Report of the Central Board of Directors on the working of the Reserve Bank of India for the year ended June 30, 2005 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 2004-05

CENTRAL BOARD / LOCAL BOARDS

GOVERNOR
Y.V. Reddy

DEPUTY GOVERNORS
K.J. Udeshi
V. Leeladhar
Shyamala Gopinath
*

DIRECTORS NOMINATED UNDER SECTION 8 (1) (b) OF THE RBI ACT, 1934
Y.H. Malegam
Mihir Rakshit
K. Madhava Rao

DIRECTORS NOMINATED UNDER SECTION 8 (1) (c) OF THE RBI ACT, 1934
Ratan N. Tata
Amrita Patel
K. P. Singh
V. S. Vyas
D. S. Brar
H. P. Ranina
N. R. Narayana Murthy
Suresh Krishna
Ashok S. Ganguly

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

MEMBERS OF LOCAL BOARDS

WESTERN AREA
Y.H. Malegam
K. Venkatesan
Dattaraj V. Salgaocar
Jayanti Lal Bavjibhai Patel
Mahendra Singh Sodha

EASTERN AREA
Mihir Rakshit
A. K. Saikia
Sovan Kanungo

NORTHERN AREA
Mitha Lal Mehta
Ram Nath
Pritam Singh

SOUTHERN AREA
K. Madhava Rao
C. P. Nair
S. Ramachander
M. Govinda Rao
Devaki Jain

As on June 30, 2005

Note: * Dr. Rakesh Mohan assumed charge of the office of the Deputy Governor on July 2, 2005.
** Shri Ashok K. Jha, Secretary, Department of Economic Affairs, Ministry of Finance, Government of India was nominated as Director with effect from July 14, 2005 vice Dr. Rakesh Mohan.

PRINCIPAL OFFICERS

(As on June 30, 2005)

EXECUTIVE DIRECTORS	R.B. Barman
	P.K. Biswas
	Smt. Usha Thorat
	A.V. Sardesai
	P.V.Subba Rao
	V. K. Sharma
PRINCIPAL ADVISER AND CHIEF ECONOMIST	Narendra Jadhav*
* With status equivalent to that of the Bank's ED	
CENTRAL OFFICE	
Department of Administration and Personnel Management	V.S. Das, Chief General Manager-in-Charge
Department of Banking Operations and Development	Anand Sinha, Chief General Manager-in-Charge
Department of Banking Supervision	G. Gopalakrishna, Chief General Manager-in-Charge
Department of Currency Management	U.S. Paliwal, Chief General Manager
Department of Economic Analysis and Policy	*
Department of Expenditure and Budgetary Control	G.K. Sharma, Chief General Manager
Department of External Investments and Operations	H. Bhattacharya, Chief General Manager-in-Charge
Department of Government and Bank Accounts	Prabal Sen, Chief General Manager-in-Charge
Department of Information Technology	G. Padmanabhan, Chief General Manager-in-Charge
Department of Non-Banking Supervision	P. Krishnamurthy, Chief General Manager-in-Charge
Department of Payment and Settlement Systems	A.P. Hota, Chief General Manager
Department of Statistical Analysis and Computer Services	K.S.R. Rao, Principal Adviser
Foreign Exchange Department	V. Baijal, General Manager (Officer-in-Charge)
Human Resources Development Department	Sandip Ghose, Chief General Manager
Inspection Department	C.Krishnan, Chief General Manager
Internal Debt Management Department	B. Mahapatra, Chief General Manager-in-Charge
Legal Department	S.C. Gupta, Legal Adviser-in-Charge
Monetary Policy Department	D.K. Mohanty, Adviser-in-Charge
Premises Department	J.B. Bhoria, Chief General Manager
Rural Planning and Credit Department	C.S. Murthy, Chief General Manager-in-Charge
Secretary's Department	Smt. Grace Koshie, Chief General Manager & Secretary
Urban Banks Department	K.R. Ananda, Chief General Manager-in-Charge
COLLEGES	**PRINCIPALS**
Bankers Training College, Mumbai	B. Ghosh
College of Agricultural Banking, Pune	H.R. Khan
Reserve Bank Staff College, Chennai	S. Karuppasamy
OFFICES	**REGIONAL DIRECTORS**
Chennai	F.R. Joseph
Kolkata	H.N. Prasad
Mumbai	M.P. Kothari
New Delhi	Ramesh Chander
BRANCHES	**REGIONAL DIRECTORS**
Ahmedabad	Smt. Vani J. Sharma
Bangalore	Smt. D. Muthukrishnan
Bhopal	K.V.Rajan
Bhubaneswar	G. Jaganmohan Rao
Chandigarh	D.P.S. Rathore
Guwahati	Amarendra Sahoo (Gr.E)
Hyderabad	R. Gandhi
Jaipur	Smt. Deepa Srivastava
Jammu	O.P. Aggarwal
Kanpur	B. K. Vasdev
Nagpur	P. Aravind
Patna	S. Ganesh
Thiruvananthapuram	N. Krishna Mohan
	CHIEF GENERAL MANAGER
Lucknow	S.C. Agrawal
Navi Mumbai, Belapur	Deepak Singhal
	GENERAL MANAGER (O-in-C)
Kochi	M.O. Sebastian

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INDEX OF APPENDIX TABLES

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LIST OF ABBREVIATIONS

ABCP	–	Asset Backed Commercial Paper
ACH	–	Automated Clearing Houses
ACU	–	Asian Clearing Union
ADs	–	Authorised Dealers
ADB	–	Asian Development Bank
ADRs	–	American Depository Receipts
ADR	–	Asset Development Reserve
AFS	–	Available for Sale
AFTA	–	ASEAN Free Trade Area
AIBP	–	Accelerated Irrigation Benefit Programme
AIFI	–	All India Financial Institutions
ALM	–	Asset-Liability Management
AMFI	–	Association of Mutual Funds of India
AMPIs	–	Aggregated Micro-prudential Indicators
AoA	–	Agreement on Agriculture
APDRP	–	Accelerated Power Development and Reform Programme
APL	–	Above Poverty Line
APMC	–	Agricultural Produce Marketing Committee
ARC	–	Asset Reconstruction Company
AS	–	Accounting Standard
ASCI	–	Administrative Staff College of India
ATC	–	Agreement for Textile and Clothing
ATMs	–	Automated Teller Machines
ATMA	–	Agricultural Technology Management Agency
BCI	–	Business Confidence Index
BCP	–	Business Continuity Plans
BCSBI	–	Banking Codes and Standards Boards of India
BCTT	–	Banking Cash Transaction Tax
BE	–	Budget Estimates
BFS	–	Board for Financial Supervision
BIFR	–	Board for Industrial and Financial Reconstruction
BIRD	–	Bankers Institute for Rural Development
BIS	–	Bank for International Settlements
BoP	–	Balance of Payments
BPL	–	Below Poverty Line
BPLR	–	Benchmark Prime Lending Rate
BPO	–	Business Process Outsourcing
BPSS	–	Board for Payment and Settlement Systems
BRBNMPL	–	Bharatiya Reserve Bank Note Mudran Private Limited
BSE	–	The Stock Exchange, Mumbai
BTC	–	Bankers Training College
BTP	–	Bio-Technology Park
CA	–	Certification Authority
CA	–	Compounding Authority
CAAP	–	Capital Adequacy Assessment Process
CAB	–	College of Agricultural Banking
CAC	–	College Advisory Committee
CAC	–	Central Audit Cell
CAG	–	Comptroller and Auditor General
CBI	–	Central Bureau of Investigation
CBLO	–	Collateralised Borrowing and Lending Obligation
CC	–	Cash Credit
CCA	–	Controller of Certifying Authorities
CCB	–	Committee of the Central Board
CCC	–	Central Complaints Committee
CCIL	–	Clearing Corporation of India Limited
CCTV	–	Closed Circuit Television Surveillance Systems
CD	–	Certificates of Deposit
CDBMS	–	Central Database Management System
CDR	–	Corporate Debt Restructuring
CENVAT	–	Central Value Added Tax
CEO	–	Chief Executive Officer
CEPA	–	Comprehensive Economic Partnership Agreement
CFC	–	Customer Facilitation Centre
CFMS	–	Centralised Funds Management System
CFS	–	Consolidated Financial Statement
CFTS	–	Centralised Funds Transfer System

LIST OF ABBREVIATIONS

CGRA	–	Currency and Gold Revaluation Account
CGTSI	–	Credit Guarantee Fund Trust for Small Industries
CIBs	–	Capital Indexed Bonds
CIBIL	–	Credit Information Bureau of India Limited
CLF	–	Collateralised Lending Facilities
CMP	–	Common Minimum Programme
CODs	–	Central Office Departments
CoR	–	Certificate of Registration
COSMOS	–	Centralised-OSMOS
CP	–	Commercial Paper
CPC	–	Cheque Processing Centre
CPF	–	Customer Protection Fund
CPI	–	Consumer Price Index
CPIS	–	Coordinated Portfolio Investment Survey
CPPAPS	–	Committee on Procedures and Performance Audit on Public Services
CPR	–	Consolidated Prudential Report
CPSS	–	Committee on Payment and Settlement Systems
CPSUs	–	Central Power Sector Undertakings
CR	–	Contingency Reserve
CRAR	–	Capital to Risk Weighted Assets Ratio
CRF	–	Calamity Relief Fund
CRM	–	Country Risk Management
CRR	–	Cash Reserve Ratio
CSAA	–	Control Self Assessment Audit
CSF	–	Consolidated Sinking Funds
CSGL	–	Constituents' Subsidiary General Ledger Account
CSIR	–	Council of Scientific and Industrial Research
CSO	–	Central Statistical Organisation
CST	–	Central Sales Tax
CUG	–	Close User Group
CVC	–	Central Vigilance Commission
CVPSs	–	Currency Verification and Processing Systems
CTS	–	Cheque Truncation System
DAD	–	Deposit Account Department
DAPM	–	Department of Administration and Personnel Management
DBIE	–	Database on Indian Economy
DBOD	–	Department of Banking Operations and Development
DBS	–	Department of Banking Supervision
DCCBs	–	District Central Co-operative Banks
DCM	–	Department of Currency Management
DEAP	–	Department of Economic Analysis and Policy
DEBC	–	Department of Expenditure and Budgetary Control
DEIO	–	Department of External Investments and Operations
DESACS	–	Department of Statistical Analysis and Computer Services
DFHI	–	Discount and Finance House of India
DFIs	–	Development Financial Institutions
DFRC	–	Duty Free Replenishment Certificate
DGBA	–	Department of Government and Bank Accounts
DGCI&S	–	Directorate General of Commercial Intelligence and Statistics
DGFT	–	Directorate General of Foreign Trade
DICGC	–	Deposit Insurance and Credit Guarantee Corporation
DIP	–	Disclosure and Investor Protection
DIT	–	Department of Information Technology
DNBS	–	Department of Non-Banking Supervision
DNS	–	Deferred Net Settlement System
DMA	–	Direct Marketing Agents
DP	–	Depository Participant
DPSS	–	Department of Payment and Settlement Systems
DRAT	–	Debt Recovery Appellate Tribunal
DRDAs	–	District Rural Development Agencies
DRG	–	Development Research Group
DRI	–	Differential Rate of Interest

LIST OF ABBREVIATIONS

DRS	–	Disaster Recovery System
DRTs	–	Debt Recovery Tribunals
DSA	–	Direct Selling Agent
DSS	–	Debt Swap Scheme
DTA	–	Domestic Tariff Area
DTL	–	Demand and Time Liabilities
D*v*P	–	Delivery *versus* Payment
ECB	–	European Central Bank
ECBs	–	External Commercial Borrowings
ECNs	–	Electronic Communication Networks
ECR	–	Export Credit Refinance
ECS	–	Electronic Clearing Services
EDI	–	Electronic Data Interchange
EDIFAR	–	Electronic Data Information Filing and Retrieval
EEA	–	Exchange Equalisation Account
EEFC	–	Exchange Earners' Foreign Currency
EFC	–	Eleventh Finance Commission
EFT	–	Electronic Funds Transfer
EHTP	–	Electronic Hardware Technology Parks
EKMS	–	Enterprise Knowledge Management System
EMEs	–	Emerging Market Economies
EMU	–	European Monetary Union
EOUs	–	Export Oriented Units
EPCG	–	Export Promotion Capital Goods
EPZs	–	Export Promotion Zones
ESCAP	–	Economic and Social Commission for Asia and the Pacific
ESOP	–	Employees Stock Option Plan
EU	–	European Union
EXIM	–	Export Import
FATF	–	Financial Action Task Force
FBT	–	Fringe Benefit Tax
FCCBs	–	Foreign Currency Convertible Bonds
FCI	–	Food Corporation of India
FCNR(B)	–	Foreign-Currency Non-Resident (Banks)
FCRA	–	Forward Contract Regulation Act
FDI	–	Foreign Direct investment
FEDAI	–	Foreign Exchange Dealers Association of India
FED	–	Foreign Exchange Department
FEMA	–	Foreign Exchange Management Act, 1999
FICCI	–	Federation of Indian Chamber of Commerce and Industry
FIs	–	Financial Institutions
FIIs	–	Foreign Institutional Investors
FIMMDA	–	Fixed Income Money Market and Derivatives Association of India
FMD	–	Financial Markets Department
FOB	–	Free on Board
FRAs	–	Forward Rate Agreements
FRBs	–	Floating Rate Bonds
FRBM	–	Fiscal Responsibility and Budget Management
FRL	–	Fiscal Responsibility Legislation
FTP	–	Financial Transaction Plan
FTP	–	Foreign Trade Policy
FTWZ	–	Free Trade and Warehousing Zone
GATS	–	General Agreement on Trade in Services
GATT	–	General Agreement on Tariff and Trade
GB	–	Giga-bytes
GCF	–	Gross Capital Formation
GDCF	–	Gross Domestic Capital Formation
GDP	–	Gross Domestic Product
GDR	–	Global Depository Receipts
GDS	–	Gross Domestic Saving
GETFs	–	Gold Exchange Traded Funds
GFCF	–	Gross Fixed Capital Formation
GFD	–	Gross Fiscal Deficit
GLC	–	General Lines of Credit
GSO	–	Green Shoe Option
HFC	–	Housing Finance Company
HFT	–	Held for Trading
HICP	–	Harmonised Index of Consumer Prices
HRDD	–	Human Resources Development Department
HTM	–	Held to Maturity

LIST OF ABBREVIATIONS

IAS – Integrated Accounting System
IASC – Inspection and Audit Sub-Committee
IBA – Indian Bank's Association
IBS – International Banking Statistics
ICAAP – Internal Capital Adequacy Assessment Process
ICC – International Credit Card
ICCOMS – Integrated Computerised Currency Operation and Management System
ICT – Information and Communication Technology
IDBI – Industrial Development Bank of India
IDC – International Debit Card
IDFC – Infrastructure Development Finance Company
IDL – Intra-day Liquidity
IDMD – Internal Debt Management Department
IDRBT – Institute for Development and Research in Banking Technology
IECD – Industrial and Export Credit Department
IEM – Industrial Entrepreneurs Memoranda
IES – Integrated Establishment System
IFC – International Finance Corporation
IFIs – International Financial Institutions
IFR – Investment Fluctuation Reserve
IFS – Indian Foreign Service
IFSCs – Indian Financial System Codes
IIBM – Indian Institute of Bank Management
IIP – Index of Industrial Production
IMD – India Meteorological Department
IMF – International Monetary Fund
IMFC – International Monetary and Financial Committee
INFINET – Indian Financial Network
IOSCO – International Organisation of Securities Commissions
IPAs – Issuing and Paying Agents
IPF – Investors Protection Fund
IPOs – Initial Public Offering
IRB – Internal Rating Based Approach
IRDA – Insurance Regulatory and Development Authority
IRF – Interest Rate Futures
IRS – Interest Rate Swaps
IS – Information Security
ISO – International Standards Organisation
ISP – Information Security Policy
ISP – Internet Service Provider
IT – Information Technology
ITAC – Information Technology Advisory Committee
ITES-BPO – Information Technology Enabled Services and Business Process Outsourcing
JPC – Joint Parliamentary Committee
JV – Joint Ventures
KCCs – Kisan Credit Cards
KVIC – Khadi and Village Industries Commission
KYC – Know Your Customer
LAB – Local Area Banks
LAF – Liquidity Adjustment Facility
LAN – Local Area Network
LCs – Letters of Credit
LD – Legal Department
LIBOR – London Inter Bank Offered Rate
LOI – Letters of Intent
LPA – Long Period Average
LPG – Liquefied Petroleum Gas
LVPS – Large Value Payment Systems
M_3 – Broad Money
M&As – Mergers and Acquisitions
MASI – Management Audit Systems Inspection
MBs – Mega-bytes
MBS – Mortgage-Backed Securities
MDI – Management Development Institute
MEIs – Marco Economic Indicators
MFA – Multi-Fibre Arrangement
MFDF – Micro Finance Development Fund
MFI – Micro Finance Institutions

