

CONTENTS

	Page No.
PART ONE : THE ECONOMY: REVIEW AND PROSPECTS	
I. ASSESSMENT AND PROSPECTS	1
Assessment of 2009-10	2
Prospects for 2010-11	3
Near to Medium-term Challenges for the Reserve Bank	4
II. ECONOMIC REVIEW	15
The Real Economy	16
Aggregate Supply	16
Aggregate Demand	27
Price Situation	29
Money and Credit	38
Reserve Money	38
Money Supply	41
Financial Markets	44
International Financial Markets	45
Domestic Financial Markets	45
Market Activities	47
Financial Derivatives	48
Monetary Policy Transmission through Financial Markets	49
Equity and Housing Prices	53
Exchange Rate	54
Government Finances	55
Fiscal Stance During 2009-10	55
Fiscal Correction and Consolidation	56
State Finances	58
Combined Finances	60
Fiscal Dominance and Macroeconomic Conditions	60
External Sector	64
Balance of Payments	64
Current Account Balance	69
Capital Account	70
Foreign Exchange Reserves	73
External Debt	74
Overall Assessment	76

CONTENTS

Page No.

PART TWO: THE WORKING AND OPERATIONS OF THE RESERVE BANK OF INDIA

III. MONETARY POLICY OPERATIONS	78
The Monetary Policy Process	78
Monetary Policy Operations: Context and Rationale	81
Liquidity Management	85
IV. CREDIT DELIVERY AND FINANCIAL INCLUSION	89
Priority Sector Lending	89
Financial Inclusion	92
Export Credit	94
V. DEVELOPMENT AND REGULATION OF FINANCIAL MARKETS	96
Money Market	96
Government Securities Market	97
Foreign Exchange Market	99
Corporate Bond Market	100
Derivatives market	101
VI. REGULATION AND SUPERVISION OF FINANCIAL INSTITUTIONS	103
Systemic Stability Assessment	105
Major Decisions Taken by Board for Financial Supervision	108
Commercial Banks	109
Urban Co-operative Banks	114
Rural Co-operatives	115
Deposit Insurance and Credit Guarantee Corporation of India	116
Non-Banking Financial Companies	116
VII. PUBLIC DEBT MANAGEMENT	119
Debt Management of Central Government	119
Debt Management of State Governments	123
VIII. CURRENCY MANAGEMENT	127
Currency Operations	127
Notes and Coins in Circulation	128
Clean Note Policy	128
Counterfeit Banknotes	130
Customer Service	130
Indigenisation of Paper, Ink and other Raw Materials for Production of Banknotes	131
Expenditure on Currency Printing and Distribution	131

CONTENTS

	Page No.
IX. PAYMENT AND SETTLEMENT SYSTEMS AND INFORMATION TECHNOLOGY	133
Payment and Settlement Systems	133
Information Technology	139
X. HUMAN RESOURCES DEVELOPMENT AND ORGANISATIONAL MATTERS	142
Platinum Jubilee Celebrations	142
Human Resource Development Initiatives	144
Other Initiatives	146
The Central Board and its Committees	152
Foreign Dignitaries	153
XI. THE RESERVE BANK'S ACCOUNTS FOR 2009-10	154
Income	154
Expenditure	157
Balance Sheet	158
Significant Accounting Policies and notes to the Accounts for the year 2009-10	166
Annex I : List of Speeches by the Governor and Deputy Governors: April 2009 to August 2010	171
Annex II : RBI Platinum Jubilee: Major Events and Activities	174
Annex III : Visits of Foreign Delegations to the Reserve Bank during July 1, 2009 to June 30, 2010	176
Annex IV : Macroeconomic and Financial Indicators	178
BOXES	
II.1 Potential Output Path for India, after the Global Crisis	17
II.2 Economic Growth and Inter-Sectoral Linkages	18
II.3 India KLEMS: An RBI Initiative to Measure Industrial Productivity in India	26
II.4 Impact of Trading in the Commodity Futures Market on Inflation	32
II.5 Supply Shocks, Relative Price Changes and the Role of Monetary Policy	34
II.6 Inflation Persistence in India	36
II.7 The Credit Channel of Monetary Policy during the Recovery	43
II.8 Financial Innovations in India: Balancing the Goals of Growth and Stability	50
II.9 Recommendations of the Thirteenth Finance Commission	59
II.10 Fiscal Dominance and Risks to Inflation in India	61
II.11 Crowding-Out Concerns: What the Empirical Evidence Suggests?	62
II.12 India's Export Basket: An Assessment of Comparative Advantage	67
II.13 Impact of Exchange Rate Movement on the Economy	71

