**324.6**	**10.5**	**1,690**	**410**	**420**	**312.3**	**– 2.4**
	(4.5)	**(1.2)**	**(1.2)**			**(4.5)**	**(1.2)**	**(1.2)**		
V. Total Exports (I+II+III+IV)	**1,62,925**	**1,39,753**	**130,101**	**16.6**	**7.4**	**37,599**	**33,219**	**35,006**	**13.2**	**– 5.1**

P Provisional.

Note: 1. Figures in brackets represent percentage to total exports.

2. Leather & manufactures include finished leather, leather goods, leather garments, footwear of leather & it's components and saddlery & harness.

3. Engineering goods comprise of ferro alloys, aluminium other than products, non-ferrous metal, manufactures of metals, machine tools, machinery and equipments, transport equipments, residual engineering items, iron and steel bar/rod *etc.*, primary and semi-finished iron and steel, electronic goods, computer software and project goods.

4. Textiles include readymade garments, cotton yarn, fabric made-ups *etc.*, manmade textiles made-ups *etc.*, natural silk textiles, wool and woolen manufactures, coir and coir manufactures and jute manufactures.

Source: DGCI & S.

APPENDIX TABLE VI.4: INDIA'S IMPORTS OF PRINCIPAL COMMODITIES

Commodity Group	Rupees crore					US $ million				
				Percentage Variation					Percentage Variation	
	1999-00 P	1998-99	1997-98	1999-00 P over 1998-99	1998-99 over 1997-98	1999-00 P	1998-99	1997-98	1999-00 P over 1998-99	1998-99 over 1997-98
1	2	3	4	5	6	7	8	9	10	11
I. Bulk Imports	**74,845**	**55,660**	**54,967**	**34.5**	**1.3**	**17,272**	**13,230**	**14,790**	**30.6**	**– 10.5**
	(36.6)	**(31.2)**	**(35.7)**			**(37.6)**	**(31.2)**	**(35.7)**		
A. Petroleum, Petroleum Products & Related Material	**45,421**	**26,919**	**30,341**	**68.7**	**– 11.3**	**10,482**	**6,399**	**8,164**	**63.8**	**– 21.6**
	(22.2)	**(15.1)**	**(19.7)**			**(22.4)**	**(15.4)**	**(19.7)**		
B. Bulk Consumption Goods	**9,942**	**10,619**	**5,513**	**– 6.4**	**92.6**	**2,294**	**2,524**	**1,483**	**– 9.1**	**70.2**
	(4.9)	**(6.0)**	**(3.6)**			**(5.4)**	**(5.5)**	**(3.6)**		
1. Cereals & Cereal Preparations	579	1,210	1,083	– 52.2	11.7	134	288	292	– 53.6	– 1.3
2. Edible Oil	7,984	7,589	2,765	5.2	174.5	1,842	1,804	744	2.1	142.5
3. Pulses	274	709	1,195	– 61.4	– 40.7	63	168	321	– 62.5	– 47.6
4. Sugar	1,106	1,111	470	– 0.5	136.3	255	264	127	– 3.4	108.7
C. Other Bulk Items	**19,482**	**18,121**	**19,113**	**7.5**	**– 5.2**	**4,496**	**4,307**	**5,143**	**4.4**	**– 16.2**
	(9.5)	**(10.2)**	**(12.4)**			**(9.8)**	**(10.4)**	**(12.4)**		
1. Fertilisers	6,007	4,528	4,150	32.6	9.1	1,386	1,076	1,117	28.8	– 3.6
a) Crude	869	834	662	4.1	26.0	201	198	178	1.1	11.3
b) Sulphur & unroasted iron pyrites	465	280	351	65.8	– 20.1	107	67	94	61.0	– 29.4
c) Manufactured	4,673	3,414	3,137	36.9	8.8	1,078	811	844	32.9	-3.9
2. Non-ferrous Metals	2,357	2,513	3,420	– 6.2	-26.5	544	597	920	– 9.0	-35.1