LIST OF ABBREVIATIONS

MIBOR	–	Mumbai Inter-bank Offer Rate
MICR	–	Magnetic Ink Character Recognition
MIFOR	–	Mumbai Inter-bank Forward Offer Rate
MIS	–	Management Information System
MMBCS	–	Magnetic Media Based Clearing System
MNBCs	–	Miscellaneous Non-Banking Companies
MoU	–	Memorandum of Understanding
MPC	–	Monetary Policy Committee
MPIs	–	Macro-prudential Indicators
MRTP	–	Monopolies and Restrictive Trade Practices Act, 1969
MSCI	–	Morgan Stanley Capital International
MSP	–	Minimum Support Price
MSS	–	Market Stabilisation Scheme
MTFRP	–	Medium-Term Fiscal Reforms Programme
MTM	–	Marked to Market
MTSS	–	Money Transfer Service Scheme
NABARD	–	National Bank for Agriculture and Rural Development
NAIS	–	National Agricultural Insurance Scheme
NAFED	–	National Agricultural Co-operative Marketing Federation
NASSCOM	–	National Association of Software and Services Companies
NBFCs	–	Non-Banking Financial Companies
NCAER	–	National Council of Applied Economic Research
NCDs	–	Non-convertible debentures
NCRI	–	National Committee on Rural Infrastructure
NDA	–	Net Domestic Assets
NDS	–	Negotiated Dealing System
NDTL	–	Net Demand and Time Liabilities
NEER	–	Nominal Effective Exchange Rate
NEFT	–	National Electronic Funds Transfer
NFA	–	Net Foreign Assets
NFE	–	Net Foreign Exchange
NFS	–	National Financial Switch
NGOs	–	Non-Governmental Organisations
NHB	–	National Housing Bank
NIAS	–	National Impact Assessment Survey
NIBM	–	National Institute of Bank Management
NISM	–	National Institute of Securities Markets
NM_3	–	New Monetary Aggregate
NMBS	–	National Maternity Benefit Scheme
NMCC	–	National Manufacturing Competitiveness Council
NOC	–	No Objection Certificate
NOF	–	Net Owned Funds
NPA	–	Non-Performing Asset
NPL	–	Non-Performing Loans and Advances
NRD	–	Non-Repatriable Rupee Deposit
NRE	–	Non-Resident External
NRHM	–	National Rural Health Mission
NRIs	–	Non-Resident Indians
NRO	–	Non-Resident Ordinary
NSC	–	National Statistical Commission
NSCCL	–	National Securities Clearing Corporation Limited
NSDL	–	National Securities Depository Ltd
NSE	–	National Stock Exchange
NSE-MIBOR	–	National Stock Exchange-Mumbai Inter-bank Offer Rate
NSSF	–	National Small Saving Fund
NSS	–	National Settlement System
OAT	–	Own Account Transfer
OBCs	–	Other Backward Classes
OBUs	–	Offshore Banking Units
OCBs	–	Overseas Corporate Bodies
OD	–	Overdraft
OECD	–	Organisation for Economic Co-operation and Development
OERS	–	Optional Early Retirement Scheme
OLTAS	–	Online Tax Accounting Systems
OMO	–	Open Market Operations
OMS	–	Open Market Sales
OPAC	–	Online Public Access Catalogue
OPEC	–	Organisation of Petroleum Exporting Countries
OSMOS	–	Off-site Monitoring and Surveillance

LIST OF ABBREVIATIONS

OTCEI	–	Over-the-Counter Exchange of India
OTC	–	Over-the-Counter
OTS	–	One-time Settlement
OVI	–	Optically Variable Ink
OWS	–	Other Welfare Schemes
PACS	–	Primary Agricultural Co-operative Societies
PAIS	–	Personal Accident Insurance Scheme
PAS	–	Performance Appraisal System
PCA	–	Prompt Corrective Action
PDs	–	Primary Dealers
PDAI	–	Primary Dealers Association of India
PDO	–	Public Debt Office
PDS	–	Public Distribution System
PIOs	–	Persons of Indian Origin
PKI	–	Public Key Infrastructure
PLR	–	Prime Lending Rate
P&L	–	Profit and Loss
PMGSY	–	Pradhan Mantri Gram Sadak Yojana
PMGY	–	Pradhan Mantri Gramodaya Yojana
PMO	–	Primary Market Operations
PMRY	–	Prime Minister's Rozgar Yojana
POL	–	Petroleum Oil and Lubricants
PRD	–	Press Relations Division
PSBs	–	Public Sector Banks
PSE	–	Public Sector Enterprise
PSRS	–	Prudential Supervisory Reporting System
PSSC	–	Payment and Settlement Systems Committee
PSU	–	Public Sector Undertaking
QCI	–	Quality Council of India
RACs	–	Regional Audit Cells
RBS	–	Risk-Based Supervision
RBSB	–	Reserve Bank Services Board
RBSC	–	Reserve Bank Staff College
RCCs	–	Regional Complaints Committees
RDAs	–	Rupee Drawing Arrangements
RDBMS	–	Relational Data Base Management System
RE	–	Revised Estimates
REER	–	Real Effective Exchange Rate
RFC	–	Resident Foreign Currency
RFC(D)	–	Resident Foreign Currency (Domestic)
RFIs	–	Refinance Institutions
Repo	–	Repurchase Agreement
RIBs	–	Resurgent India Bond
RIDF	–	Rural Infrastructure Development Fund
RMB	–	Renminbi
RoC	–	Registrar of Companies
RNBCs	–	Residuary Non-banking Companies
RPCD	–	Rural Planning and Credit Department
RRBs	–	Regional Rural Banks
RTAs	–	Regional Trading Arrangement
RTGS	–	Real Time Gross Settlement
RTIA	–	Regional Trade and Investment Area
SAA	–	Service Area Approach
SAARC	–	South Asian Association for Regional Cooperation
SACP	–	Special Agricultural Credit Plans
SAFE	–	South Asian Federation of Stock Exchanges
SAFTA	–	South Asian Free Trade Agreement
SAMIS	–	Service Area Monitoring and Information System
SARFAESI	–	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SBI	–	State Bank of India
SBSs	–	Shredding and Briquetting Systems
SC	–	Securitisation Companies
SCAPs	–	Special Agricultural Credit Plans
SCBs	–	Scheduled Commercial Banks
SCs	–	Scheduled Castes
SCSS	–	Senior Citizens Savings Scheme
SDDS	–	Special Data Dissemination Standards
SDRM	–	Sovereign Debt Restructuring Mechanism
SDRs	–	Special Drawing Rights
SEBI	–	Securities and Exchange Board of India
SEFCs	–	Small Enterprises Financial Centres
SEFT	–	Special Electronic Funds Transfer

LIST OF ABBREVIATIONS

SEPC	–	Services Export Promotion Council
SEZs	–	Special Economic Zones
SFC	–	State Financial Corporation
SFMS	–	Structured Financial Messaging Solution
SGF	–	Small and Medium Enterprise Growth Fund
SGSY	–	Swarnajayanti Gram Swarozgar Yojana
SLBC	–	State Level Bankers Committee
SHGs	–	Self-Help Groups
SHPI	–	Self-Help Promoting Institutions
SIDBI	–	Small Industrial Development Bank of India
SIMSDI	–	Survey of Implementation of Methodological Standards for Direct Investments
SITP	–	Strategic Information Technology Plan
SJSRY	–	Swarna Jayanthi Shahari Rozgar Yojana
SLR	–	Statutory Liquidity Ratio
SLRS	–	Scheme of Liberation and Rehabilitation of Scavengers
SMEs	–	Small and Medium-sized Enterprises
SPCs	–	Statistical Process Controls
SPVs	–	Special Purpose Vehicles
SSIs	–	Small Scale Industries
SSSs	–	Securities Settlement Systems
STP	–	Straight Through Processing
STs	–	Scheduled Tribes
STT	–	Securities Transaction Tax
SWIFT	–	Society for Worldwide Inter-bank Financial Telecommunications
TAC	–	Technical Advisory Committee
TACMP	–	Technical Advisory Committee on Monetary Policy
TBs	–	Treasury Bills
TBT	–	Technical Barriers to Trade
TFC	–	Twelfth Finance Commission
TFPG	–	Total Factor Productivity Growth
TPA	–	Tri-partite Agreements
TPDS	–	Targeted Public Distribution System
TQM	–	Total Quality Management
TRIPs	–	Trade-Related Intellectual Property Rights
TUFS	–	Technology Upgradation Fund Scheme
UBD	–	Urban Banks Department
UCBs	–	Urban Cooperative Banks
UNDP	–	United Nations Development Programme
UNIDO	–	United Nations Industrial Development Organisation
UNME	–	Urban Non-Manual Employees
UTs	–	Union Territories
VAMNICOM	–	Vaikunth Mehta National Institute of Co-operative Management
VAT	–	Value Added Tax
WADR	–	Weighted Average Discount Rate
WAN	–	Wide Area Network
WCDL	–	Working Capital Demand Loan
WDM	–	Wholesale Debt Market
WHO	–	World Health Organisation
WI	–	When issued
WMA	–	Ways and Means Advances
WOS	–	Wholly Owned Subsidiaries
WPI	–	Wholesale Price Index
WSS	–	Weekly Statistical Supplement
WTO	–	World Trade Organisation
YTM	–	Yield-to- Maturity
ZTCs	–	Zonal Training Centres

This Report can also be accessed on Internet
URL : www.rbi.org.in

THE ANNUAL REPORT ON THE WORKING OF THE RESERVE BANK OF INDIA

*For the Year July 1, 2004 to June 30, 2005**

PART ONE : THE ECONOMY : REVIEW AND PROSPECTS

I ECONOMIC REVIEW

I. MACROECONOMIC POLICY ENVIRONMENT

I.1.1 Global economic activity recorded robust growth in the first half of 2004 before encountering some slackening of pace in the second half of the year and in the first half of 2005. The possibility of downside risks arising from high and volatile crude oil prices, record macroeconomic imbalances in the US, fears of disruptive currency adjustments and asset bubbles weighed upon the global recovery which had been firming up since late 2003. Moreover, the recent divergences in growth patterns became more pronounced in 2004 with the burden of sustaining global growth gravitating towards the US, China and other emerging and developing economies in Asia and Latin America. By contrast, in Europe and Japan – which account for more than a fifth of world GDP – growth stalled in the second half of 2004. Consumer price inflation remained relatively benign worldwide in 2004 and financial market conditions turned favourable with ample liquidity and the continuing search for yields driving down risk spreads. Global growth reached a 28-year peak in 2004 and world trade volumes as well as net capital flows to developing economies returned to 1997 (pre-East Asian crisis) levels. Nevertheless, the persistence of the risk factors and the potential impact of the upturn in the international interest rate cycle on consumer indebtedness and asset prices make macroeconomic prospects for 2005 somewhat less sanguine than projected earlier. In its April 2005 *World Economic Outlook*, the International Monetary Fund (IMF) has trimmed its forecast for global growth in 2005 to 4.3 per cent from 5.1 per cent in 2004.

I.1.2 Against this backdrop, the Indian economy recorded one of the highest growth rates in the world in 2004-05, despite some setbacks arising from an insufficient monsoon and sporadic supply-side pressures on inflation. Real GDP growth at 6.9 per cent in 2004-05 despite a sharp slowdown in agriculture propelled average growth to 6.5 per cent in the first three years of the Tenth Five Year Plan period (2002-07). It exceeded, by a full percentage point, the average real GDP growth of 5.5 per cent achieved in the Ninth Plan period (1997-2002), while being broadly in line with the average of 6.7 per cent in the Eighth Plan period (1992-97). Noteworthy features of India's macroeconomic performance in 2004-05 include: first, the improvement in investment climate and pick-up in industrial and service sector activity; second, emergence of buoyant exports as a driver of demand in a large spectrum of industries; third, modest consolidation in the fiscal position; fourth, successful management of liquidity in the backdrop of continuing capital flows; fifth, healthy investor confidence, as India received more than a quarter of the global portfolio flows to emerging market economies (EMEs) in 2004 though India's share in foreign direct investment continued to be low at around 3 per cent; and finally, foreign exchange reserves reached US $ 141.5 billion at end-March 2005.

I.1.3 Underpinning the stronger than anticipated performance of the economy in 2004-05 was the quality and response of macroeconomic management in the face of some adversity. In view of the potential of destabilising pressures from increases in international fuel and other commodity prices, and the shock to food prices in the wake of the uneven South-West monsoon, policy coordination involved a continuous rebalancing of the weights assigned to growth and macroeconomic stability. A judicious mix of supply management, fiscal measures to contain the pass-through of imported inflation and monetary policy action to stabilise inflationary expectations helped in containing inflation from a mid-year peak of

* 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 March 2005. For the purpose of analysis and for providing proper perspectives on policies, reference to past years as also prospective periods, wherever necessary, has been made in this Report.

8.7 per cent to 5.1 per cent by the close of the year, consistent with the projection given in the Annual Policy Statement of the Reserve Bank in May 2004. The Indian economy today is characterised by an environment of confidence, positive business expectations, a renewal of rule-based fiscal consolidation, stable and orderly financial markets and institutions and progressive integration with the global economy.

I.1.4 It is in this context that this survey of macroeconomic policy in 2004-05 highlights the blending of real sector policies designed to step up the momentum of growth with financial policies that ensure macroeconomic and financial stability. Concurrently, monetary policy operated as the anchor of the economy, ensuring liquidity, credit and interest rate conditions conducive to maintaining both growth and stability. Financial sector policies pursued the development and integration of financial markets and the soundness and efficiency of financial intermediaries that operate in an increasingly competitive environment. Improvements in credit delivery and customer satisfaction are the challenges that have to be addressed further.

REAL SECTOR POLICIES

I.1.5 In 2004-05, several policy initiatives were taken to strengthen the momentum of economic growth. Measures to boost agricultural productivity were supported by policies to expand the industrial base, especially through greater investment in infrastructure. In the context of globalisation of production systems, several initiatives were aimed at promoting exports, rationalising trade duties and preparing the economy for the commitments that may emerge from the Doha Round of the World Trade Organisation (WTO).

Agriculture and Allied Activities

I.1.6 The Government undertook several steps to expand the agricultural production frontier through diversification of production, spread of agricultural marketing, improvement of infrastructure including irrigation and extension of agricultural research during 2004-05. These measures were supported by parallel initiatives taken by the Reserve Bank and the National Bank for Agriculture and Rural Development (NABARD) to step up financing for agriculture. Several measures were also aimed at alleviating rural poverty.

I.1.7 In order to improve and expand irrigation facilities, the Fast Track Programme under the Accelerated Irrigation Benefit Programme (AIBP) was modified in April 2004 to provide Central assistance in the form of 70 per cent loan and 30 per cent grant for non-special category States and 10 per cent loan and 90 per cent grant for special category States. For projects outside the Fast Track Programme, an incentive of conversion of the loan to a grant is offered if projects are completed on schedule. The outlay for the AIBP in the Union Budget, 2005-06 was increased to Rs.4,800 crore from Rs.2,800 crore in 2004-05 to improve the pace of implementation.

I.1.8 A pilot scheme for repair, renovation and restoration of water bodies directly linked to agriculture is proposed to be taken up during the remaining period of the Tenth Plan. The Command Area and Water Management Programme was restructured in April 2004 to bring about better water management practices and efficient utilisation of irrigation water. The Union Budget, 2005-06 has also envisaged a national project for repair, renovation and restoration of water bodies in 16 districts in nine States covering about 20,000 hectares of additional land. Recognising the importance of water harvesting, the Department of Agriculture and Co-operation has formulated a scheme for enhancing sustainability of dryland rainfed farming with an allocation of Rs.200 crore for 2005-06. The scheme aims at addressing issues like rainwater harvesting and its efficient utilisation, soil moisture conservation, use of organic manures and adoption of improved dryland farming technologies. The scheme will be implemented in the arid and semi-arid regions of the country, particularly in the districts receiving annual rainfall less than 750 mm and with assured irrigation coverage less than 30 per cent of the net sown area.

I.1.9 The Union Budget for 2005-06 envisages that the Ministry of Agriculture would prepare a roadmap for agricultural diversification focusing mainly on fruits, vegetables, flowers, dairy, poultry, fisheries, pulses, oilseeds and other allied activities in a planned manner. An expert committee was appointed by the Government to suggest improvements in the price stabilisation fund to address the difficulties of the plantation sector. The Union Budget, 2004-05 had proposed a National Horticultural Mission with a view to doubling horticultural production by 2011-12. The Union Budget, 2005-06 allocated Rs.630 crore to the National Horticultural Mission. Critical to the success of the diversification programme as well as that of the National Horticulture Mission is the progress that States make towards amending their State Agricultural Produce Marketing Committee (APMC)

Acts. While nine States and four Union Territories (UTs) have amended their APMC Acts, six States have initiated partial reforms.

I.1.10 The Government continued to strengthen agricultural marketing reforms during 2004-05. The Union Budget for 2005-06 has allocated Rs.72 crore for a new scheme of development of agricultural marketing with a view to inducing large investments from the private and the cooperative sectors for setting up agricultural markets, marketing infrastructure and support services such as grading, standardisation and quality certification. This is also expected to give a boost to commodity futures markets as grading and standardisation of agricultural commodities would facilitate the development of warehouse receipts. Several measures have been initiated to develop commodity futures markets. There are, at present, three multi-commodity exchanges and 22 regional exchanges in India.

I.1.11 In March, 2005 the Government approved a scheme to support the State programmes for extension reforms. The aim is to provide decentralised and demand-driven extension system by way of technology dissemination in the form of an Agricultural Technology Management Agency (ATMA) at the district level.

I.1.12 The National Commission on Farmers was reconstituted in November 2004 to address issues relating to a comprehensive medium-term strategy for food and nutrition security. It has recommended the establishment of Rural Knowledge Centres all over the country using modern information and communication technology. The Government proposes to join Mission 2007, a national initiative launched by an alliance comprising nearly 80 organisations including civil society organisations, which plans to set up a knowledge centre in every village by 2007, the 60th anniversary of India's Independence. The Government would route its support through the NABARD.

I.1.13 In June, 2004 the Government launched a credit package to enhance the flow of credit to agriculture, in consultation with the Reserve Bank, the NABARD and commercial banks. The Union Budget, 2005-06 advised commercial banks (including Regional Rural Banks) and cooperative banks to increase the flow of credit by another 30 per cent. Public sector banks were advised to increase the number of borrowers by another 5 million in 2005-06. The National Agricultural Insurance Scheme (NAIS), introduced in *rabi* 1999-2000, would be continued in its present form for *kharif* and *rabi* 2005-06.

I.1.14 The Union Budget, 2005-06 proposes to extend the coverage of the *Antyodaya Anna Yojana* from 20 million Below Poverty Line (BPL) families to 25 million BPL families in 2005-06. The allocation towards providing the cost of food grains for Mid-day Meal Scheme was increased to Rs.3,010 crore.

Manufacturing and Infrastructure

I.1.15 Macroeconomic measures taken during 2004-05 to boost industrial productivity were bolstered by sector-specific initiatives to raise foreign direct investment (FDI), promote exports/Special Economic Zones (SEZs) and gear up to operating in a post-WTO environment.