CONTENTS

	Page No.
II.14 Global Initiatives to Supplement National Policies in Dealing with External Shocks	73
III.1 Challenges to Central Banking in the Context of Financial Crisis: Major Findings of the First International Research Conference	80
III.2 Neutral Policy Rate	86
VI.1 Global Crisis and Regulatory Lessons: India's Response so far	104
VIII.1 Procedure for Dealing With Counterfeit Currency	131
IX.1 New Cheque Standard "CTS 2010"	136
IX.2 IT Governance	141
X.1 Reserve Bank's Platinum Jubilee Year - Outreach Programme	143
 CHARTS	
II.1 Real GDP Growth	16
II.2 Performance of Agriculture during Drought Years	19
II.3 Comparative Yield Levels	21
II.4 Total Procurement, Offtake and Food Stocks	21
II.5 Growth in IIP (y-o-y)	22
II.6 IIP – Sectoral Growth	22
II.7 Current IIP Level as Compared to the Extrapolated 2005-07 Trend	23
II.8 Trends in Consumer Goods Production and Private Final Consumption Expenditure	23
II.9 Growth Trends in Industries Supporting Capital Formation	24
II.10 Growth in Infrastructure Industries	24
II.11 Growth in Services Sector GDP	25
II.12 Growth Trend in Cargo Movements	25
II.13 Weighted Contribution to GDP Growth from Demand Side	27
II.14 Growth in Consumption and Investment Demand	27
II.15 Rate of Saving and Investment	28
II.16 Household Financial Saving	29
II.17 Trends in Wholesale Price Inflation	30
II.18 Sources of WPI Inflation	30
II.19 Inflation in Major Sub-groups (WPI, y-o-y) March 2010	31
II.20 Weighted Contribution (WC) of Food and Fuel to WPI Inflation (y-o-y) in Relation to Their Combined Weight in WPI	31
II.21 Global and Domestic Inflation	31
II.22 Expectations for Cost of Raw Material and Selling Price: Reserve Bank's Industrial Outlook Survey	35
II.23 CPI and WPI Inflation	36

CONTENTS

	Page No.
II.24 State-wise CPI-Agricultural Labourers Inflation	36
II.25 Growth in Reserve Money (per cent)	39
II.26 Important Sources of Variation in Reserve Money	39
II.27 Sources of Variation in Net Reserve Bank Credit to the Centre	40
II.28 Liquidity Management Operations	41
II.29 Money (M3), Time Deposits and Interest Rate	41
II.30 Variations in M ₃ in ₹ crore and per cent share of Major Components of M ₃ in the Variation	41
II.31 Share of Credit to the Government from the Banking System in the Variation in M ₃ (per cent)	42
II.32 Variations in M ₃ in ₹ crore and per cent share of the Sources of M ₃ in the Variation	42
II.33 Non-food Credit Growth (y-o-y, per cent)	42
II.34 Scheduled Commercial Bank's Credit (Quarterly Variation)	42
II.35 Total Flow of Financial Resources to the Commercial Sector (₹ crore)	44
II.36 Sectoral Deployment of Bank Credit (y-o-y growth in per cent)	44
II.37 Indicators of Global Financial Market Developments	46
II.38 Indicators of Risk in Domestic Financial Markets	47
II.39 Activities in Domestic Financial Markets	48
II.40 Activity in Financial Derivative Markets	49
II.41 Movement in the Government Securities Yield Curve	51
II.42 Transmission of Policy Rates to Financial Markets	52
II.43 Movement in Equity and Housing Prices	53
II.44 Exchange Rates and Forward Premia	54
II.45 Key Deficit Indicators of the Central Government	55
II.46 Ratio of Revenue Receipts and Expenditure to GDP	56
II.47 Budgeted and Revised Expenditure of the Central Government in 2009-10	56
II.48 Rolling Targets under the Medium Term Fiscal Policy Statement	57
II.49 Extent of Moderation in Deficit Parameters Adjusting for One-off Items During 2010-11	57
II.50 Major Deficit Indicators of State Governments	58
II.51 Combined Deficit Indicators as Ratio of GDP	60
II.52 Growth in Combined Expenditure and Revenue Receipts	60
II.53 Combined Revenue Deficit, Savings and Investment Rate	62
II.54 Trade Deficit and Combined Fiscal Deficit	63
II.55 Key Global Indicators	65