3. Paper, Paperboard & manufactured incl. Newsprint	1,778	1,957	1,866	– 9.1	4.9	410	465	502	– 11.8	– 7.4
4. Crude Rubber, incl. Synthetic & Reclaimed	578	612	596	– 5.5	2.6	133	145	160	– 8.3	– 9.3
5. Pulp & Waste Paper	1,069	991	1,055	7.9	– 6.1	247	236	284	4.7	– 17.1
6. Metalliferrous Ores & Metal Scrap	3,322	3,046	2,744	9.1	11.0	767	724	738	5.9	– 2.0
7. Iron & Steel	4,371	4,474	5,281	– 2.3	– 15.3	1,009	1,064	1,421	– 5.1	– 25.2
II. Non-Bulk Imports	**1,29,737**	**1,22,672**	**99,209**	**5.8**	**23.7**	**29,940**	**29,159**	**26,694**	**2.7**	**9.2**
	(63.4)	**(68.8)**	**(64.3)**			**(63.9)**	**(68.8)**	**(64.3)**		
A. Capital Goods	**34,971**	**42,341**	**36,407**	**– 17.4**	**16.3**	**8,070**	**10,064**	**9,796**	**– 19.8**	**2.7**
	(17.1)	**(23.7)**	**(23.6)**			**(16.9)**	**(21.9)**	**(23.6)**		
1. Manufactures of Metals	1,829	1,599	1,209	14.4	32.3	422	380	325	11.0	16.9
2. Machine Tools	1,126	1,459	1,569	– 22.8	– 7.0	260	347	422	– 25.1	– 17.8
3. Machinery except Electrical & Electronics	11,961	12,808	13,461	– 6.6	– 4.8	2,760	3,045	3,622	– 9.3	– 15.9
4. Electrical Machinery except Electronics	1,719	1,771	1,406	– 3.0	26.0	397	421	378	– 5.8	11.3
5. Electronic Goods incl. Computer Software	11,573	10,036	8,391	15.3	19.6	2,671	2,386	2,258	12.0	5.7
6. Transport Equipments	2,932	3,358	3,907	– 12.7	– 14.0	677	798	1,051	– 15.2	– 24.1
7. Project Goods	3,832	11,309	6,465	– 66.1	74.9	884	2,688	1,739	– 67.1	54.5
B. Mainly Export Related Items	**38,720**	**30,001**	**25,693**	**29.1**	**16.8**	**8,936**	**7,131**	**6,913**	**25.3**	**3.2**
	(18.9)	**(16.8)**	**(16.7)**			**(19.0)**	**(16.9)**	**(16.7)**		
1. Pearls, Precious & Semi-precious Stones	23,296	15,820	12,421	47.3	27.4	5,376	3,760	3,342	43.0	12.5
2. Chemicals, Organic & Inorganic	12,476	11,290	10,986	10.5	2.8	2,879	2,684	2,956	7.3	-9.2
3. Textile Yarn, Fabrics, *etc.*	1,995	1,922	1,519	3.8	26.5	460	457	409	0.8	11.8
4. Cashew Nuts, Raw	954	969	767	– 1.6	26.3	220	230	206	– 4.4	11.5
C. Others	**56,046**	**50,330**	**37,109**	**11.4**	**35.6**	**12,934**	**11,963**	**9,985**	**8.1**	**19.8**
	(27.4)	**(28.2)**	**(24.1)**			**(28.0)**	**(30.0)**	**(24.1)**		
of which :										
1. Gold and Silver	19,087	21,339	11,779	– 10.6	81.2	4,405	5,072	3,169	– 13.2	60.0
2. Artificial Resins & Plastic Materials	3,060	2,843	2,574	7.7	10.4	706	676	693	4.5	– 2.4
3. Professional, Scientific & Optical Goods	3,532	3,451	2,771	2.4	24.5	815	820	746	– 0.6	10.0
4. Coal, Coke & Briquittes *etc.*	4,294	4,121	4,432	4.2	– 7.0	991	980	1,193	1.1	– 17.8
5. Medicinal & Pharmaceutical Products	1,502	1,615	1,447	– 7.0	11.6	347	384	389	– 9.7	– 1.4
6. Chemical Materials & Products	1,369	1,640	1,111	– 16.5	47.7	316	390	299	– 18.9	30.4
7. Non-Metallic Mineral Manufactures	747	674	515	10.8	31.0	172	160	138	7.5	15.8
III. Total Imports (I+II)	**2,04,583**	**1,78,332**	**1,54,176**	**14.7**	**15.7**	**47,212**	**42,389**	**41,484**	**11.4**	**2.2**