I.1.16 The National Manufacturing Competitiveness Council (NMCC), set up in September 2004, provides a forum for policy dialogue to energise and sustain the growth of manufacturing industries. A National Commission for Enterprises in the Unorganised Sector, set up in September 2004, acts as an advisory body and a watchdog for the informal sector. The Investment Commission was constituted in February 2005 to facilitate greater inflow of FDI into the country. A National Committee on Rural Infrastructure (NCRI), chaired by the Prime Minister, would initiate policies to ensure time-bound provision of quality infrastructure in rural areas. In order to encourage setting up of units in knowledge-based industries such as pharmaceuticals, bio-technology and information technology, equity support would be provided through the Small and Medium Enterprises Growth Fund (SGF), which was launched in October 2004 by the Small Industries Development Bank of India (SIDBI) jointly with major public sector banks.

I.1.17 The National Electricity Policy announced by the Government in February 2005 aims at accelerated development of the power sector for providing electricity to all areas and protecting the interests of consumers and other stakeholders, keeping in view availability of energy resources, technology available to exploit these resources, economies of generation using different resources and energy security issues. Keeping pace with the technological advancements, the Government announced a Broadband Policy in October, 2004 with a view to providing impetus to broadband and internet penetration in the country.

I.1.18 The Government reviewed, in January 2005, the guidelines notified *vide* Press Note 18, which had stipulated its approval for new proposals for foreign investment/technical collaboration in fields where the foreign investor has or had any previous joint venture or technology transfer/trademark agreement in India. In terms of the revised policy notified *vide* Press Note 1 of 2005, prior approval of the Government would be required only in cases where the foreign investor has an existing joint venture or technology transfer/ trademark agreement in the same field. Even in the same field, prior approval will not be required in investments to be made by venture capital funds, or if existing joint venture investment by either of the parties is less than 3 per cent, or if the existing venture/collaboration is defunct or sick.

I.1.19 In February, 2005 the Government enhanced the composite foreign holding in the telecommunication sector from 49 per cent to 74 per cent in a host of basic services such as international and national long distance services, basic telephone service, cellular mobile service and unified access service. With a view to catalysing investment, creating new employment opportunities and adding to the housing and infrastructure stock, the Government allowed in March, 2005 FDI up to 100 per cent under the automatic route in townships, housing, built-up infrastructure and construction-development projects, subject to some guidelines.

I.1.20 A new scheme to establish a Free Trade and Warehousing Zone (FTWZ) was launched in December 2004 to create trade-related infrastructure to facilitate the import and export of goods and services with freedom to carry out trade transactions in free currency, with benefits as applicable for SEZ units. The Foreign Trade Policy in April 2004 proposed that an exclusive Services Export Promotion Council (SEPC) be set up in order to map opportunities for key services in main markets, and develop strategic market access programmes, including brand building in coordination with sectoral players and recognised nodal bodies of the services industry.

I.1.21 India introduced a new product patents regime in March 2005 by approving the Patents (Amendment) Bill 2005 covering drugs, foods and chemicals. This was in compliance with the Trade-Related Intellectual Property Rights (TRIPS) agreement of the WTO. Stronger patent laws are expected to encourage foreign investment in research and development projects and benefit the Indian economy.

I.1.22 The Union Budget, 2005-06 carries several measures to speed up industrial growth such as dereservation of 108 items from the items exclusively reserved for the SSI sector and framing of a Manufacturing Competitiveness Programme to revive the manufacturing sector - particularly small and medium enterprises - to enable it to adjust to the competitive pressures caused by liberalisation and moderation of tariff rates. A 10 per cent capital subsidy scheme for the textile processing sector was announced in addition to the normal benefits available under the Technology Upgradation Fund (TUF) Scheme. Financially viable infrastructure projects would be funded through a Special Purpose Vehicle (SPV) covering projects in roads, ports, airports and tourism. Finally, customs duties on a range of products were reduced to bring the tax structure closer to that of East Asian neighbours.

FISCAL POLICY

Central Government

I.1.23 The conduct of fiscal policy during 2004-05 was shaped by the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and FRBM Rules 2004 (notified by the Central Government on July 5, 2004), which set a new beginning to the fiscal consolidation process. The Central Government planned sharper reductions in the revenue and the fiscal deficits for 2004-05 than the minimum thresholds of the FRBM on expectations of higher tax mobilisation and perseverance with prudent expenditure management.

I.1.24 Fiscal policy had to undertake a mid-course realignment in 2004-05 in the form of post-Budget reduction in duties of petroleum products and non-alloy steel so as to mitigate imported supply-side pressures on inflation. In order to remain on the path of fiscal consolidation, the Government undertook measures to accelerate recovery of tax arrears, boost non-tax revenue and reduce low priority expenditure in the latter half of the year. The provisional accounts of 2004-05 indicate that the fiscal deficit and the primary deficit of the Central Government turned out to be lower than the revised estimates. The Central Government was able to achieve not only the FRBM targets for all the deficit indicators but also the budget estimates in respect of the fiscal deficit and the primary deficit. The revenue deficit was, however, marginally higher than the budget estimate due to lower tax revenues than anticipated. Nevertheless, there has been a significant improvement in the gross tax/GDP ratio from 8.8 per cent in 2002-03 to 9.2 per cent in 2003-04 and further to 9.9 per cent in 2004-05. A noteworthy feature is a sustained rise in the direct tax/GDP ratio to 4.3 per cent in 2004-05 from around 2 per cent during the 1970s and 1980s and around 3 per cent in the late 1990s.

I.1.25 Tax reforms in 2004-05 focused on streamlining of tax administration, recovery of tax arrears, widening of tax base and provision of full tax rebate for taxable income up to Rs. one lakh pending the revision of tax slabs and rates. The scope of the service tax was widened and excise duties were rationalised, especially in preparation for the introduction of Value Added Tax (VAT).

I.1.26 Guidelines on Expenditure Management – Fiscal Prudence and Austerity were issued on October 1, 2004. The Guidelines stipulate, *inter alia*, a scrutiny of all on-going programmes and schemes, a 10 per cent cut in budgetary allocations under non-Plan and non-salary expenditure and that all profit making public sector undertakings declare a minimum dividend of 20 per cent. The Government also reiterated its commitment to utilise only 33 per cent of budgeted expenditure in the last quarter of the financial year. Improved cash management practices introduced in 2003-04 in nine high spending departments/ministries were carried forward during 2004-05.

I.1.27 The Union Budget for 2005-06 is committed to tax reforms, employment-oriented economic growth, strengthening the social and rural infrastructure, cooperative fiscal federalism and emphasis on realisation of outcomes from the proposed expenditures. The need to earmark higher transfers to the State Governments under taxes and grants as recommended by the Twelfth Finance Commission (TFC), the need to make provision for compensating States for any revenue loss that may result from the implementation of VAT and discontinuation of the practice of treating disinvestment proceeds as a budgetary source of funds necessitated a 'pause' in the FRBM path during 2005-06.

Tax Reforms

I.1.28 The Union Budget, 2005-06 has simplified and rationalised direct taxes. On the personal income tax, measures include raising the exemption limit up to Rs. one lakh; reducing the effective tax rates through scaling up of tax brackets (*i.e.*, 10 per cent for income between Rs.1 lakh and Rs.1.5 lakh, 20 per cent for income between Rs.1.5 lakh and Rs.2.5 lakh and 30 per cent for income above Rs.2.5 lakh); and removal of sectoral caps in tax savings to allow for a consolidated limit of Rs. one lakh. The threshold exemption levels for women and senior citizens were fixed higher at Rs 1.35 lakh and Rs 1.85 lakh, respectively. The level of taxable income at which the surcharge of 10 per cent would apply has been raised to Rs.10 lakh. These measures would increase disposable income and give taxpayers flexibility in planning their saving and investment. The corporate tax rate was reduced to 30 per cent from 35 per cent, though the surcharge was increased from 2.5 per cent to 10 per cent. The withholding tax on technical services was reduced from 20 per cent to 10 per cent so as to encourage technological upgradation.

I.1.29 Two new taxes have been introduced *viz.,* the banking cash transaction tax (BCTT) and the fringe benefit tax (FBT). The BCTT was proposed to be levied at the rate of 0.1 per cent on cash withdrawals of over Rs.10,000 or more on a single day from banks to establish a trail to check tax evasion. The BCTT was, however, subsequently made applicable to cash withdrawals of Rs.25,000 and above in respect of individuals and Rs. one lakh and above for corporates from accounts other than savings accounts. The FBT was introduced to tax perquisites (excluding transport and canteen services) that are enjoyed collectively by employees and cannot be collected individually, and hence were escaping the tax net. The rates of securities transaction tax (STT) on various transactions were raised marginally.

I.1.30 On indirect taxes, the peak rate of customs duty on non-agricultural imports was reduced from 20 per cent to 15 per cent with a few exceptions. Customs duties on select capital goods and parts thereof were also reduced. In order to expand the coverage of goods under the Central Value Added Tax (CENVAT) rate of 16 per cent, three out of the five items – polyester filament yarn, tyres and air conditioners – were moved from the 24 per cent level to the CENVAT rate of 16 per cent. Excise duties were abolished on liquefied petroleum gas (LPG) for domestic consumption and on subsidised kerosene. The excise duty on other petroleum products, including petrol and diesel, has been fixed as a combination of *ad valorem* and specific duties. The service tax net was expanded to include nine additional services while retaining the tax rate at 10 per cent. Small service providers with gross turnover not exceeding Rs. four lakh per annum were exempted from service tax.

Expenditure Management

I.1.31 The Union Budget, 2005-06 has emphasised the need to reorient expenditure whereby performance is monitored in terms of outcomes rather than outlays. With a view to enhancing the effectiveness of implementation of various programmes, greater flexibility is accorded to ministries/departments in managing their departmental budgets with concomitant incentives and disincentives. To enhance transparency and accountability, ministries would be required to disseminate information regarding their expenditure and receipts to the general public on a frequent basis. Subsidies would be restructured and properly targeted so that the benefits are not usurped by those for whom they are not intended. The user charges would be reviewed to increase non-tax revenue and reduce the operational losses of commercial undertakings. In consonance with announcements in the Budget, the Central Government would be releasing an outcome budget which would specify the desired outcomes in quantitative terms with a time frame for achieving them.

State Governments

I.1.32 The policy framework for the State Governments in 2004-05 was shaped by three significant developments, *viz.,* (i) the on-going fiscal and institutional reforms at the State level, facilitated and supplemented by initiatives of the Central Government and the Reserve Bank; (ii) the general acceptance of the recommendations of the TFC which would form the basis of federal fiscal relations over the five-year period beginning 2005-06; and (iii) the implementation of the VAT by a number of States with effect from April 1, 2005.

I.1.33 The Report of the Working Group of select State Finance Secretaries and a representative of the Central Government, constituted to frame a model fiscal responsibility legislation (FRL) at the State level, was finalised in January 2005 and subsequently placed in the public domain. It provides a framework for FRL and leaves it to the discretion of the States to work out the specifics in respect of various parameters. Manipur, Chhattisgarh and Tripura presented their FRL Bills while Andhra Pradesh promulgated an ordinance in this regard. Twelve States (Karnataka, Kerala, Punjab, Tamil Nadu, Uttar Pradesh, Orissa, Rajasthan, Maharashtra, Assam, Gujarat, Himachal Pradesh and Haryana) have already enacted their FRLs. Meghalaya, Madhya Pradesh and Uttaranchal have proposed FRL in their budgets for 2005-06.

I.1.34 The TFC Report tabled in Parliament in February 2005 contains the blueprint of fiscal federalism over the medium term (Box I.1). A larger amount of transfers than in the past has been considered so as to reverse the decline in the volume of transfers relative to GDP and to ensure minimum

Box I.1

Summary of Recommendations of the Twelfth Finance Commission

The major recommendations of the Twelfth Finance Commission (TFC) (Chairman: Dr. C. Rangarajan) for the award period 2005-06 to 2009-10 pertain to restructuring of public finances, resource transfers from the Centre to States through tax devolution, grants and debt relief.

Under the TFC's recommendations, the targets for the fiscal and the revenue deficit (relative to GDP) for the Centre and States are placed at three per cent and zero, respectively. The targets for the revenue deficit and the fiscal deficit are to be achieved by 2008-09 and 2009-10, respectively. The targets for the combined (Centre and States) tax-GDP ratio and the debt-GDP ratio are set at 17.6 per cent and 75 per cent, respectively, to be achieved by 2009-10. Enactment of Fiscal Responsibility Legislation (FRL) by States is recommended. Furthermore, the system of on-lending by the Centre to the States is to be phased out.

Correction of vertical and horizontal imbalances is sought to be achieved by increasing States' share in the divisible pool of taxes to 30.5 per cent from 29.5 per cent recommended by the Eleventh Finance Commission (EFC), implying transfer of an estimated Rs. 6,13,112 crore to the States during the award period. Furthermore, in case of enactment of any legislation on service tax, the revenue accruing to a State should not be less than the share that would accrue to it had the entire service tax proceeds been part of the shareable pool. Tax devolvement among the States has been based on weights to factors like per capita income distance, population, area, tax effort and fiscal discipline, *i.e.*, similar to that adopted by the EFC with some variation in weights assigned to the different parameters.

The TFC also recommends that Central Plan assistance to States as a combination of loans and grants be discontinued and take the form of only grants with few conditionalities. Total grants are placed at Rs.1,42,640 crore which is about 2.5 times the amount recommended by the EFC.

A two-pronged approach to debt relief was adopted by the TFC in place of the Fiscal Reform Facility, *viz*: (i) a general scheme of debt relief by consolidating and rescheduling outstanding Central loans and (ii) a write-off scheme linked to fiscal performance. Loans given to States from the NSSF have been excluded from the scope of debt relief as they are in the Public Account. Moreover, enactment of FRL would be a necessary pre-condition for availing debt relief with the benefit accruing prospectively.

The TFC also recommended the provision of a sum of Rs. 25,000 crore to augment the consolidated fund of the States to supplement resources of local bodies. The enhancement of Calamity Relief Fund (CRF) for the period 2005-10 is also recommended. Other important suggestions include institutional reforms regarding constitution of 'Loan Council' to supervise State borrowings, setting up of sinking funds, guarantee redemption funds and sharing profit petroleum.

vertical transfers (between Centre and States) while correcting a larger horizontal imbalance (among States). Total resource transfers from the Centre to the States (comprising shareable tax revenue and grants) have been placed at Rs.7,55,752 crore for the period 2005-06 to 2009-10, nearly 74 per cent higher than for the period 2000-01 to 2004-05 recommended by the Eleventh Finance Commission.

I.1.35 The State Budgets for 2005-06 continued to place emphasis on fiscal consolidation through curtailment of unwarranted expenditure. Some State Governments have proposed to modify, if not revoke, the policy of providing free power to some sections of society. Some States have implemented Contributory Pension Funds in order to address their large pension obligations. Initiatives to clear the arrears of defaulting public sector undertakings as well as according high priority to power sector reforms were also evident in the State budgets.

I.1.36 An important achievement in the arena of tax reforms is the implementation of VAT by 20 State Governments with effect from April 1, 2005 following the release of a White Paper on the subject by the Empowered Committee of State Finance Ministers. Avoidance of the cascading effects of taxation and the promotion of tax compliance through a system of self-assessment, which are intrinsic to the VAT, would not only lead to enhanced economic efficiency but also to revenue buoyancy over a period of time. The Union Budget for 2005-06 includes a provision of Rs.5,000 crore as compensation to the States on account of shortfall in revenue that may arise due to implementation of State-level VAT. A major issue which the Empowered Committee would revisit during 2005-06 relates to the phasing out of the inter-State or Central Sales Tax (CST). The States mobilise around Rs.15,000 crore of revenue annually from this source.

EXTERNAL SECTOR POLICIES

I.1.37 The dynamics of global trade and the opportunities provided by bilateral and multilateral trading platforms have necessitated a continuous realignment of India's international trade strategies and priorities. In this regard, a comprehensive Foreign Trade Policy 2004-09 (FTP 2004) was announced on August 31, 2004. The basic objective of the policy is to double India's share of global merchandise trade by 2009 and to make exports an effective instrument of economic growth and employment generation. The key strategies adopted in the FTP to enhance exports include facilitating the development of India as a global hub for manufacturing, trading and services; identifying and nurturing special focus areas like agriculture, handlooms, handicraft, gems and jewellery, leather and footwear, and marine sectors; simplification of procedures; reduction in transaction costs; and neutralisation of incidence of all levies and duties on inputs used for exports. In addition, export promotion schemes such as '*Vishesh Krishi Upaj Yojna*' and '*Served from India*' were also announced to accelerate the growth of agricultural and service exports. FTP 2004 also revamps and revitalises the Board of Trade to advise the Government on policy measures for preparation and implementation of short-term and long-term plans for increasing exports.

I.1.38 In February, 2005 certain 'thrust areas' were identified for policy implementation during 2005. These included the introduction of Electronic Data Interchange (EDI) with regard to foreign trade for online filing and data collection; implementation of the Report of the Task Force on Project Exports; shaping of the contents of SEZ and Competitive Economic Zone Policy, including the Central SEZ Act, to enable world class infrastructure through private participation and a hassle-free regulatory regime in various areas including taxation, customs and labour, in the SEZs; and institutional reform in terms of decentralisation, simplification, transparency, accountability and e-governance.

I.1.39 The FTP was backed by a number of measures to accord greater flexibility to exporters in their foreign exchange transactions. Exporters were allowed to approach banks to open/hire warehouses abroad initially for one year on a renewal basis. Payments in foreign currency were allowed by units in domestic tariff areas (DTAs) towards goods supplied to them by units in SEZs and by project/ service exporters to their Indian suppliers/ service providers. Realisation of export proceeds up to 360 days from the date of shipment was allowed for export of goods on a consignment basis. Exporters, including those in small and medium sectors, with good track record were made eligible for the Gold Card scheme for easy availability of export credit.

I.1.40 The FTP was fine-tuned in April 2005. The Policy provides a package of incentives and promotional measures for agriculture, marine products, export oriented units and service sectors. It envisages major procedural simplification to reduce transaction costs and the setting up of an Inter-State Trade Council to engage State Governments more actively in the export effort. It also proposes to abolish cess on export of all agricultural and plantation commodities levied under the various Commodity

Board Acts. In order to give a boost to agricultural exports, benefits under the *Vishesh Krishi Upaj Yojana* have been extended to poultry and dairy products in addition to flowers, fruits, vegetables, minor forest produce and value added products.