CONTENTS

	Page No.
II.56 India's Merchandise Trade	66
II.57 Export Growth of India vis-a-vis Advanced Economies and EMEs in 2009	66
II.58 Country-wise and Commodity-wise India's Trade Performance	68
II.59 Performance of India's Invisibles	69
II.60 Trends in the Major Components of Balance of Payments	69
II.61 Trends in Major Components of Capital Flows (Net)	70
II.62 Country-wise FDI Flows	70
II.63 Industry-wise FDI Flows	70
II.64 Exchange Rate Flexibility in India	71
II.65 External Debt Indicators	75
III.1 Outstandings under LAF, MSS and GOI Balance	87
III.2 Repo (+)/Reverse Repo(-) under LAF	87
VI.1 Soundness Indicators of SCBs	106
VII.1 Cash Balances of the Central Government	122
VIII.1 Cost of Security Printing	132
IX.1 Share of Paper Based versus Electronic Transactions	135
IX.2 Real Time Gross Settlement System (RTGS)	137
X.1 Total Staff Strength of the Reserve Bank	147
XI.1 Assets and Income	155
XI.2 Major Items of Expenditure	157
 TEXT TABLES	
III.1 Movements in Key Policy Rates in India	82
IV.1 Priority Sector Advances	90
IV.2 Recovery of Direct Agriculture Advances	90
IV.3 Credit to MSE Sector by SCBs	91
VI.1 Select Financial Indicators	107
VI.2 Timeframe for Implementation of Advanced Approaches in India	109
VI.3 Frauds in Banking Sector	113
VII.1 Gross and Net Market Borrowings of the Central Government	120
VII.2 Central Government's Market Loans - A Profile	120
VII.3 Maturity Profile of Central Government Dated Securities	121
VII.4 Treasury Bills in the Primary Market	121
VII.5 Market Borrowings of State Governments	123
VII.6 Yield on State Government Securities	123

CONTENTS

	Page No.
VII.7 Residual Maturity Profile of Outstanding State Development Loans and Power Bonds	123
VII.8 WMA/Overdrafts of State Governments	124
VII.9 Number of days States availed of Special & Normal WMA and Overdraft	125
VII.10 Investments of the State Governments / UT	125
VIII.1 Banknotes in Circulation	128
VIII.2 Coins in Circulation	128
VIII.3 Banknotes Indented and Supplied	129
VIII.4 Indent and Supply of Coins	129
VIII.5 Disposal of Soiled Notes and Supply of Fresh Banknotes	129
VIII.6 Counterfeit Notes Detected	130
IX.1 Payment System Indicators - Annual Turnover	134
X.1 Reserve Bank Training Establishments - Programmes Conducted	145
X.2 Number of Officers Trained in External Training Institutions in India and Abroad	145
X.3 Recruitment by the Reserve Bank – 2009	147
X.4 Staff Strength of the Reserve Bank	147
X.5 Category-wise Actual Staff Strength	148
X.6 Reserve Bank's Office-wise Staff Strength	148
XI.1 Gross Income	155
XI.2 Earnings from Foreign Sources	156
XI.3 Earnings from Domestic Sources	156
XI.4 Expenditure	157
XI.5 Trends in Gross Income, Expenditure and Net Disposable Income	158
XI.6 Contingency and Asset Development Reserves and Surplus Transfer to the Government	159
XI.7 Balances in CGRA, EEA and IRA	161
XI.8 Balances in Contingency Reserve and Asset Development Reserve	161
XI.9 Outstanding Foreign Currency and Domestic Assets	162
XI.10 Foreign Exchange Reserves	162
XI.11 Investments in Shares of Subsidiaries/Associate Institutions	163