P Provisional.
Note: Figures in brackets represent percentage to total imports.
Source: DGCI & S.

APPENDIX TABLE VI.5: INVISIBLES BY CATEGORY OF TRANSACTIONS

Item	Rupees crore				US $ million			
	1999-2000	1998-99	1997-98	1996-97	1999-2000	1998-99	1997-98	1996-97
1	2	3	4	5	6	7	8	9
I. Non-factor Services, net	**16,762**	**9,117**	**4,943**	**2,621**	**3,856**	**2,165**	**1,319**	**726**
Receipts	68,186	55,528	35,102	26,565	15,721	13,186	9,429	7,474
Payments	51,424	46,411	30,159	23,944	11,865	11,021	8,110	6,748
i) Travel, net	3,898	5,278	5,541	7,183	897	1,250	1,477	2,020
Receipts	13,166	12,604	10,880	10,232	3,036	2,993	2,914	2,878
Payments	9,268	7,326	5,339	3,049	2,139	1,743	1,437	858
ii) Transportation, net	– 2,890	– 3,156	– 2,548	– 1,555	– 665	– 755	– 686	– 441
Receipts	7,560	8,109	6,805	6,942	1,745	1,925	1,836	1,953
Payments	10,450	11,265	9,353	8,497	2,410	2,680	2,522	2,394
iii) Insurance, net	500	473	210	228	114	112	57	64
Receipts	1,025	945	890	771	236	224	240	217
Payments	525	472	680	543	122	112	183	153
iv) G.N.I.E., net	1,356	1,161	444	– 379	312	272	116	– 106
Receipts	2,523	2,520	1,038	257	582	597	276	72
Payments	1,167	1,359	594	636	270	325	160	178
v) Miscellaneous, net	13,898	5,361	1,296	– 2,856	3,198	1,286	355	– 811
Receipts	43,912	31,350	15,489	8,363	10,122	7,447	4,163	2,354
Payments	30,014	25,989	14,193	11,219	6,924	6,161	3,808	3,165
II. Income, net	**– 15,431**	**– 14,968**	**– 13,204**	**– 11,767**	**– 3,559**	**– 3,544**	**– 3,521**	**– 3,307**
Receipts	8,373	8,133	5,795	3,812	1,931	1,935	1,561	1,073
Payments	23,804	23,101	18,999	15,579	5,490	5,479	5,082	4,380
III. Private Transfers, net	**53,132**	**43,242**	**43,765**	**43,969**	**12,256**	**10,280**	**11,830**	**12,367**
Receipts	53,280	43,494	43,930	44,209	12,290	10,341	11,875	12,435
Payments	148	252	165	240	34	61	45	68
IV. Official Transfers, net	**1,657**	**1,300**	**1,418**	**1,456**	**382**	**307**	**379**	**410**
Receipts	1,659	1,305	1,418	1,507	382	308	379	423
Payments	2	5	0	51	0	1	0	13
V. Invisibles, net (I to IV)	**56,120**	**38,691**	**36,922**	**36,279**	**12,935**	**9,208**	**10,007**	**10,196**
Receipts	1,31,498	1,08,460	86,245	76,093	30,324	25,770	23,244	21,405
Payments	75,378	69,769	49,323	39,814	17,389	16,562	13,237	11,209

GNIE: Government, not included elsewhere.