I.1.41 Importers have been accorded greater flexibility in transactions. Documentation for import remittances made into India has to be provided only for amounts above US $ 100,000. The limit for accepting exchange control (EC) copy of bill of entry for import remittances was also enhanced to US $ one million on a selective basis. Credit for imports up to US $ 20 million per transaction with a maturity period beyond one year and up to three years was permitted for import of capital goods. Limit for direct receipt of import bills/documents by non-corporate importers was raised to US $ 100,000 or its equivalent.

Management of Foreign Exchange Transactions

I.1.42 Several measures were undertaken by the Reserve Bank to liberalise foreign exchange transactions by residents during 2004-05. The condition that shares should be offered at a concessional price for the acquisition of foreign securities by residents under the Employees Stock Option Plan (ESOP) was dispensed with. Shares acquired under the ESOP were allowed to be sold without obtaining prior permission of the Reserve Bank, provided the proceeds thereof are repatriated to India.

I.1.43 With a view to promoting Indian investments overseas, the ceiling on overseas investment by Indian entities was raised from 100 per cent to 200 per cent of their net worth under the automatic route. Corporates were granted general permission for conversion of the ECBs into equity with the exception of import payables deemed as ECBs and subject to prescribed reporting requirements. General permission was also granted for transfer of shares and convertible debentures (excluding financial services sector) subject to compliance with the terms and conditions and reporting requirements for transfer by a person resident in India to a person resident outside India and *vice versa*.

MONETARY POLICY FRAMEWORK[1]

I.1.44 The monetary policy stance for 2004-05 was conditioned by expectations of a normal monsoon, sustained growth in industry and exports, and the assumption of no significant supply shocks. The Reserve Bank's Annual Policy Statement for 2004-05 recognised that international interest rates were hardening, international crude prices would remain elevated and volatile and capital inflows would persist. Consistent with the expectation of real GDP growth of 6.5 to 7 per cent, inflation at 5 per cent, non-food credit growth (adjusted) at 16 to 16.5 per cent and the Centre's borrowing programme within a fiscal deficit of 4.4 per cent of GDP, the overall stance of monetary policy for 2004-05 was stated as:

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

I.1.45 During the year, however, monetary management faced severe challenges, warranting a re-balancing of objectives in the context of underlying developments. The risks to stability being perceived as high from these developments, monetary policy measures were undertaken in a calibrated manner during the year. Even as the inflation projection was raised to around 6.5 per cent in the Mid-term Review October 2004, the Reserve Bank intensified the monitoring of price movements, switching its stance from a 'very close watch on the movements in the price level' in the Annual Policy Statement to 'equal emphasis on price stability' in the Mid-term Review. Similarly, the objective of liquidity management was changed from a provision of 'adequate liquidity' to 'appropriate liquidity'.

I.1.46 The Reserve Bank's Annual Policy Statement of April 2005 stated that the stance of monetary policy would depend on several factors, including macroeconomic prospects, global developments and the balance of risks. Assuming a normal monsoon, and barring the emergence of any adverse and unexpected developments in various sectors of the economy and keeping in view the inflationary situation, the overall stance of monetary policy for the year 2005-06 would continue to be as set out in the Mid-term Review of October 2004.

I.1.47 In its First Quarter Review of the Annual Statement on Monetary Policy (July 26, 2005), the Reserve Bank indicated that its current assessment

[1] A detailed discussion of monetary management is presented in Section III ("Monetary and Credit Policy Operations") of the Report.

of macroeconomic outlook and the overall stance remains broadly unchanged.

Credit Delivery System

I.1.48 The Reserve Bank intensified efforts to improve the credit delivery system with a view to stepping up credit to agriculture and small and medium enterprises. As a multi-pronged strategy for facilitating credit to the priority sector, the number of categories of advances under the ambit of the priority sector lending was enlarged and limits on loans under the priority sector were enhanced. Banks were allowed to advance loans to distressed urban poor to prepay their debt to non-institutional lenders against appropriate collateral or group security and classify the same under weaker sections within the priority sector.

I.1.49 Banks were advised to make efforts to increase their disbursements to small and marginal farmers to 40 per cent of their direct advances under special agricultural credit plans (SACPs) by March 2007. In view of the Union Finance Minister's announcement in June 2004 for doubling the flow of credit to agriculture in the next three years, private sector banks were advised to fix the SACP target for the year 2005-06 showing a growth rate of 30 per cent over disbursements during the year 2004-05. Banks were allowed to waive margin/ security requirements for agricultural loans up to Rs.50,000 and in the case of agri-business and agri-clinics for loans up to Rs five lakh. Interest rates on the Rural Infrastructure Development Fund (RIDF) were revised downwards in alignment with the softening of the interest rate structure over the years.

I.1.50 Several initiatives were also taken to facilitate the development of micro-finance. The NABARD revised the Model *Kisan* Credit Card (KCC) scheme with a view to providing the comprehensive credit requirements of farmers - covering term credit, working capital for agriculture and allied activities and a reasonable component for consumption needs - under a single window in a timely manner.

FINANCIAL SECTOR POLICIES[2]

I.1.51 The thrust of the Reserve Bank's financial sector policies continued to be on strengthening the health of financial institutions as well as on improving the efficiency of financial markets. Policy initiatives encompassed the adoption of international standards and codes in the banking system, strengthening urban cooperative banks (UCBs) and non-banking financial companies (NBFCs) and improvement in customer services. The Reserve Bank undertook several initiatives to improve corporate governance in the banking system. The Indian banking system became fully compliant with Basel I standards by March 2005.

I.1.52 The Reserve Bank intensified its efforts to ensure that UCBs emerge as a sound and healthy network of jointly owned, democratically controlled and ethically managed banking institutions providing need-based quality banking services essentially to the middle and lower middle classes and marginalised sections of the society. The Reserve Bank continued to take policy initiatives with a view to developing NBFCs as financially strong entities.

I.1.53 The Reserve Bank continued to stress the need to improve customer services by banks to ensure that the benefits of financial liberalisation percolate to the widest sections of society. Several measures were undertaken on the basis of the recommendations of the Committee on Procedures and Performance Audit on Public Services (Chairman: Shri S. S. Tarapore).

Policies for Financial Markets

I.1.54 During 2004-05, the Reserve Bank undertook several initiatives to further improve the functioning of the money, the debt and the foreign exchange markets. Internal technical groups on the money market, the Government securities market and the foreign exchange market were set up to chart a medium-term framework for the future course of market development in the context of the ongoing changes in the institutional framework and market dynamics.

I.1.55 In the capital market, policy initiatives were directed towards further broadening and deepening the markets, achieving better investor protection and making the market investor friendly. In the primary market, the share of retail investors' in the public issues was raised from the existing 25 per cent to 35 per cent. The scope of retail investment was scaled up to Rs. one lakh from the earlier limit of Rs.50,000. In order to make the issue process user-friendly, disclosures in issue prospectus were simplified and presentation was made uniform. Steps were also taken for shortening the allotment period for the new issues. In the secondary market, a comprehensive risk management framework for the cash segment was

[2] A detailed discussion of financial market and financial sector policies is presented in Section IV ("Development and Regulation of Financial Markets") and Section V ("Financial Regulation and Supervision") of the Report.

introduced to keep pace with the dynamic state of the markets. Risk containment measures and position limits in the equity derivatives were also modified.

I.1.56 In order to strengthen the corporate governance practices for the listed companies, the Securities and Exchange Board of India (SEBI) revised the existing Clause 49 of the listing agreement to introduce significant changes in areas such as composition of the board of directors, audit committee, report on corporate governance and compliance with the norms. The revised code comes into effect from January 1, 2006. The listing of all debt securities irrespective of the mode of issuance (*i.e.*, whether issued on private placement basis or through public/ rights issue) is to be done through a separate listing agreement.

I.1.57 The Union Budget Speech, 2005-06 laid strong emphasis on strengthening the Indian capital market. With a view to developing the corporate bond market, a high-level expert committee on corporate bonds and securitisation was proposed to examine legal, regulatory, tax and market design issues. The definition of 'securities' would be amended under the Securities Contracts (Regulation) Act, 1956 so as to provide a legal framework for trading of securitised debt, including mortgage-backed debt. It was also decided to allow FIIs to submit appropriate collateral, in cash or otherwise, as prescribed by the SEBI, while trading in derivatives in the domestic market.

I.1.58 The Union Budget, 2005-06 envisages the provision of legal validity for over-the-counter (OTC) derivative contracts. Mutual funds would be allowed to introduce Gold Exchange Traded Funds (GETFs) in consultation with the Reserve Bank. To make Mumbai a regional hub for finance, a high-powered expert committee is proposed to be set up in consultation with the Reserve Bank to advise the Government.

Changes in the Legal Framework

I.1.59 Several significant initiatives were undertaken in 2004-05 towards improving the legal infrastructure. The Enforcement of Security Interest and Recovery of Debt Laws (Amendment) Act, 2004 amended the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI), the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 and the Companies Act, 1956. The Banking Regulation (Amendment) and Miscellaneous Provisions Act, 2004 came into force in September 2004. The Credit Information Companies (Regulation) Act, 2005 requires companies in the business of credit information to obtain a certificate of registration from the Reserve Bank.

I.1.60 A number of key reform bills were introduced in the Parliament. The Government Securities Bill, 2004 introduced in the *Lok Sabha* in December 2004 proposes to consolidate and amend the laws relating to the Government securities and its management by the Reserve Bank.

I.1.61 The Reserve Bank of India (Amendment) Bill, 2005 seeks to amend the Reserve Bank of India Act, 1934 to define the expressions 'derivative', 'repo' and 'reverse repo'. The Reserve Bank would be empowered to deal in derivatives, to lend or borrow securities and to undertake repos or reverse repos. The lower floor and upper ceiling on the cash reserve ratio (CRR) would be removed to provide the flexibility to the Reserve Bank to specify the CRR. The ambiguity regarding the legal validity of OTC derivative products is also being addressed through amendment to the Reserve Bank of India Act. The Reserve Bank would be empowered to lay down policy and issue directions to any agency dealing in various kinds of contracts in respect of Government securities, money market instruments and derivatives and to inspect such agencies.

I.1.62 Although there is no specific restriction in the Banking Regulation Act on acquisition of shares in a banking company, no person can at present exercise voting right in excess of 10 per cent of the total voting rights of all the share holders. The Banking Regulation (Amendment) Bill, 2005 seeks to amend the Banking Regulation Act, 1949 to include provisions for removing the restriction on voting rights concurrently with the stipulation of the statutory requirement of prior approval for acquisition of shares above five per cent of the voting rights in banking companies. The Reserve Bank would now be accorded the power to specify Statutory Liquidity Ratio (SLR) without any floor, subject to the existing ceiling of 40 per cent of total demand and time liabilities. It may also specify any security as an approved security for this purpose. The Reserve Bank would have the right to call for information and returns from the associate enterprises of banking companies also and inspect them, if necessary. It would have the authority to supersede the board of directors of a bank and appoint an administrator to manage the bank till alternative arrangements are made. Finally, the Reserve Bank would also be vested with the powers to order a special audit of co-operative banks in the public interest.

II. THE REAL ECONOMY

I.2.1 Setbacks from an uneven and deficient South-West monsoon and high international crude oil prices in 2004-05 tempered the robust resurgence of growth that had been achieved in the preceding year. Although real GDP growth slowed to 6.9 per cent in relation to the 8.5 per cent in 2003-04, the overall macroeconomic performance was impressive during 2004-05. India remained one of the fastest growing emerging market economies. The growth of real GDP originating in agriculture and allied activities in 2004-05 turned out to be more resilient than anticipated and a certain degree of insulation from weather shocks seems to have set in. The firming up and spread of the upturn in industrial activity led by manufacturing was supported by a positive investment climate, business confidence and buoyant external demand. Financial performance of the corporate sector was robust during the year. However, it was the services sector that anchored the growth process during the year, contributing as much as 70.5 per cent to the real GDP growth in 2004-05 (Table 1.1 and Appendix Table I.4). Trade, transportation, communication, business and financial services, software services including Information Technology Enabled Services (ITES)-Business Process Outsourcing (BPO) were the key movers of services sector growth in 2004-05.

AGGREGATE SUPPLY

Agriculture

I.2.2 Growth of real GDP originating from 'agriculture and allied activities' decelerated sharply to 1.1 per cent during 2004-05 from 9.6 per cent a year ago. This was essentially the outcome of the uneven and deficient South-West monsoon besides the base effect of the high growth of 2003-04. During 2004, the South-West monsoon turned erratic with an unusual warming of sea surface temperatures over the Equatorial Central Pacific region leading, in turn, to prolonged weakness/break in the monsoon over different parts of India.

Table 1.1: Growth Rates of Real GDP

(Per cent)

Sector	2004-05#	2003-04*	1993-94 to 2002-03 (Average)	2004-05				2003-04			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11	12
1. Agriculture and Allied Activities	**1.1** **(20.5)**	**9.6** **(21.7)**	**2.1** **(26.5)**	**3.8**	**0.0**	**-0.5**	**1.8**	**0.1**	**7.2**	**18.2**	**10.4**
1.1 Agriculture	n.a.	10.3	2.0								
2. Industry	**8.3** **(21.9)**	**6.5** **(21.6)**	**6.6** **(22.1)**	**7.6**	**9.1**	**9.2**	**7.3**	**5.6**	**6.0**	**6.4**	**7.9**
2.1 Mining and Quarrying	4.5	6.4	4.7	6.9	4.7	4.5	2.5	4.5	4.1	5.9	10.7
2.2 Manufacturing	9.2	6.9	7.1	7.9	9.6	10.5	8.6	6.1	6.9	7.0	7.6
2.3 Electricity, Gas and Water Supply	5.5	3.7	5.2	6.1	9.1	4.4	2.6	3.0	1.1	3.0	7.6
3. Services	**8.6** **(57.6)**	**8.9** **(56.7)**	**7.8** **(50.5)**	**9.1**	**7.7**	**8.8**	**8.8**	**7.7**	**10.5**	**9.5**	**7.8**
3.1 Trade, Hotels, Restaurants, Transport, Storage and Communication	11.4	11.8	8.8	11.5	12.3	10.8	11.1	8.0	10.4	13.5	14.6
3.2 Financing, Insurance, Real Estate and Business Services	7.1	7.1	8.0	7.0	5.5	8.2	7.7	6.4	7.2	7.3	7.6
3.3 Community, Social and Personal Services	5.9	5.8	6.9	8.2	3.0	5.6	7.2	9.0	14.9	5.2	-2.9
3.4 Construction	5.2	7.0	5.7	5.0	4.6	7.2	4.1	6.6	8.4	6.5	6.6
4. Real GDP at Factor Cost	**6.9** **(100)**	**8.5** **(100)**	**6.0** **(100)**	**7.6**	**6.7**	**6.4**	**7.0**	**5.5**	**8.8**	**11.0**	**8.4**

*: Quick Estimates. # : Revised Estimates. n.a.: Not Available.

Note : 1. Figures in parentheses denote shares in real GDP.

2. Q1: First Quarter (April-June); Q2: Second Quarter (July-September); Q3: Third Quarter (October-December); and Q4: Fourth Quarter (January-March).

Source : Central Statistical Organisation.

I.2.3 According to the Fourth Advance Estimates released by the Ministry of Agriculture on July 6, 2005, *kharif* foodgrains production is estimated at around 103 million tonnes during 2004-05 - a shortfall of around 12 per cent from the preceding year. The decline in foodgrains production emanated mainly from the slippage in the production of coarse cereals and rice. *Kharif* oilseeds also recorded a shortfall of around 11 per cent. *Rabi* production recouped some of the loss in *kharif* output. The *rabi* foodgrains production is estimated at over 101 million tonnes, exceeding the previous year's level (around 97 million tonnes). The *rabi* output of rice and course cereals is expected to have scaled a new peak. *Rabi* oilseeds production is also expected to have exhibited a sharp rebound (31 per cent). Consequently, the total foodgrains production during 2004-05 is estimated at around 205 million tonnes, about four per cent lower than in the preceding year. Among the cash crops, the production of cotton and oilseeds is expected to have scaled a new high. The output of sugarcane is, however, expected to have suffered some losses. Overall, the index of agricultural production during 2004-05 is expected to have registered a decline of 1.2 per cent (Table 1.2).

I.2.4 In contrast to the decline in agricultural production during 2004-05, milk production exhibited an increase of 3.3 per cent, reflecting the relatively stable expansion of dairying activity as well as several initiatives by the Government to increase productivity of livestock. With a production of 91 million tonnes during 2004-05, India is the world's largest producer of milk. During the last two decades, while annual growth in food production was two per cent, annual milk production growth has been four per cent. At Rs.1,10,085 crore during 2003-04, the output of milk was almost 22 per cent of GDP originating from agricultural and allied activities. In this context, it may be noted that output of paddy and wheat constituted 15.4 per cent and 9.5 per cent, respectively, of GDP originating from agricultural and allied activities. The share of livestock sector output in GDP originating from agriculture and allied activities increased from 30.9 per cent during 1993-94 to 32.4 per cent during 2003-04. Trend in production of fruits and vegetables has also been encouraging. With 90 million tonnes of vegetable production in 2003-04, India is the largest producer of vegetables in the world. As regards fruits, India is the second largest producer in the world with a production of 47.5 million tonnes in 2003-04. The share of fruits and vegetables output in GDP originating from agriculture and allied activities increased sharply from 17.8 per cent during 1993-94 to 26.0 per cent during 2003-04.

Table 1.2: Agricultural Production

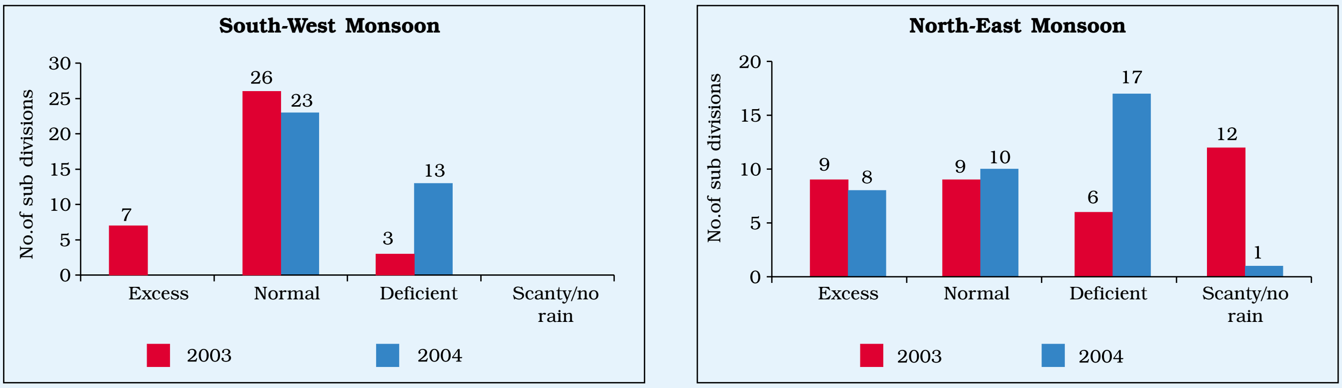
Crop	2004-05#	2003-04	2002-03
1	2	3	4
1. Growth Rate (Per cent)##			
All Crops	**-1.2**	**21.8**	**-15.5**
a. Foodgrains	-4.2	22.4	-18.4
b. Non-foodgrains	3.2	21.0	-11.1
2. Production (Million Tonnes)			
a. Foodgrains	**204.6**	**213.5**	**174.8**
i. Rice	85.3	88.3	71.8
ii. Wheat	72.0	72.1	65.8
iii. Coarse Cereals	33.9	38.1	26.1
iv. Pulses	13.4	14.9	11.1
b. Non-foodgrains			
i. Oilseeds++	26.1	25.3	14.8
ii. Sugarcane	232.3	237.3	287.4
iii. Cotton@	17.0	13.9	8.6
iv. Jute and Mesta+	10.5	11.2	11.3
v. Tea*	820.2	857.1	838.5
vi. Coffee*	N.A.	270.5	275.3

: Fourth Advance Estimates as on July 6, 2005.
: 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 kilograms and data for tea on a calendar year basis.
Source : Ministry of Agriculture, Government of India.

I.2.5 As against the forecast of a normal monsoon by the India Meteorological Department (IMD), the cumulative area-weighted rainfall during the South-West monsoon season (June 1 to September 30) 2004 turned out to be 13 per cent below the Long Period Average (LPA) as against two per cent above the LPA during the previous year. Notwithstanding an early onset, the monsoon came to a halt for a fairly long duration during the critical sowing months (June and July). The rainfall was also unevenly distributed with 23 out of 36 meteorological sub-divisions recording normal rainfall and 13 receiving deficient rainfall (Chart I.1).

I.2.6 According to the IMD, although none of the sub-divisions experienced severe drought conditions (seasonal rainfall deficiency exceeding 50 per cent), Himachal Pradesh, West Uttar Pradesh, Punjab, West Rajasthan, Vidarbha and Telangana experienced moderate drought conditions (seasonal rainfall deficiency between 25 and 50 per cent). Among the broad regions, North-West India was severely affected with the seasonal rainfall deficiency

Chart I.1: Rainfall Conditions



of 22 per cent followed by South Peninsula (15 per cent), Central India (11 per cent) and North-East India (six per cent). Of the 524 meteorological districts, 25 per cent of the districts experienced moderate drought, while seven per cent of the districts experienced severe drought conditions at the end of the season. During 2004, the total area of the sub-divisions experiencing drought conditions was only 18 per cent and, therefore, it could not be classified as an all-India drought year.

I.2.7 The progress of the monsoon during the North-East season (October 1 to November 24, 2004) was initially satisfactory; however, it turned below normal thereafter. Overall, the cumulative area-weighted rainfall during October 1 to December 31, 2004 was 11 per cent below normal as compared with nine per cent above normal during the corresponding period of the previous year.

I.2.8 An analysis of the trends in rainfall deficiency and foodgrains production suggests a reduced dependence on the South-West monsoon (which accounts for 80 per cent of rainfall in the year). The performance of *kharif* production, however, depends critically on the progress of monsoon during July (critical month of sowing season) as also its spatial and temporal distribution and temperature conditions over the season. Illustratively, the cumulative rainfall deficiency of 13 per cent during the South-West monsoon in 2004 was, in fact, comparable with 1986. However, rainfall deficiency of 19 per cent during July 2004 far exceeded that in July 1986. Accordingly, the decline in *kharif* foodgrains production during 2004-05 (12 per cent) exceeded the fall in 1986-87 (6 per cent). Although the shortfall in overall foodgrains production during 2004-05 (4.1 per cent) turned out to be almost the same as in 1986-87 (4.7 per cent), the decline in the index of overall agricultural production during 2004-05 (around one per cent) was considerably lower than in 1986-87 (around four per cent). This is attributable to the improved share of *rabi* (from 44.1 per cent to 49.5 per cent) in the total foodgrains production (Table 1.3).

Weather Insurance

I.2.9 Notwithstanding these recent developments, Indian agriculture continues to depend on weather performance. In this context, imparting stability to agriculture through measures of weather-proofing and protecting farm incomes assumes significance, as it would lead to stability of increased output, increased capital formation and enhanced productivity of Indian agriculture (Box I.2).

Table 1.3: Synoptic View of Drought Years

Deficient Rainfall Years	Cumulative Rainfall	Rainfall in July	Production of Foodgrains			
			Kharif	Total	*Kharif*	*Rabi*
	(% age deviation from normal)		Decline (%)		Share in total (%)	
1	2	3	4	5	6	7
1972-73	-24	-31	-6.9	-7.7	60.4	39.6
1974-75	-12	-4	-12.9	-4.6	59.2	40.8
1979-80	-19	-16	-19.0	-16.8	57.7	42.3
1982-83	-14	-23	-11.9	-2.8	54.0	46.0
1986-87	**-13**	**-14**	**-5.9**	**-4.7**	**55.9**	**44.1**
1987-88	-19	-29	-7.0	-2.1	53.1	46.9
2002-03	-19	-49	-22.2	-17.9	50.2	49.4
2004-05	**-13**	**-19**	**-11.6**	**-4.1**	**50.5**	**49.5**

Source : Economic Survey, 2002-03; Agricultural Statistics at a Glance, 2004, Ministry of Agriculture; India Meteorological Department.

Box I.2

Weather Insurance

There has been a growing interest into new approaches for linking credit to some form of weather insurance. A weather insurance provides cover against defined deviations from normal weather conditions, not just against extreme conditions like severe drought or flood. The weather-based index is designed to weight the more important periods of rainfall in the crop cycle. An agricultural producer can hedge his production risk by purchasing a contract that pays in the case rainfall falls below a certain threshold and thus share some of his risk exposure with markets. Applications of weather-based index insurance are in Canada which uses a rainfall index and temperature-heat units (in Alberta) for maize. A private milk company in Argentina offers a rainfall insurance contract to a milk producing co-operative. Recognising the importance of weather insurance, the International Finance Corporation (IFC) of the World Bank Group is working towards developing weather indices in developing countries.

Weather insurance scores over the traditional crop insurance schemes due to the ready availability of information on weather conditions. Banks and financial institutions can purchase such insurance to protect their portfolio against defaults. There are, however, challenges in developing weather insurance in developing countries as reliable historical data that would allow accurate pricing of the insurance are not available. Farmers may face basis risk if rainfall at weather stations is not highly correlated with rainfall at the individual farm. Furthermore, the degree of weather insurance will be dependent on the country circumstances and also on location within each country.

In India, a pilot weather insurance programme was introduced in Mahabubnagar district (Andhra Pradesh) by the World Bank in collaboration with the ICICI Lombard General Insurance Company. *Krishna Bhima Samruddhi* (KBS), a local area bank bought a bulk insurance policy from ICICI Lombard and sold individual insurance policies to over 200 groundnut and castor farmers. Besides, weather insurance has also been extended to 50 soya farmers in Madhya Pradesh through *Pradan* (a non-Government organisation) and to some paddy farmers in Aligarh (Uttar Pradesh) through an agri-business company. The Union Budget, 2004-05 recognised weather insurance as one of the promising tools of risk mitigation and proposed to introduce it on a trial basis through the Agricultural Insurance Company (AIC) in 20 rain gauge stations. Accordingly, the AIC introduced *Varsha Bima*, a rainfall based crop insurance scheme, as a pilot project during *kharif* 2004. In June, 2005 the scheme was redesigned and fine-tuned covering almost all major crops for implementation in 10 States.

References

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Cropping Pattern

I.2.10 Indian agriculture is becoming increasingly unsustainable in terms of maintaining productivity levels and environmental balance. The cropping pattern is distorted in favour of rice and wheat (area under foodgrains production was 66 per cent, with rice and wheat alone constituting 37 per cent) while key components of the average consumption basket such as other cereals and pulses are being disfavoured. This distorted cropping pattern has stemmed basically from a skewed incentive structure embedded in agricultural pricing policies, particularly, Minimum Support Prices (MSPs). Analysis of the cropping pattern in the major States reveals that the cultivation of rice and wheat (rotation-wise) is concentrated heavily (more than 30 per cent of gross cropped area) in States like Punjab, Haryana and Uttar Pradesh. Furthermore, while States like West Bengal, Andhra Pradesh and Bihar were found to be predominantly rice growing States, Rajasthan and Bihar had 10 to 30 per cent of gross cropped area under wheat.

I.2.11 There has been a decline in the net sown area (from 143 million hectares in 1990-91 to about 141 million hectares in 2000-01) accompanied by slow vertical expansion (gross sown area, which was 186 million hectares in 1990-91 reached 188 million hectares in 2000-01). As there is little scope for increasing the area under cultivation, increased productivity can be realised only by way of enhancing the efficiency of resource use - land, water and fertiliser - and with diversification and post-harvest value addition (Box I.3).

Food Management

I.2.12 The total stocks of foodgrains with the Food Corporation of India (FCI) and the State agencies

Box I.3

Agro-Diversification and Food Processing: Better Promise for the Future

In recent years, rising incomes, urbanisation and globalisation have opened new vistas for diversification of agriculture. Crop diversification is viewed as a risk management strategy to shield the farmers from generally volatile agricultural prices. India is the world's second largest producer of food. The food processing industry ranks fifth in size in the country and contributes over six per cent to GDP. It accounts for 13 per cent of the country's exports and six per cent of the total industrial investment. The growth in employment in food processing sector is likely to be 1.25 per cent per year during the Tenth Plan period.

India, however, fares poorly in terms of value addition to its raw produce in food processing, accounting for only seven per cent of raw produce compared to as much as 188 per cent in the UK, 45 per cent in the Philippines and 23 per cent in China. The industry is dominated by small scale and unorganised sectors (75 per cent) with inadequate access to modern technology and network.

A draft National Food Processing Policy was formulated on January 3, 2005 and an approach paper on the proposed Processed Food Development Act was circulated. Development and promotion of area specific Agro-Food Parks for processing the products grown in those localities, creation of units processing a cluster of trans-seasonal produce, harmonisation of laws and standards and administering them through a single authority, rationalisation of tax structures, fiscal incentives and promotion of both direct and foreign investments have been the recommended objectives for the food processing sector.

The value addition of food products is expected to increase from the current seven per cent of raw produce to 35 per cent by 2025. Fruits and vegetables processing is expected to increase from the current level of two per cent to 25 per cent over the same period.

References

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stood at around 25.1 million tonnes as on July 1, 2005, around 18.0 per cent lower than a year ago.

I.2.13 The procurement of foodgrains (rice and wheat) during 2005-06 (up to July) was about 11 per cent lower than in the corresponding period of the previous year. The total offtake of foodgrains during 2005-06 (up to June) was lower by around 1.5 per cent. Offtake under the Targeted Public Distribution System (TPDS) recorded a decline of around 9.0 per cent while it increased by 50.5 per cent under Other Welfare Schemes (OWS). Offtake under Open Market Sales (OMS) remained negligible, reflecting the comfortable supply position in the country (Table 1.4).

I.2.14 Decentralisation of procurement of foodgrains has received considerable attention recently. The recent proposal in the Union Budget, 2005-06 to make procurement of foodgrains more cost-effective through decentralised procurement, especially in the non-traditional States, without impairing the present MSP-based procurement is an important step in that direction.

Industrial Performance

I.2.15 Real GDP growth originating from industry rose to 8.3 per cent - the highest growth after 1995-96 - as the industrial recovery spread out and strengthened during 2004-05. Industrial activity was powered by the manufacturing sector. A congenial domestic investment climate, improvement in world output, a liberalised foreign direct investment (FDI) regime and surging manufacturing exports supported the buoyant performance of the manufacturing sector. Lower debt servicing costs also facilitated the strong performance of the manufacturing sector. Intensified competition has encouraged a process of consolidation and restructuring of the Indian industry in tune with global supply and demand conditions as integration with the global production gathers pace.

I.2.16 Growth in the Index of Industrial Production (IIP) accelerated from 7.0 per cent during 2003-04 to 8.2 per cent during 2004-05, led by the manufacturing sector (Chart I.2). The output of the electricity sector registered a marginal improvement during the year - both thermal and hydro power plants recorded better

Table 1.4: Management of Food Stocks

(Million tonnes)

Month	Opening Stock	Foodgrains Procurement	Foodgrains Offtake				Closing Stock	Norms
			PDS	OWS	OMS - Domestic	Exports		
1	2	3	4	5	6	7	8	9
2004								
January	25.0	3.5	2.4	0.9	0.2	0.4	24.0	16.8
February	24.0	2.2	1.9	1.1	0.1	0.5	22.8	
March	22.8	2.1	2.5	1.2	0.1	0.4	20.6	
April	20.6	15.7	2.0	0.5	0.0	0.3	32.4	15.8
May	32.4	3.0	2.3	0.6	0.0	0.1	32.3	
June	32.3	1.4	2.3	1.0	0.0	0.1	30.6	
July	30.6	0.5	2.4	1.0	0.0	0.1	27.2	24.3
August	27.2	0.2	2.4	1.0	0.0	0.1	23.0	
September	23.0	0.2	2.5	1.0	0.0	0.1	20.3	
October	20.3	6.5	2.4	0.8	0.0	0.0	23.7	18.1
November	23.7	2.7	2.4	0.6	0.0	0.0	21.8	
December	21.8	2.6	2.6	0.7	0.0	0.0	21.7	
2005								
January	21.7	3.9	2.7	0.8	0.0	0.0	21.5	16.8
February	21.5	2.3	2.7	0.9	0.0	0.0	20.0	
March	20.0	1.7	2.6	1.7	0.0	0.0	18.0	
April	18.0	14.0	2.0	0.8	0.0	0.0	28.5	16.2 *
May	28.5	3.1	2.1	0.8	0.0	0.0	27.9	
June	27.9	0.9	2.0	1.5	0.0	0.0	25.1	
July	25.1	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	26.9 *

n.a. : Not available. PDS : Public Distribution System. OWS : Other Welfare Schemes. OMS : Open Market Sales.

* : Minimum buffer stocks to be maintained as on April 1 and July 1 under New Buffer Stocking Policy with effect from March 29, 2005.

Note : Closing stock figures may differ from those arrived at by adding the opening stocks and procurement and deducting, offtake, as stocks include coarse grains also.

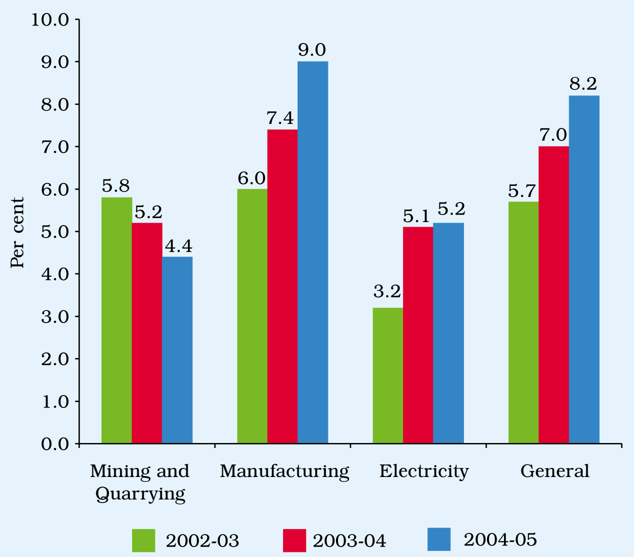
Source : Ministry of Food, Consumer Affairs and Public Distribution, Government of India.

performance. The mining sector performed well in the first half of the year, but subsequently lost momentum due to slowdown in production in some of the subsidiary companies of Coal India Limited.

Manufacturing Sector

I.2.17 The manufacturing sector recorded a growth of 9.0 per cent during 2004-05. Machinery and equipment and chemicals and chemical products largely led this robust growth. In terms of the two-digit classification, 15 out of 17 industry groups logged positive growth during the year as compared with 12 groups during the previous year. Cotton textiles, jute and other vegetable fibre textiles (except cotton), textile products (including wearing apparels) and leather and fur products made a turnaround during 2004-05. The improved performance of textile industry was largely led by domestic demand while exports displayed a mixed trend. The growth in various segments of textiles and garments is significant as

Chart I.2: Sectoral Growth of Index of Industrial Production



the sector needs to maintain its productive efficiency in order to remain competitive in the post Multi-Fibre Arrangement (MFA) environment (Box I.4).

I.2.18 Chemicals and chemical products benefited substantially from double-digit growth in exports of drugs, pharmaceuticals, fine chemicals and organic/inorganic/agro chemicals as well as increased domestic demand. Rubber, plastic and petroleum products, leather goods, footwear of leather and leather garments received a stimulus from substantial expansion in export demand. Machinery and equipment and metal products recorded a spurt in growth in an environment of industrial resurgence, capacity addition and increase in global demand. High growth of machinery and equipment was supported by rise

Box I.4

Textile Quota Phase-out Benefits

The Multi-Fibre Arrangement (MFA), which governed international trade in textiles and clothing since 1974, came to an end in December 2004. The MFA enabled developed nations, mainly the US, European Union and Canada to restrict imports from developing countries through a system of quotas. Under the MFA, there were about 1,300 bilateral quota restrictions inhibiting world trade in the sector. The Word Trade Organisation's Agreement on Textiles and Clothing (ATC) in 1995 to abolish the MFA marked a significant turnaround in global textile trade. The ATC mandated progressive phase-out of import quotas and the integration of textiles and clothing into the multilateral trading system before January 2005.