APPENDIX TABLE VI.6: COMPOSITION OF CAPITAL ACCOUNT INFLOWS

Variable	1999-2000	1998-99	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91
1	2	3	4	5	6	7	8	9	10	11
Total Capital Inflows (net) (US $ million) *of which:* (in per cent)	**10,242**	**8,565**	**9,844**	**12,006**	**4,089**	**8,502**	**8,895**	**3,876**	**3,910**	**7,056**
1. Non-debt Creating Inflows	**50.7**	**28.2**	**54.8**	**51.3**	**117.5**	**57.9**	**47.6**	**14.3**	**3.4**	**1.5**
a) Foreign Direct Investment	21.2	29.0	36.2	23.7	52.4	15.8	6.6	8.1	3.3	1.4
b) Portfolio Investment	29.5	-0.8	18.6	27.6	65.1	42.1	41.0	6.2	0.1	0.1
2. Debt Creating Inflows	**29.5**	**62.7**	**52.4**	**61.7**	**57.7**	**25.0**	**21.3**	**39.9**	**77.5**	**83.3**
a) External Assistance	8.8	9.6	9.2	9.2	21.6	17.9	21.4	48.0	77.7	31.3
b) External Commercial Borrowings #	3.1	50.9	40.6	23.7	31.2	12.1	6.8	– 9.2	37.2	31.9
c) Short-term Credits	3.7	– 8.7	– 1.0	7.0	1.2	4.6	– 8.6	– 27.8	– 13.1	15.2
d) NRI Deposits $	20.9	20.3	11.4	27.9	27.0	2.0	13.5	51.6	7.4	21.8
e) Rupee Debt Service	– 6.9	– 9.4	– 7.8	– 6.1	– 23.3	– 11.6	– 11.8	– 22.7	– 31.7	– 16.9
3. Other Capital @	**19.8**	**9.1**	**– 7.2**	**– 13.0**	**– 75.2**	17.1	**31.1**	**45.8**	**19.1**	**15.2**
4. Total (1 to 3)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Memo Item :										
Stable flows *	66.8	109.5	82.4	65.4	33.7	53.3	67.6	121.6	112.9	84.7

\# Refer to medium- and long-term borrowings.

$ Including NRNR Deposits.

@ Includes delayed export receipts, advance payments against imports, loans to non-residents by residents and banking capital.

* Stable flows are defined to represent all capital flows excluding portfolio flows and short-term trade credits.

APPENDIX TABLE VI.7: EXTERNAL ASSISTANCE

Item	Rupees crore			US $ million		
	1999-2000 P	1998-99 R	1997-98	1999-2000 P	1998-99 R	1997-98
1	2	3	4	5	6	7
1. Loans	13,331	11,393	10,824	3,081	2,672	2,918
2. Grants	1,073	813	921	248	199	248
3. Gross Utilisation (1+2)	14,404	12,206	11,745	3,329	2,871	3,166
4. Repayments	9,686	8,630	7,554	2,233	2,018	2,030
5. Interest Payments	5,481	5,228	4,771	1,263	1,238	1,282
6. Net (3-4-5)	– 763	– 1,652	– 580	– 167	– 385	– 146

P Provisional. R Revised.

Note: 1. Loans are inclusive of non-government loans but exclusive of suppliers' credits and commercial borrowings.

2. Grants are exclusive of PL 480-II grants.

3. Repayments include amortisation of civilian debt owed to Russia and hence do not tally with the data given in Appendix Table VI.1.

Source: Controller of Aid, Accounts and Audit, Government of India.