The share of textiles and garment exports in India's total exports works out to about 16 per cent. The US, the EU and Canada account for nearly 70 per cent of India's garments exports and 44 per cent of India's textile exports. Consequent upon the phasing out of the ATC, the textile sector is expected to become another sunrise industry for India, given its high export potential. India is expected to be the second largest beneficiary after China from world trade in textiles and clothing. The Indian textiles and apparel industry can achieve a potential size of US $ 85 billion by 2010 of which the domestic market potential would be US $ 45 billion and export potential would be US $ 40 billion. This optimistic scenario mainly emanates from India's distinct advantages in terms of competitive labour costs, availability of skilled manpower and strong capabilities in certain areas of production involving expertise in styling and designs.

Besides textile exports, India is expected to benefit from increased outsourcing of textiles and apparel manufacturing. Having an integrated textile industry - right from fibre to high-end fashion clothes - would also work in India's favour. The proactive measures announced in the Union Budget, 2005-06 and New Foreign Trade Policy 2004 paving the way for modernisation of the Indian textile industry through a host of incentives, rationalisation of tariff, allowing 100 per cent foreign direct investment (FDI) in textile sector, dereservation of textile items from the SSI manufacturing, establishment of Special Economic Zones (SEZs) and apparel parks would help the domestic industry reap the benefits from the quota phase-out in the medium to long term.

The removal of quotas may not, however, directly provide easy and unrestricted access to developed country markets. There would be non-tariff barriers arising from standards related to health, safety, environment, quality and labour. Rapid proliferation of regional trading arrangements (RTAs) also pose a threat to a country like India, which is not a part of major RTAs. India's textile and clothing sectors would, therefore, have to show improvement in productivity, raw material base, quality, cost of inputs, design skills and economies of scale in order to benefit from a highly competitive environment in the post-MFA regime. Consolidation of supply chains would play a key role in enhancing competitiveness of textiles. For organised participants in this sector, technology, investment and export infrastructure would play a lead role in driving improvements in quality and productivity.

Although it is too early to make a realistic assessment with regard to whether India has made durable gains after the phase-out of textile quotas, data for the first half of 2005 since the textile quota phase-out suggest substantial gains. According to the US Department of Commerce, India was the second fastest growing textiles exporter to the US in January-June 2005, led only by China. During January-June 2005, India's textiles and apparel exports to the USA increased by about 24.2 per cent (volume terms), which is higher than other competitors such as Mexico, Indonesia, Thailand, Korea and the Philippines. The surge in exports of Chinese textiles to the US and the EU has provoked the US and the EU to impose safeguard measures, which would work to India's advantage as it closely competes with China.

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in production of tractors, cooling towers, hydraulic machine/cylinders, material handling equipments, control panels/boards/disks, switch boards/ protection system, computer system and its peripherals, all of which recorded double-digit growth during the year. The transport equipment sector was buoyed by increased domestic sales and exports of passenger cars and commercial vehicles. On the other hand, production of food products declined largely because of subdued performance of sugar, milk products, wheat flour, malted food and tea. The performance of wood and wood products, furniture and fixtures deteriorated into absolute declines in production during the year (Chart I.3).

Use-Based Classification

I.2.19 In terms of the use-based classification, the consumer goods sector recorded double-digit growth on the back of strong performance of both durable and non-durable segments and contributed 42.9 per cent to the overall IIP growth (Table 1.5). The growth of consumer durables emanated from increased production of passenger cars, two-wheelers, wrist watches and TV receivers, facilitated by ease in the availability of finance. Intermediate goods recorded a deceleration during the year, *inter alia*, due to decline in production of petroleum refinery products.

I.2.20 One of the outstanding features of industrial activity during 2004-05 was the strong growth of the capital goods sector. Machinery and equipment led robust growth of the capital goods sector. Expanding investment activity driven by both domestic and external demand was reflected in higher capital expenditure and capital goods imports, leading to increase in capacity creation across a wide spectrum of industries. Non-electrical machinery contributed substantially to the growth of capital goods imports. The imports of other capital goods such as professional instruments, optical goods, electrical machinery, machine tools and project goods also increased significantly. Current trends in corporate finances suggest that Indian industry appears to be embarking on a new investment cycle.

Chart I.3: Performance of Manufacturing Industries during 2004-05

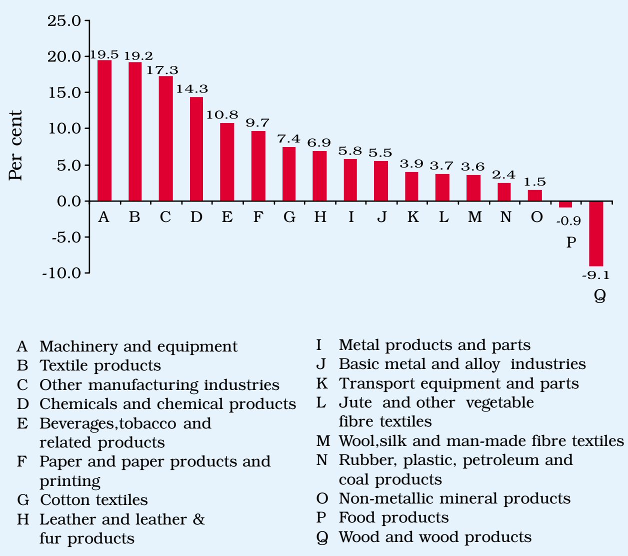

Table 1.5: IIP - Use-based Classification

(Per cent)

Sector	Weight	Growth Rate 2004-05	Growth Rate 2003-04	Weighted Contribution to IIP Growth 2004-05	Weighted Contribution to IIP Growth 2003-04
1	2	3	4	5	6
Basic Goods	35.57	5.5	5.4	21.3	25.0
Capital Goods	9.26	13.3	13.6	16.0	18.0
Intermediate Goods	26.51	5.9	6.4	20.2	25.4
Consumer Goods	28.66	11.5	7.1	42.9	31.0
Consumer Durables	5.36	14.3	11.6	13.1	11.9
Consumer Non-durables	23.30	10.6	5.8	29.6	19.2

Source: Central Statistical Organisation.

I.2.21 A comparative analysis of growth drivers during the current growth phase (2002-05) and those in the high growth phase during 1993-96 captures the qualitative changes that have been taking place in the industrial sector. The performance of basic, intermediate and consumer goods sector in the current industrial rebound is not as strong as that of the earlier high growth phase although growth in the consumer goods sector has picked up sharply in the second half of 2004-05. Another significant feature of the recent industrial resurgence pertains to structural transformation of the industry. During the current industrial rebound, the capital goods sector recorded double-digit growth in 10 out of 12 quarters. In contrast, in the earlier high growth phase (1993-96) the capital goods sector recorded not only single-digit growth in most of the quarters but the growth was negative in some quarters. The strong growth of the capital goods sector in the current phase suggests that Indian industry is engaged in deepening capacities driven by sound economic fundamentals and based on stringent assessment of market conditions. As opposed to this, the earlier phase of industrial expansion was driven largely by capturing of market share following the opening up of the economy.

I.2.22 Expenditure incurred by in-house Research and Development (R&D) units in industry has steadily increased during the recent years. A predominant part of R&D expenditure – about 80 per cent of the total during 2003-04 - is incurred by the private sector. The change in the patent regime from process patenting to product patenting has significant implications for industry (Box I.5).

Capacity Utilisation

I.2.23 Amidst favourable demand conditions, a positive investment climate and industry-specific factors, capacity utilisation registered a modest increase in seven out of the 17 industries comprising the manufacturing sector at the two-digit level. Industries such as leather products (including fur), rubber, plastic and coal products and jute and other fibre textile recorded increases in capacity utilisation. Provisional estimates indicate that the overall capacity utilisation of the industry increased from 82.7 per cent during 2003-04 to 83.1 per cent during 2004-05 (Table 1.6).

Competitiveness of Indian Industry

I.2.24 The diversification of the manufacturing sector along with the vertical expansion of select industries suggests that Indian manufacturing exports, in general, are increasingly becoming globally competitive (Box I.6). However, India lags behind its major competitors in a number of industries mainly because of higher input and material cost which erodes the advantage arising

Box I.5

Quality Consciousness : R&D Efforts in Indian Manufacturing Sector

In the increasingly knowledge-driven economy, quality consciousness is an integral part of international competition, representing a new strategic philosophy of enterprise towards the improvement of business performance and competitiveness. New products, technologies and creative designs appear regularly in the market as a result of continuous innovation and creativity, which needs to be enhanced by increasing research and development (R&D). A few common measures to enhance quality are Total Quality Management (TQM), Statistical Process Control (SPC), Six Sigma or quality function deployment. There are three main drivers that improve the quality of an organisation - quality planning (business excellence), quality improvement (Six Sigma) and quality control (ISO Standards). ISO standards assure a minimum standard of quality and do not provide competitive advantage or assure the long-term strength of a business. Six Sigma is a highly prescriptive approach for delivering quality in both the design of products and services and the work processes. TQM means consistently and predictably producing what the customer wants - a never ending process of improving the quality and not just an outcome. Six Sigma and SPC are part of TQM that focuses on creating a process that delivers quality products.

In India, about 50 large companies have so far obtained ISO-9000 certification. The Quality Council of India (QCI) was set up in 1997 as a joint initiative of the Government of India and the Indian industry to promote, coordinate, guide and implement a national quality initiative for building confidence in Indian products and services and for improving the competitiveness of Indian industry.

During 1996-2002, India's expenditure on R&D as a percentage of GDP was 0.85 per cent as compared with 1.11 per cent for East Asia and Pacific, and 2.36 per cent for the world. India's R&D expenditure as a percentage of GDP was, however, higher than other EMEs such as Malaysia, Mexico, Argentina and Thailand.

India is identified as an emerging hub for outsourcing collaborative R&D in drugs, biotechnology and chemicals. Investment in pharmaceutical R&D has risen steadily from 2.0 per cent of the sector's turnover in 1999-2000 to around 5.0 per cent in 2004-05. In anticipation of the new challenges, Indian drugs and pharmaceutical companies have increased their R&D spending by around 400 per cent during the last four years, shifting towards more in-house innovative research rather than just copying drug molecules made by others. India is trying to build a golden triangle between traditional medicine, modern medicine and modern science, which holds great promise.

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Table 1.6: Capacity Utilisation

(Per cent)

Industry	Weight	Growth Rate of IIP		Capacity Utilisation	
		2004-05	2003-04	2004-05	2003-04
1	2	3	4	5	6
Manufacturing Industry	**793.58**	**9.0**	**7.4**	**81.4**	**81.0**
Food products	90.83	-0.9	-0.4	68.0	68.1
Beverages, tobacco and related products	23.82	10.8	8.5	77.0	80.5
Cotton textiles	55.18	7.4	-3.1	92.0	92.7
Wool, silk and man-made fibre textiles	22.58	3.6	6.9	88.6	87.1
Jute and other vegetable fibre textiles	5.90	3.7	-4.2	83.8	81.6
Textile products (including wearing apparel)	25.37	19.2	-3.2	87.6	89.4
Wood and wood products, furniture & fixtures	27.01	-9.1	6.8	81.7	86.2
Paper and products and printing, publishing	26.52	9.7	15.6	85.5	89.9
Leather and leather and fur products	11.39	6.9	-3.9	84.6	79.6
Basic chemicals and chemical products	140.02	14.3	8.4	82.3	81.0
Rubber, plastic, petroleum and coal products	57.28	2.4	4.5	86.6	84.0
Non-metallic mineral products	43.97	1.5	3.7	86.9	87.9
Basic metal and alloy industries	74.53	5.5	9.1	86.4	87.8
Metal products and parts	28.10	5.8	3.4	71.1	72.3
Machinery and equipment	95.65	19.5	15.8	76.0	74.6
Transport equipment and parts	39.84	3.9	17.0	80.5	81.6
Other manufacturing industries	25.59	17.3	7.7	82.9	69.0
Mining and Quarrying	**104.73**	**4.4**	**5.2**	**86.8**	**87.9**
Electricity	**101.69**	**5.2**	**5.1**	**92.6**	**90.7**
All Industries	**1000.00**	**8.2**	**7.0**	**83.1**	**82.7**

Note: 1. Capacity utilisation has been calculated from the production data for 299 industries supplied by the Ministry of Statistics and Programme Implementation.
2. Capacity utilisation has been estimated using the peak output approach.
3. Data are provisional.

from lower labour costs. India accounts for a substantial part of global exports in respect of gems and jewellery and textiles and garments. Refined petroleum products, pharmaceutical products, iron and steel, leather products and chemical products have considerable export potential.

Infrastructure Industries

I.2.25 The infrastructure sector continued to remain subdued during 2004-05, mainly on account of deceleration in output of finished steel, coal and petroleum refinery products. The growth of the core infrastructure industries decelerated to 4.4 per cent from 6.2 per cent in 2003-04 (Chart I.4).

I.2.26 Deceleration in production of coal coupled with constraints in coal movement led to subdued electricity generation and cement production during the last quarter of the year, dragging down the overall infrastructure growth. Electricity generation, however, recorded a marginal pick-up in growth on account of higher power generation in hydro and thermal power plants during the first half of the year coupled with higher plant load factor of 74.8 per cent in respect of thermal power plants. The production of crude petroleum remained subdued on account of poor performance of private/joint venture units. The shut-down of some refineries impacted the production of petroleum refinery products. During the year, the finished steel sector recorded lacklustre growth mainly due to supply constraints on inputs such as iron ore, scrapped iron and coking coal (Chart I.5).

I.2.27 Besides finished steel, some other infrastructure industries also fell short of the targets set for 2004-05. Passenger traffic of domestic as well as international civil aviation sectors was below capacity notwithstanding significant growth. Fertiliser

Box I.6
Competitiveness of the Indian Manufacturing Sector

Competitiveness is the degree to which a nation can, under free trade and fair market conditions, produce goods and services which meet the test of international markets while simultaneously maintaining and expanding the real income of its people over the long term. At the global level, there are two leading surveys which compare the competitiveness of various countries on a regular basis, *viz.*, Global Competitiveness Report (World Economic Forum, Switzerland) and World Competitiveness Yearbook (International Institute for Management Development, Lausanne, Switzerland). In addition, the United Nations Industrial Development Organisation (UNIDO) also ranks the competitiveness of the industrial sector of various economies. The Global Competitiveness Report 2004 has ranked India 55th among 104 economies in terms of the Growth Competitiveness Index and 30th in terms of Business Competitiveness Index.

According to recent international reports on competitiveness , labour productivity growth in India has been better than Australia, Germany, United Kingdom and United States. Wage rates in India are much lower than Thailand, Singapore, the Philippines, Malaysia and Korea. In terms of unit labour cost, India has a competitive edge over Singapore, Korea and Malaysia. The unit labour cost in India is higher in food products, electrical machinery and transport equipments as compared with some other emerging market economies. India fares better than Hong Kong, Indonesia, and Malaysia, both in terms of lower input costs and higher operating surplus, in the case of the iron and steel industry. India leads in skill based manufacturing activity such as ability to reengineer equipment at lower capital costs, innovative process reengineering, availability of skilled technicians and quality mindset.

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production also remained below target because of lacklustre performance by both public and private sector plants, shortage of raw materials and natural gas in few plants and equipment related problems. On the other hand, several infrastructure industries, notably ports and petroleum refinery products (followed by coal, crude petroleum, railways and power) exceeded the annual production targets for

Chart I.4: Growth of Infrastructure Industries

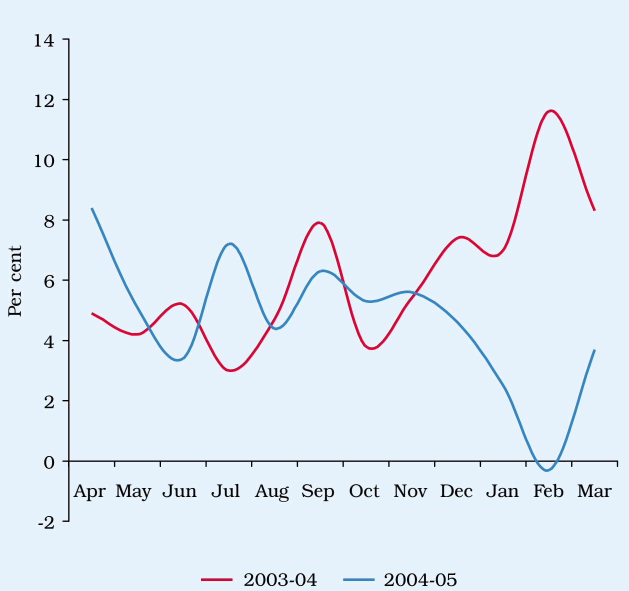


Chart I.5: Sector-wise Infrastructure Industries Growth

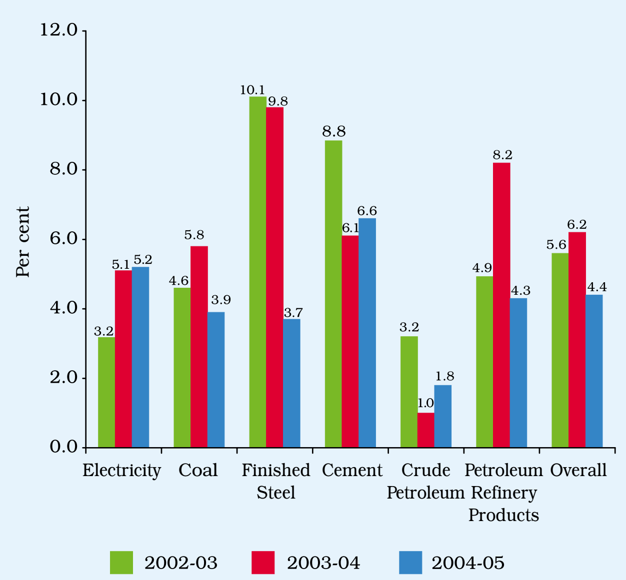


Table 1.7: Targets and Achievements of Infrastructure Industries

Sector	Unit	2004-05			2003-04		
		Target	Achievement	Gap (%)	Target	Achievement	Gap (%)
1	2	3	4	5	6	7	8
1. Power	Billion Units	586	587	0.3	573	558	-2.5
2. Coal	Million Tonnes	365	377	3.3	345	356	3.1
3. Finished Steel	Million Tonnes	44	41	-7.6	37	39	5.2
4. Railways	Million Tonnes	600	602	0.3	550	557	1.3
5. Shipping (Major Ports)	Million Tonnes	362	384	6.1	334	345	3.3
6. Fertilisers	Million Tonnes	16	15	-6.0	16	14	-9.8
7. Cement	Million Tonnes	133	132	-1.1	126	124	-2.0
8. Crude Petroleum	Million Tonnes	33	34	2.5	33	33	-0.4
9. Petroleum Refinery Products	Million Tonnes	122	127	4.2	117	122	4.3
10. Civil Aviation (International)*	Lakh No.	17	15	-14.4	17	13	-24.9
11. Civil Aviation (Domestic)*	Lakh No.	25	24	-3.5	25	19	-21.9

* : Refers to capacity in the column for 'Target'.

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

2004-05. The petroleum refinery sector could achieve its target on account of high capacity utilisation despite lower growth. Port traffic remained above the target, mainly due to higher exports of iron ore to China (Table 1.7).

Performance of Central Sector Projects

I.2.28 The Central Government started several new projects in steel, telecommunications, railways, power and petroleum sectors during 2004-05. The number of delayed projects rose during the year and cost overrun occurred, especially in railways and surface transport sectors (Table 1.8). Delays in the sanctioning of funds owing to under-estimation of original cost, announcement of the projects without proper fund allocation, increase in the prices of equipment, problems relating to environmental safeguards, rehabilitation measures and land acquisition are some of the factors that have contributed to time over-run of the projects.

Table 1.8: Performance of Central Sector Projects

(No. of Projects)

	March		
	2005	2004	2003
1	2	3	4
1. Ahead	16	28	32
2. On Schedule	65	73	77
3. Delayed	125	112	95
4. Without O.D.C and D.O.C	121	73	60
5. Total	**327**	**286**	**264**
6. Cost Overrun of Delayed Projects (Rs crore)	25,388	26,689	27,674
7. Cost Overrun of Delayed Projects (% of original cost)	45.2	51.8	53.6

O.D.C. : Original Date of Commissioning.

D.O.C. : Date of Commissioning.

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

Mergers and Acquisitions

I.2.29 During 2004-05, there was a substantial growth of 75.5 per cent in the value of acquisitions in the industrial sector (Table 1.9). Mergers and acquisitions (M&As) were concentrated mainly in sectors like chemicals, non-metallic mineral products, computer software and mining. The telecommunications sector entered a consolidation phase with smaller players selling out to the larger ones. The high growth and steady revenue streams in the Information Technology Enabled Services (ITES) have also led to an increase in M&As. Against the backdrop of growing competitiveness of Indian firms, significant activity is expected to continue in the overseas acquisitions by Indian corporates.

Investment Climate

I.2.30 The overall investment climate during 2004-05 was buoyant as reflected in the investment intentions registered in Industrial Entrepreneurs Memoranda (IEMs) and Letters of Intent (LOI), and in the

Table 1.9: Mergers and Acquisitions Announced

Period	Total Acquisitions				Mergers	
	2004-05		2003-04		2004-05	2003-04
	No.	Amount (Rupees crore)	No.	Amount (Rupees crore)	No.	No.
1	2	3	4	5	6	7
Q1	187	12,048	220	3,802	38	48
Q2	177	4,071	194	4,427	51	132
Q3	225	19,971	218	7,146	77	54
Q4	196	25,015	196	19,444	76	55
Total	**785**	**61,105**	**828**	**34,819**	**242**	**289**

Note : Deals include preferential allotments, buy-back of shares and disinvestment proposals, amongst others.
Source : Centre for Monitoring Indian Economy.

implementation of IEMs (Table 1.10). A significant investment revival is suggested by the very substantial increase in investment intentions registered in 2003-04 which further nearly doubled in 2004-05. The industries that performed well during the year such as metallurgical industries, chemicals, fuels, textiles, mechanical industries, electrical equipments and telecommunications attracted investment interest.

Small Scale Industries

I.2.31 Small scale industries (SSIs) continue to play a significant role in industrial activity (Table 1.11). The share of SSIs in the gross industrial value added in the economy is around 40 per cent. About 44 per cent of total manufactured exports are directly accounted for by the SSI sector.

Table 1.10: Industrial Investment Proposals

Year	IEMs		LOI/DILs	
	No. of Proposals	Proposed Investment (Rupees crore)	No. of Proposals	Proposed Investment (Rupees crore)
1	2	3	4	5
2001-02	3,094	70,994	102	1,361
2002-03	3,178	80,824	60	332
2003-04	4,130	1,54,954	145	3,454
2004-05	5,548	2,89,782	101	4,309
Cumulative (up to March 2005)	57,866	14,94,514	4,019	1,15,445

IEMs : Industrial Entrepreneurs Memoranda.
LOI : Letter of Intent. DILs : Direct Industrial Licences.
Source: Department of Industrial Policy and Promotion , Ministry of Commerce and Industry, Government of India.

Table 1.11: Performance of Small Scale Industries

Item	2004-05	2003-04	2002-03	2001-02	2000-01
1	2	3	4	5	6
No. of Units (million)	11.86	11.40	10.95	10.52	10.11
Value of Output (Rs. crore)	4,12,450	3,57,733	3,11,993	2,82,270	2,61,297
Employment (million)	28.29	27.14	26.01	24.91	23.91
Exports from SSI (Rs. crore)	n.a.	n.a.	86,013	71,244	69,797

n.a. : Not available.
Source : Ministry of Small Scale Industries, Government of India.

I.2.32 During the first quarter of 2005-06, industrial production accelerated to 10.3 per cent on the back of a marked pick-up in growth in manufacturing and electricity sectors to 11.2 per cent and 7.6 per cent, respectively. An encouraging development in the manufacturing sector was the turnaround in food products, after a deceleration in growth in the past two years. The growth in the mining sector, however, decelerated to 4.5 per cent. According to the use-based classification, the capital goods sector maintained high growth supported by strong performance of machinery and equipment, transport equipments and commercial vehicles. The consumer goods recorded a double-digit growth on the back of strong performance of both durable and non-durable segments. Basic goods also recorded higher growth during the first quarter. Intermediate goods sector, however, slowed down significantly, *inter alia*, due to a decline in production of petroleum products. The overall growth of core infrastructure industries during the first quarter of 2005-06 was lower at 5.5 per cent than 8.1 per cent during the corresponding period of 2004-05 although there are signs of a pick up. The slowdown was mainly a reflection of decline in crude petroleum and petroleum refinery production and deceleration in finished steel during April and May 2005.

I.2.33 The policy framework provides a conducive environment for an even stronger industrial sector performance. The New Foreign Trade Policy and the Union Budget 2005-06 have provided a host of incentives for the growth of industry as a whole. The CII-ASCON survey indicates that out of 134 sectors reporting production in 2004-05, 34 sectors recorded excellent growth of over 20 per cent, 43 sectors recorded a high growth of 10-20 per cent, 49 sectors registered a moderate growth of 0-10 per cent and eight sectors reported decline in production. The

Table 1.12: Sub-sectoral Performance of the Services Sector

(per cent)

Sub-sector	Share in Services Sector GDP		Growth Rate		Relative Contribution to Growth in Services	
	2004-05#	2003-04*	2004-05#	2003-04*	2004-05	2003-04
1	2	3	4	5	6	7
Trade, Hotels, Transport and Communication	46.3	45.1	11.4	11.8	59.7	58.4
Financing, Insurance, Real Estate and Business Services	22.4	22.7	7.1	7.1	18.8	18.6
Community, Social and Personal Services	22.4	23.0	5.9	5.8	15.9	15.6
Construction	8.9	9.2	5.2	7.0	5.6	7.4
Services	**100.0**	**100.0**	**8.6**	**8.9**	**100.0**	**100.0**

: Revised Estimates. * : Quick Estimates.
Source : Central Statistical Organisation.

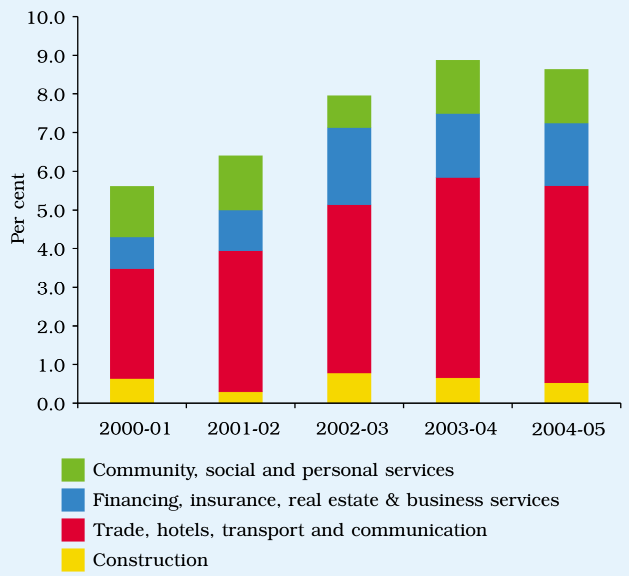
NCAER Business Confidence Index (BCI) stood at 144.1 for July 2005 which is the highest level attained since December 1995. According to the Reserve Bank's Industrial Outlook Survey, the Business Expectations Index for July-September 2005 stood at 119.6 points, registering a decline of 1.1 per cent over the previous quarter. The Dun & Bradstreet's Composite Business Optimism Index for the second quarter of 2005-06 recorded an increase of 5.6 per cent over the previous quarter.

Services Sector

I.2.34 The services sector remained the key driving force of the economy in 2004-05 (Table 1.12). The growth of the services sector at 8.6 per cent was higher than the average growth of 7.5 per cent during the last five years. The services sector's contribution to GDP growth has been more than 50 per cent since 1997-98. The share of the services sector in the GDP at 57.6 per cent in 2004-05 was higher than in other developing countries as a group.

I.2.35 The robust performance of the services sector during 2004-05 was led mainly by 'trade, hotels, transport and communication', which contributed around 60 per cent of the sector's growth (Chart I.6). The strong growth in the trade sector was on account of surge in exports and imports during the year. Activity in the hotel industry improved significantly, aided by a recovery in tourism, particularly in business and leisure travel. The transport sector recorded a healthy growth during 2004-05 as reflected in the revenue earning freight traffic by the railways (8.0 per cent), cargo handled at major ports (11.3 per cent) and cargo handled (16.9 per cent) and passengers handled (19.7 per cent) at five major airports. Growth in the production of commercial vehicles (27.3 per cent) and in the number of cell phone connections (10.4 per cent) during 2004-05 also strengthened the services sector. Growth in the finance and insurance sector was facilitated by strong expansion in non-food credit coupled with increase in bank deposits, increase in Government's revenue expenditure and also surge in insurance business by public and private insurance companies. However, the construction sector witnessed a deceleration during the year mainly due to higher steel and cement prices. The recent policy initiatives towards liberalisation of FDI in the construction sector would have a positive impact on this sector.

Chart I.6: Sectoral Contribution of Services GDP Growth



I.2.36 The most visible dimension of the sustained growth in the services sector has been the contribution of the software sector, including ITES and BPO segments. According to the National Association of Software and Services Companies (NASSCOM), the total revenues (exports as well as domestic) of the Indian IT-ITES industry grew by 32 per cent to US $ 22 billion during 2004-05, constituting 3.0 per cent of GDP. This was on account of rapid growth in demand from overseas and domestic consumers, backed by technological advancement and proactive policy reforms such as deregulation, privatisation, opening up to FDI and generous tax incentives for the sector. In addition to revenue earnings, employment in the IT-ITES sector increased exponentially from 280,000 people in 1999-2000 to 1.05 million people in 2004-05 - a compound annual growth rate of 29.8 per cent.

AGGREGATE DEMAND

I.2.37 Information on the constituents of aggregate demand is available only up to 2003-04 from the Central Statistical Organisation (CSO). A strong pick-up in real private consumption demand in 2003-04 was accompanied by a rise in Government demand - consumption as well as investment. In particular, public investment registered a sharp acceleration, whereas private investment experienced deceleration from exceptionally high growth in 2002-03 (Table 1.13).

Saving and Capital Formation

I.2.38 The rate of Gross Domestic Saving (GDS), as a proportion to GDP at current market prices, increased substantially from 26.1 per cent in 2002-03 to 28.1 per cent in 2003-04, reflecting improvement across all the sectors. The household sector continued to be the major contributor to GDS with its saving rate placed at 24.3 per cent in 2003-04 as compared with 23.3 per cent in 2002-03 (Chart I.7). Since 2000-01, the household sector has shown a preference for saving in the form of physical assets relative to financial assets. This could be attributed partly to the soft interest rate regime in recent years. Private corporate saving, which has been increasing steadily since 2001-02 reflecting strong growth in profits, stood at 4.1 per cent in 2003-04. The rate of dis-saving of the public sector continued to decline and contracted to 0.3 per cent in 2003-04 from 1.1 per cent in 2002-03 on account of significant improvement in the performance of public authorities.

Chart I.7: Sector-wise Saving Rates

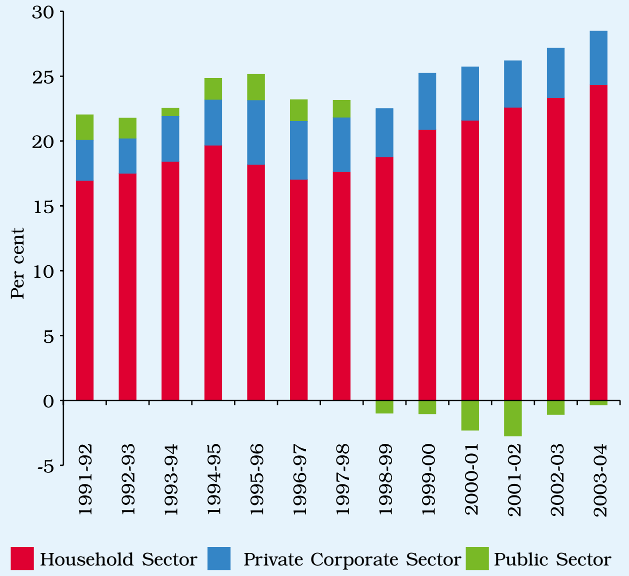


Table 1.13: Growth in Select Sources of Real Effective Demand #

(Per cent)

Item	2003-04*	2002-03@	2001-02	2000-01	1999-00	1997-98 to 1999-00
1	2	3	4	5	6	7
1. Total Final Consumption Expenditure	7.4	2.0	5.6	2.1	7.2	6.3
Of which :						
Private Final Consumption	8.1	2.9	6.1	2.5	6.1	5.2
Government Final Consumption	3.7	-2.4	3.1	0.5	13.2	12.4
2. Total Investment +	13.8	17.4	-2.9	-1.4	20.8	9.7
Private Investment ++	8.7	15.5	0.0	3.0	21.5	13.5
Public Investment ++	10.0	-8.9	1.4	-7.2	13.3	6.6
3. Total Fixed Investment	9.7	7.7	4.3	4.1	9.3	6.7
Of which :						
Private Fixed	8.7	10.0	5.6	5.4	11.8	8.1
Public Fixed	13.1	0.4	0.3	0.4	2.7	3.1

\# : Based on select disposition of real GDP at market prices. * : Quick Estimates.
@ : Provisional Estimates. + : Adjusted for errors and omissions. ++ : Unadjusted for errors and omissions.
Source : Central Statistical Organisation.

Table 1.14: Gross Capital Formation

(As percentage of GDP at current market prices)

Item	2003-04*	2002-03@	2001-02
1	2	3	4
1. Household Sector	13.0	13.0	11.4
2. Public Sector	5.6	5.4	6.2
3. Private Corporate Sector	4.5	4.3	4.6
4. Gross Domestic Capital Formation (GDCF)#	26.3	24.8	22.6

@ : Provisional. * : Quick Estimates.
# : As GDCF is adjusted for errors and omissions, the sector-wise capital formation figures may not add up to the GDCF.
Source : Central Statistical Organisation.

I.2.39 The rate of Gross Domestic Capital Formation (GDCF) increased from 24.8 per cent in 2002-03 to 26.3 per cent in 2003-04 due to increases in both public and private corporate investments (Table 1.14).

Table 1.15: Household Saving In Financial Assets

(Amount in Rupees crore)

Item	2004-05#	2003-04P	2002-03P
1	2	3	4
A. Financial assets (gross)	**4,26,744**	**3,86,509**	**3,22,583**
	(13.7)	**(14.0)**	**(13.1)**
1. Currency	39,075	40,759	28,632
	(1.3)	(1.5)	(1.2)
	[9.2]	[10.5]	[8.9]
2. Deposits@	1,68,225	1,60,621	1,31,910
	(5.4)	(5.8)	(5.4)
	[39.4]	[41.6]	[40.9]
3. Claims on Government	1,02,514	78,083	56,087
	(3.3)	(2.8)	(2.3)
	[24.0]	[20.2]	[17.4]
4. Investment in shares and debentures+	4,672	488	5,504
	(0.2)	(0.0)	(0.2)
	[1.1]	[0.1]	[1.7]
5. Contractual saving**	1,12,258	1,06,557	1,00,450
	(3.6)	(3.9)	(4.1)
	[26.3]	[27.6]	[31.1]
B. Financial liabilities	**1,18,639**	**71,547**	**60,305**
	(3.8)	**(2.6)**	**(2.4)**
C. Saving in financial assets (Net) (A-B)	**3,08,105**	**3,14,961**	**2,62,278**
	(9.9)	**(11.4)**	**(10.6)**

: Preliminary; P : Provisional
@ : Comprise bank deposits, non-bank deposits and trade debt (net).
+ : Including units of Unit Trust of India and other Mutual Funds.
** : Comprise Life Insurance, Provident and Pension Funds.
Note : 1. Components may not add up to the totals due to rounding off.
2. Figures in ( ) indicate per cent of GDP at current market prices and [ ] indicate per cent of financial assets (gross).