APPENDIX TABLE VI.8: INDIA'S FOREIGN EXCHANGE RESERVES

End of Month	Foreign Exchange Reserves (Rupees crore)				Foreign Exchange Reserves (US $ million)				Total Foreign Exchange Reserves (in SDR million)	Movement in Foreign Exchange Reserves (in SDR million) @	Reserve Position in the Fund (in SDR million)+
	SDRs *	Gold $	Foreign Currency Assets	**Total**	SDRs	Gold	Foreign Currency Assets	**Total**			
1	2	3	4	**5= (2+3+4)**	6	7	8	**9= (6+7+8)**	10	11	12
March 1993	55	10,549	20,140	**30,744**	18	3,380	6,434	**9,832**	7,033	317	212
March 1994	339	12,794	47,287	**60,420**	108	4,078	15,068	**19,254**	13,631 (11,156)	6,598 (6,141)	212
March 1995	23	13,752	66,005	**79,780**	7	4,370	20,809	**25,186**	16,137 (13,786)	2,506 (2,630)	212
March 1996	280	15,658	58,446	**74,384**	82	4,561	17,044	**21,687**	14,841 (12,167)	– 1,296 (– 1,619)	212
March 1997	7	14,557	80,368	**94,932**	2	4,054	22,367	**26,423**	19,052 (16,576)	4,211 (4,409)	212
March 1998	4	13,394	1,02,507	**1,15,905**	1	3,391	25,975	**29,367**	21,983 (19,891)	2,931 (3,315)	212
June 1998	344	12,826	1,01,831	**1,15,001**	81	3,020	23,933	**27,034**	20,303 (18,437)	– 1,680 (– 1454)	212
September 1998	61	12,678	1,11,377	**1,24,116**	14	2,984	26,184	**29,182**	21,280 (19,506)	– 703 (– 385)	212
December 1998	353	12,808	1,14,693	**1,27,855**	83	3,015	26,958	**30,056**	21,346 (19,607)	– 637 (– 284)	212
March 1999	34	12,559	1,25,412	**1,38 005**	8	2,960	29,522	**32,490**	23,928 (22,150)	1,945 (2,259)	489
June 1999	1	11,732	1,32,505	**1,44,238**	—	2,706	30,559	**33,265**	24,901 (23,279)	973 (1,129)	489
September 1999	5	11,850	1,32,946	**1,44,801**	1	2,717	30,485	**33,203**	23,927 (22,372)	– 1 (222)	489
December 1999	18	12,791	1,39,134	**1,51,943**	4	2,939	31,992	**34,935**	25,453 (23,715)	1,525 (1,565)	489
March 2000	16	12,973	1,52,924	**1,65,913**	4	2,974	35,058	**38,036**	28,240 (26,435)	4,312 (4,285)	489
June 2000 P	38	13,173	1,50,901	**1,64,112**	8	2,948	33,774	**36,730**	27,466 (25,665)	– 774 (– 770)	489

P Provisional.

* At Rupee-SDR exchange rate at the end of the respective month.

$ Gold has been valued close to international market price.

@ Variations over the previous March.

\+ Cover drawal of Reserve Position in the Fund.

Note: 1. Gold holdings include acquisition of gold worth US $ 191million from the Government during 1991-92, US $ 29.4 million during 1992-93, US $ 139.3 million during 1993-94, US $ 315.0 million during 1994-95 and US $ 17.9 million during 1995-96. On the other hand, 1.27 tonnes of gold amounting to Rs 43.55 crore (US $11.97 million), 38.9 tonnes of gold amounting to Rs 1485.22 crore (US $ 376.0 million) and 0.06 tonnes of gold amounting to Rs. 2.13 crore (US $ 0.5 million) were repurchased by the Central Government on November 13, 1997, April 1, 1998 and October 5, 1998 respectively for meeting its redemption obligation under the Gold Bond Scheme.

2. Conversion of foreign currency assets and SDRs into US dollar is done at exchange rates supplied by the IMF up to March 1999. Effective April 1, 1999, the conversion is at New York closing exchange rate.

3. Figures in brackets represent reserves adjusted for gold revaluation, pursuant to the practice of valuing gold reserves close to international market price, effective October 17, 1990.

APPENDIX TABLE VI.9: INDIA'S EXTERNAL DEBT

(As at the end of March)

Item	Rupees crore			US $ million		
	2000P	1999	1998	2000P	1999	1998
1	2	3	4	5	6	7
I. Multilateral	**1,36,584**	**1,29,674**	**1,16,904**	**31,317**	**30,534**	**29,553**
A. Government borrowing	1,19,722	1,14,531	1,04,218	27,447	26,967	26,344
i) Concessional	82,864	78,979	70,560	18,997	18,596	17,836
a) IDA	81,590	77,725	69,392	18,705	18,301	17,541
b) Others	1,274	1,254	1,168	292	295	295
ii) Non-concessional	36,858	35,552	33,658	8,450	8,371	8,508
a) IBRD	25,924	25,747	25,438	5,943	6,062	6,430
b) Others	10,934	9,805	8,220	2,507	2,309	2,078
B. Non-Government borrowing	16,862	15,143	12,686	3,870	3,567	3,209
i) Concessional	0	0	0	0	0	0
ii) Non-concessional	16,862	15,143	12,686	3,870	3,567	3,209
a) Public sector	12,184	10,711	8,765	2,797	2,523	2,216
IBRD	6,933	6,349	5,217	1,592	1,495	1,319
Others	5,251	4,362	3,548	1,205	1,028	897
b) Financial institutions	3,101	2,720	2,171	711	641	550
IBRD	999	1,057	1,011	229	249	256
Others	2,102	1,663	1,160	482	392	294
c) Private sector	1,578	1,711	1,750	362	403	443
IBRD	1,172	1,312	1,321	269	309	334
Others	406	399	429	93	94	109
II. Bilateral	**78,749**	**74,297**	**67,104**	**18,056**	**17,498**	**16,969**
A. Government borrowing	60,819	57,106	51,420	13,943	13,447	12,998
i) Concessional	59,280	56,425	50,583	13,590	13,286	12,786
ii) Non-concessional	1,539	681	837	353	161	212
B. Non-Government borrowing	17,930	17,191	15,684	4,113	4,051	3,971
i) Concessional	4,025	2,738	1,770	924	645	448
a) Public sector	1,489	526	192	342	124	49
b) Financial institutions	2,536	2,212	1,578	582	521	399
c) Private sector	0	0	0	0	0	0
ii) Non-concessional	13,905	14,453	13,914	3,189	3,406	3,523
a) Public sector	4,590	5,190	5,360	1,053	1,223	1,358
b) Financial institutions	4,108	4,362	4,216	942	1,028	1,067
c) Private sector	5,206	4,901	4,338	1,194	1,155	1,098
III. International Monetary Fund	**113**	**1,218**	**2,622**	**26**	**287**	**664**
IV. Trade Credit	**29,006**	**28,809**	**25,783**	**6,652**	**6,789**	**6,526**
a) Buyers' Credit	18,188	18,099	15,433	4,171	4,265	3,908
b) Suppliers' Credit	5,581	5,534	5,453	1,280	1,304	1,380
c) Export credit component of bilateral credit	5,154	4,901	4,399	1,182	1,155	1,112
d) Export credit for defence purposes	83	276	498	19	65	126

(Contd.)

APPENDIX TABLE VI.9: INDIA'S EXTERNAL DEBT *(Concld.)*

(As at the end of March)

Item	Rupees crore			US $ million		
	2000P	1999	1998	2000P	1999	1998
1	2	3	4	5	6	7
V. Commercial Borrowing	**84,476**	**89,521**	**67,086**	**19,373**	**21,096**	**16,986**
a) Commercial bank loans	43,391	43,891	39,419	9,951	10,343	9,981
b) Securitised borrowings (incl. IDBs and FCCBs) $	37,736	41,964	23,786	8,654	9,889	6,022
c) Loans/securitised borrowings, etc. with multilateral/bilateral guarantee and IFC(W)	3,235	3,433	3,451	742	809	874
d) Self-liquidating loans	113	233	430	26	55	109
VI. NRI & FC(B&O) Deposits (above one year maturity)	**63,585**	**52,382**	**47,050**	**14,582**	**12,344**	**11,913**
VII. Rupee Debt *	**19,128**	**20,078**	**23,204**	**4,386**	**4,731**	**5,874**
a) Defence	17,211	18,005	20,976	3,947	4,243	5,311
b) Civilian +	1,917	2,073	2,228	439	488	563
VIII. Total long-term debt (I to VII)	**4,11,641**	**3,95,979**	**3,49,753**	**94,392**	**93,279**	**88,485**
IX. Short-term debt	**17,630**	**18,616**	**19,929**	**4,043**	**4,387**	**5,046**
a) NRI deposits (up to 1 year maturity)	6,449	9,331	8,657	1,479	2,199	2,192
b) Others (trade related) **	11,180	9,285	11,272	2,564	2,188	2,854
X. Gross Total	**4,29,271**	**4,14,595**	**369,682**	**98,435**	**97,666**	**93,531**
a) Concessional Debt	1,65,297	1,58,220	1,46,117	37,897	37,258	36,944
b) Concessional Debt as % of Total Debt	38.5	38.2	39.5	38.5	38.2	39.5
c) Short-term Debt	17,630	18,616	19,929	4,043	4,387	5,046
d) Short-term Debt as % of Total Debt	4.1	4.5	5.4	4.1	4.5	5.4
Memo Items :						
Debt Indicators :						
1. Debt Stock - GDP Ratio (in per cent)	22.0	23.5	24.4	22.0	23.5	24.4
2. Debt-Service Ratio (%) (for fiscal year) (including debt servicing on non-civilian credits)	16.0	18.0	19.0	16.0	18.0	19.0

P Provisional.

$ Includes net investment by 100 per cent FII debt funds.

* Debt owed to Russia denominated in Rupees and converted at current exchange rates, payable in exports.

+ Includes Rupee suppliers' credit from end-March 1990 onwards.

** This does not include supplier's credit of up to 180 days for which no estimates are available.

Note: 1. Multilateral loans do not include revaluation of IBRD pooled loans and exchange rate adjustment under IDA loans for pre-1971 credits.

2. Debt-service ratio from the year 1992-93 includes the revised private transfer *contra*-entry on account of gold and silver imports.

APPENDIX TABLE : VI.10: INDICES OF REAL EFFECTIVE EXCHANGE RATE (REER) AND NOMINAL EFFECTIVE EXCHANGE RATE (NEER) OF THE INDIAN RUPEE

Month	(36 - country bilateral trade weights)*		(5 - country bilateral trade weights) **	
	REER #	NEER	REER #	NEER
1	2	3	4	5
March 1993	59.15	44.94	96.54	101.02
March 1994	63.55	44.99	98.83	99.89
March 1995	64.60	41.44	103.08	90.94
March 1996	62.75	39.44	101.91	87.63
March 1997	65.84	40.09	106.68	88.71
March 1998	65.51	38.97	101.59	82.40
March 1999	63.40	36.07	97.31	75.69
March 2000P	65.09	35.83	99.16	74.74
1999-2000 P				
April	63.25	35.95	97.07	75.59
May	63.45	36.01	97.71	75.90
June	63.51	35.89	97.82	75.69
July	63.64	35.92	97.89	75.57
August	62.73	35.18	95.99	73.78
September	62.59	34.99	95.12	72.97
October	62.59	34.66	95.16	72.34
November	63.40	35.12	96.38	73.14
December	62.96	35.16	95.82	73.22
January	62.77	35.13	95.52	73.13
February	63.68	35.67	97.25	74.50
March	65.09	35.83	99.16	74.74
2000-2001 P				
April	66.31	36.00	100.65	74.94
May	67.27	36.52	102.11	76.00
June	65.26	35.41	98.98	73.73

P Provisional   * Base : 1985=100   ** Base : 1993-94=100

\# The 36-country and 5-country REER indices have been recalculated from April 1994 and April 1993 onwards, respectively, using the new Wholesale Price Index (WPI) series (Base : 1993-94=100).

APPENDIX TABLE VI.11: SELECT ECONOMIC INDICATORS - WORLD

Item	2000 $	1999	1998	1997	1996	1995	1994
1	2	3	4	5	6	7	8
I. World Output (% Change)	**4.2**	**3.3**	**2.5**	**4.1**	**4.1**	**3.6**	**3.7**
i) Advanced economies	3.6	3.1	2.4	3.3	3.2	2.7	3.3
ii) Developing countries	5.4	3.8	3.2	5.8	6.5	6.1	6.6
a) Asia	6.2	6.0	3.8	6.7	8.3	9.0	9.6
b) Africa	4.4	2.3	3.1	2.9	5.6	3.2	2.3
c) Middle East and Europe	4.6	0.7	2.7	4.7	4.6	3.8	0.5
d) Western Hemisphere	4.0	0.1	2.1	5.4	3.6	1.7	5.0
iii) Countries in Transition	2.6	2.4	– 0.7	1.7	– 0.6	– 1.4	– 7.6
II. Inflation- CPI (% Change)							
i) Advanced economies	1.9	1.4	1.5	2.1	2.4	2.6	2.6
ii) Developing countries	5.7	6.5	10.1	9.5	15.1	22.9	55.1
a) Asia	2.6	2.5	7.6	4.7	8.2	13.2	16.0
III. Fiscal Balance #							
i) Advanced economies	– 0.6	– 0.8	– 1.1	– 1.5	– 2.7	– 3.3	– 3.7
ii) Developing countries ##	– 3.6	– 4.4	– 4.0	– 2.6	– 2.4	– 2.7	– 2.7
a) Asia	– 4.6	– 4.4	– 3.8	– 2.6	– 2.1	– 2.4	– 2.5
IV. Net Capital Flows* (US $ billion) Emerging Market Economies**							
i) Net private capital flows	70.9	80.5	75.1	147.6	215.9	226.9	136.3
ii) Net Direct Investment	153.0	149.8	143.3	138.6	113.2	92.6	84.0
iii) Net portfolio investment	30.4	23.3	8.5	52.9	77.8	36.9	109.6
iv) Net official flows	14.4	3.0	44.7	23.5	0.4	11.7	3.4
v) Other net investment***	– 112.5	– 92.5	– 76.7	– 43.9	24.9	97.4	– 57.3
V. World Trade @	**7.9**	**4.6**	**4.2**	**9.7**	**6.7**	**9.1**	**9.0**
Imports							
i) Advanced economies	7.8	7.4	5.5	9.1	6.2	8.9	9.6
ii) Developing countries	9.8	-0.3	0.4	10.5	8.3	11.1	7.1
Exports							
i) Advanced economies	7.2	4.4	3.7	10.3	5.9	8.8	8.9
ii) Developing countries	9.7	1.7	4.5	10.9	11.2	8.3	12.2
Terms of Trade							
i) Advanced economies	– 1.0	..	1.3	– 0.5	– 0.2	..	..
ii) Developing Economies	2.4	3.1	– 5.3	0.4	0.8	2.8	0.6
VI. Current Account Balance (US $ billion)							
i) Advanced economies	– 212.9	– 133.7	43.1	93.9	43.4	56.5	32.5
ii) Developing countries	– 11.6	– 32.7	– 89.9	– 59.1	– 74.2	– 111.4	– 88.6
a) Asia	31.7	42.3	48.9	6.8	– 38.7	– 56.3	– 20.4

$ Projections.

\# Central Government balance as percentage of GDP

\## Weighted average.

* Net capital flows comprise net direct investment, net portfolio investment, and other long and short-term investment flows including official and private borrowing

** Emerging markets includes developing countries, countries in transition, Korea, Singapore, Taiwan province of China, and Israel.

*** Other net investment may include some official flows.

@ World trade in volume of goods and services in annual percentage changes.

.. Not available.

Source: World Economic Outlook, May 2000