I.2.40 Preliminary estimates, based on the latest available information, place the rate of financial saving (net) of the household sector in 2004-05 at 9.9 per cent of GDP at current market prices as compared with the revised estimates of 11.4 per cent in 2003-04 (Table 1.15 and Appendix Table I.14). Increases in the rate of saving in the form of claims on Government (particularly, small savings) and investment in shares and debentures were more than offset by decline in saving in the form of currency, deposits and contractual saving. Financial liabilities of the household sector registered a sharp increase due to higher loans and advances principally driven by personal loans to finance consumer durables and increased demand for housing loans.

III. MONEY, CREDIT AND PRICES

I.3.1 The evolution of monetary conditions during 2004-05 reflected the impact of a number of developments. First, capital flows continued to be strong, despite a lull during May-October, 2004 and liquidity conditions, given the overhang of over Rs.81,000 crore at the beginning of the year, remained easy. With the persistence of capital flows, the Reserve Bank continued with sterilisation operations through the Liquidity Adjustment Facility (LAF) and the newly-introduced Market Stabilisation Scheme (MSS), which contained money supply within the indicative projection set in May, 2004. Second, there was a robust expansion in credit demand which firmed up since July 2004. Third, the surge in banks' non-food credit operations was accommodated by a reduction in the Government's borrowing programme. Fourth, movements in inflation driven by international commodity prices engaged policy attention as an overriding priority. In order to rein in inflation, fiscal measures were initiated to contain the pass-through of the increases in international oil and non-oil commodity prices to domestic inflation, in conjunction with monetary policy actions to modulate monetary and liquidity conditions and prudent supply management. These calibrated policy responses were able to return inflation from a spike in end-August 2004 to 5.1 per cent by the year end, consistent with the projection made in the May 2004 Annual Policy Statement.

RESERVE MONEY

I.3.2 Reserve money growth decelerated to 12.1 per cent during 2004-05 from 18.3 per cent during 2003-04 (Appendix Tables I.15 and I.16). Even as capital flows remained sizeable, base money expansion could be contained due to greater manoeuvrability provided by the operationalisation of the MSS. The slower growth of reserve money in 2004-05 also reflected the base effect of the excess reserves built up on March 31, 2004 partly counterbalanced by the 50 basis points increase in the cash reserve ratio (CRR) in two stages during September-October 2004, which impounded around Rs.9,000 crore in the first round (Chart I.8). In addition, the remuneration on the banks' eligible CRR balances was lowered from the Bank Rate (6.0 per cent) to 3.5 per cent.

I.3.3 Reserve money declined in the first quarter of the year mainly on account of MSS/LAF operations. Seasonal cash demand was largely funded by the draw down of the excess reserves built towards the end of 2003-04 (Rs.19,662 crore during March 26-31, 2004).

I.3.4 The monetary base continued to contract during the second quarter of 2004-05 as a result of capital outflows, along with an increase in the Government's surplus cash balances with the Reserve Bank. A brief period of tight liquidity arising out of pressures from State Development Loans auctions, redemptions from mutual funds and the need to meet reserve requirements prompted the Reserve Bank to inject liquidity (Rs.5,000 crore) through the LAF on August 12, 2004. During the third quarter, the robust expansion in non-food credit off-take and a spurt in festival season currency demand exerted pressure on liquidity. Reserve money expanded sharply as the Reserve Bank injected daily net liquidity of over Rs.10,000 crore, on an average, during November 5-22, 2004 through the LAF and again (around Rs.3,500 crore daily, on an average) during December 20-24, 2004. During the fourth quarter, liquidity conditions turned comfortable, facilitated by large capital inflows and a decline in the Centre's cash balances with the Reserve Bank. Reserve money increased by over Rs.34,000 crore (Table 1.16).

Chart I.8: Reserve Money Growth

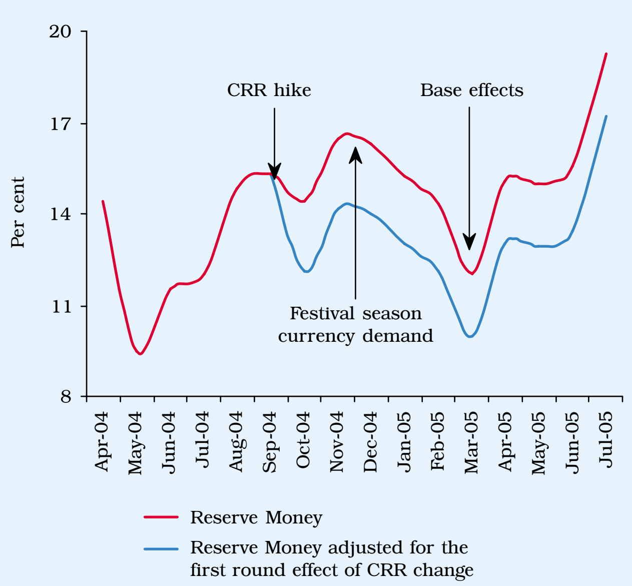


Table 1.16: Variation in Major Components and Sources of Reserve Money

(Rupees crore)

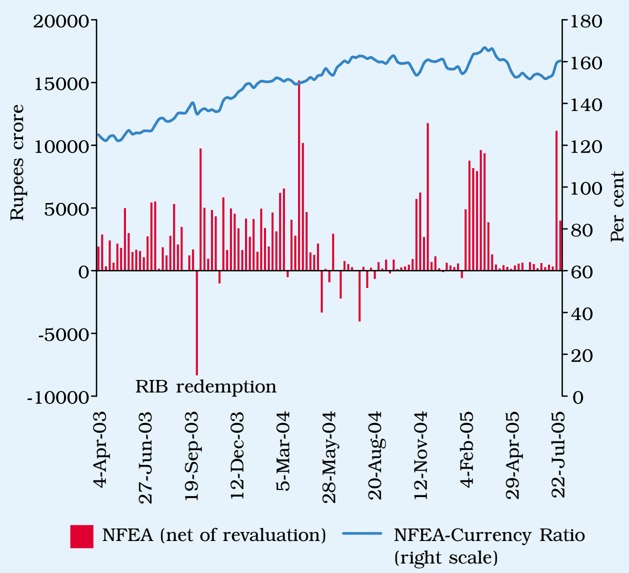
Item	2004-05	2003-04	2004-05				2003-04			
			Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
1	2	3	4	5	6	7	8	9	10	11
Reserve Money	52,623	67,451	34,173	31,547	-6,285	-6,812	45,363	23,980	-18,235	16,342
Components										
1. Currency in circulation	41,633	44,555	15,015	16,467	-4,166	14,317	14,641	17,986	-5,955	17,882
2. Bankers' Deposits with the RBI	9,631	21,019	17,401	14,769	-2,874	-19,665	29,297	5,961	-12,633	-1,606
3. Other Deposits with the RBI	1,359	1,877	1,756	311	755	-1,463	1,426	33	352	65
Sources										
1. RBI's net credit to Government	-62,882	-75,772	-22,744	184	-6,179	-34,143	-5,669	-12,506	-53,146	-4,451
of which: to Central Government	-60,177	-76,065	-25,852	203	-4,499	-30,029	-6,911	-15,844	-53,744	434
2. RBI's credit to banks and commercial sector	-833	-2,728	-835	3,726	-740	-2,985	2,156	-796	-2,525	-1,564
3. NFEA of the RBI	1,28,377	1,26,169	44,651	31,462	-5,260	57,525	25,808	51,931	25,720	22,710
4. Government's Currency Liabilities to the Public	152	225	17	89	9	37	24	43	74	84
5. Net Non-Monetary Liabilities of the RBI	12,191	-19,557	-13,084	3,915	-5,885	27,245	-23,044	14,692	-11,642	437
Memo:										
1. Net Domestic Assets	-75,754	-58,719	-10,478	85	-1,025	-64,336	19,555	-27,951	-43,955	-6,368
2. FCA, adjusted for revaluation	1,15,044	1,41,428	55,440	29,858	-3,413	33,160	48,093	37,560	31,832	23,943
3. Net Purchases from Authorised Dealers	91,105	1,40,650	48,091	22,771	-9,789	30,032	47,845	40,669	29,899	22,237
4. NFEA/Reserve Money (per cent) (end-period)	125.3	111.0	125.3	124.9	126.7	126.1	111.0	117.2	110.8	98.8
5. NFEA/Currency (per cent)	166.2	148.1	166.2	160.7	159.2	158.8	148.1	146.8	138.1	126.8
6. Release (+)/ impounding (-) of lendable resources due to change in CRR	-9,000	3,500	0	-9,000	0	0	0	0	0	3,500

NFEA: Net Foreign Exchange Assets. FCA: Foreign Currency Assets.
Note: Data are based on March 31 for Q4 and last reporting Friday for all other quarters.

I.3.5 Foreign currency assets (adjusted for revaluation) of the Reserve Bank increased by Rs.1,15,044 crore in 2004-05 on top of an accretion of Rs.1,41,428 crore in 2003-04, *albeit* with higher intra-year variability in 2004-05 (Chart I.9). As a result, the ratio of net foreign exchange assets (NFEA) to currency as well as to reserve money increased further during the year.

I.3.6 Consequent upon the operationalisation of the MSS in April 2004, the Reserve Bank's net credit to the Government declined by Rs.62,882 crore during 2004-05 on top of a decline of Rs.75,772 crore in the previous year. This decline also reflected the improvement in the fiscal position of the Government. The Centre, which had resorted to ways and means advances (WMA) on several occasions till early September 2004, did not avail of WMA in the subsequent period. States' recourse to WMA/overdrafts was also lower in 2004-05 than in the previous year. The Reserve Bank's support to the Government in the primary market through private placement/devolvement was markedly lower (Table 1.17).

Chart I.9: Accretion to RBI's Net Foreign Exchange Assets (NFEA)



I.3.7 The substantial accretion to the Reserve Bank's foreign currency assets was reflected in rising MSS balances with the Reserve Bank.

Table 1.17: Net Reserve Bank Credit to the Centre - Variations

(Rupees crore)

Item	2004-05	2003-04	2004-05				2003-04			
			Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
1	2	3	4	5	6	7	8	9	10	11
Net Reserve Bank Credit to the Centre (1+2+3-4)	**-60,177**	**-76,065**	**-25,852**	**203**	**-4,499**	**-30,029**	**-6,911**	**-15,844**	**-53,744**	**434**
1. Loans and Advances	0	0	0	0	-3,222	3,222	0	0	-8,145	8,145
2. Reserve Bank's holdings of Government Securities	12,323	-72,230	-21,048	14,095	22,176	-2,900	398	-15,795	-45,530	-11,303
3. Reserve Bank's holdings of Rupee Coins	58	20	-15	-93	-11	175	-24	-51	-68	163
4. Central Government Deposits	72,558	3,856	4,791	13,799	23,443	30,525	7,287	-1	0	-3,430
*Memo**										
1. Market Borrowings of Dated Securities by the Centre #	80,350	1,21,500	12,350	14,000	26,000	28,000	26,500	15,000	36,000	44,000
2. Reserve Bank's Primary Subscription to Dated Securities	1,197	21,500	350	0	847	0	16,500	0	0	5,000
3. Repos (+) / Reverse Repos (-) (LAF), net position £	15,315	-32,230	-19,770	27,600	34,205	-26,720	-5,155	-3,580	-4,455	-19,040
4. Net Open Market Sales #	2,899	41,850	1,172	871	427	429	5,332	14,225	16,671	5,620
5. Mobilisation under MSS	64,211	0	11,602	353	14,444	37,812	0	0	0	0
6. Primary Operation	-6,625	-100	23,490	-36,984	-30,484	37,353	4,560	2,305	-32,608	25,643

* : At face value # : Excluding Treasury Bills £ : Including fortnightly repos

Note : 1. Quarterly variations are based on March 31 for Q4 and last reporting Fridays for other quarters.
2. Primary operation is defined as sum of loans and advances, RBI's holding of rupee coins and primary subscription to dated securities adjusted for Centre's deposits with the RBI net of MSS balances and Centre's surplus investment.

Box I.7

Surplus Cash Balances of the Centre

In the context of the Reserve Bank's function as banker to the Central Government, the Government parks its funds with the Reserve Bank, free of interest, under Sections 17(1) and 19(6) of the Reserve Bank of India Act, 1934. The Central Government and the Reserve Bank reached an agreement in 1997 under which the surplus funds of the Centre are invested in its own paper. This arrangement of buy-back of its own securities effectively enables the Central Government to obtain a notional return on such balances.

Surplus balances of the Government with the central bank have been effectively used as an instrument of sterilisation in many countries. The Government of Singapore, for example, issues Government securities in excess of the fiscal requirements and parks the surplus funds with the Monetary Authority of Singapore (MAS) as deposits, thus supplementing its draining operations. Countries such as, Malaysia, Thailand and Indonesia have regulated excess liquidity in the financial system by diverting the Government/public sector deposits from the commercial banking system to the central bank.

In the Indian context, the Reserve Bank's Working Group on Instruments on Sterilisation (Chairperson: Smt. Usha Thorat) observed that the cost of sterilisation is ultimately borne by the fisc. In the light of reduction in stock of the Government securities with the Reserve Bank, the Group was in favour of revisiting the 1997 agreement so that the Government's surpluses with the Reserve Bank are not automatically invested and can remain as interest-free balances with the Reserve Bank, thereby, releasing Government securities for further sterilisation operations.

The Central Government has maintained sizeable surplus balances in its current account with the Reserve Bank almost continuously since August 2003, enabled, *inter alia,* by substantial inflows under the debt swap scheme and increased issuance of Treasury Bills. In order to ensure a sizeable stock of Government paper with the Reserve Bank for its monetary policy operations, investment of the Central Government's surplus cash balances in dated securities was discontinued temporarily from April 8, 2004. Subsequently, with the introduction of the MSS to absorb liquidity, investment of the Centre's surplus balances in its own paper held by the Reserve Bank was partially restored with a ceiling of Rs.10,000 crore in June 2004 (enhanced to Rs.20,000 crore in October 2004).

Reference

1. Reserve Bank of India (2003), *Report of the Working Group on the Instruments of Sterilisation* (Chairperson : Smt. Usha Thorat).

A build-up of the gilt portfolio with the Reserve Bank as a result of the unwinding of LAF reverse repo balances was counterbalanced by accretions to the Centre's cash balances, which, in turn, were invested in the Centre's own paper held by the Reserve Bank (Box I.7).

Developments during 2005-06

I.3.8 The year-on-year reserve money expansion stood at 15.2 per cent as on August 12, 2005 – higher than that of 13.8 per cent recorded a year ago. Despite a somewhat lower order of accretion to the Reserve Bank's NFA, the higher reserve money expansion largely reflected the effect of the 50 basis points increase in the CRR during September-October, 2004.

MONETARY SURVEY

I.3.9 Broad money (M_3) growth at 12.2 per cent during 2004-05 was lower than that of 16.7 per cent in the previous year and well within the projected trajectory of 14.0 per cent (Appendix Table I.17). The deceleration in M_3 reflected, in part, the base effect of higher deposit mobilisation by commercial banks during the last quarter of the previous year (Chart I.10).

Chart I.10: Money Supply

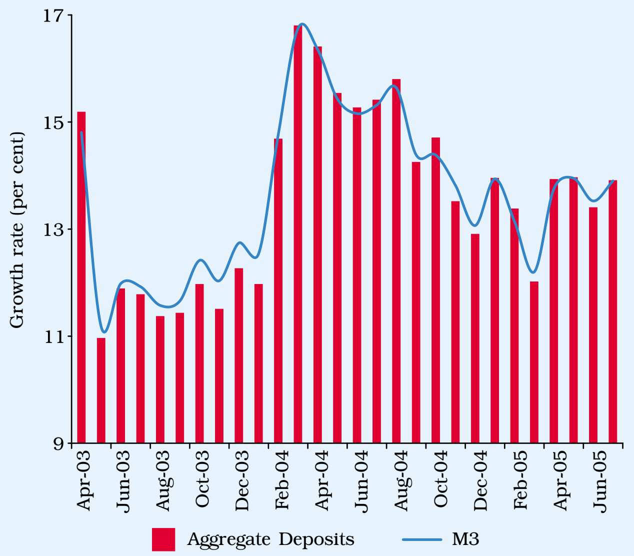


Table 1.18: Monetary Indicators

(Amount in Rupees crore)

Item	Outstanding as on March 31, 2005	Variation			
		2004-05		2003-04	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
I. Reserve Money	4,89,135	52,623	12.1	67,451	18.3
II. Broad Money (M_3)	22,50,369	2,44,693	12.2	2,87,716	16.7
a) Currency with the Public	3,55,768	40,797	13.0	43,390	16.0
b) Aggregate Deposits	18,88,123	2,02,538	12.0	2,42,450	16.8
i) Demand Deposits	2,84,017	25,391	9.8	59,869	30.1
ii) Time Deposits	16,04,106	1,77,147	12.4	1,82,581	14.7
of which: Non-Resident Foreign Currency Deposits	76,405	802	1.1	-16,902	-18.3
III. NM_3	22,06,919	2,46,733	12.6	3,18,644	19.4
of which: Call/Term Funding from Financial Institutions	34,348	9,678	39.2	12,032	95.2
IV. a) L_1	22,95,566	2,63,992	13.0	3,34,757	19.7
of which: Postal Deposits	88,647	17,259	24.2	16,113	29.2
b) L_2	22,97,217	2,59,398	12.7	3,34,705	19.7
of which: FI Deposits	1,651	-4,594	-73.6	-51	-0.8
c) L_3	23,17,057	2,59,517	12.6	3,34,522	19.4
of which: NBFC Deposits	19,840	118	0.6	-184	-0.9
V. Major Sources of Broad Money					
a) Net Bank Credit to the Government (i+ii)	7,45,713	2,809	0.4	66,381	9.8
i) Net Reserve Bank Credit to Government	-17,975	-62,882		-75,772	
of which: to the Centre	-23,258	-60,177		-76,065	
ii) Other Banks' Credit to Government	7,63,687	65,691	9.4	1,42,153	25.6
b) Bank Credit to Commercial Sector	12,47,858	2,31,707	22.8	1,17,170	13.0
of which: Scheduled Commercial Banks' Non-food Credit	10,26,626	2,21,802	27.6	1,25,088	18.4
c) Net Foreign Exchange Assets of the Banking Sector	6,49,255	1,22,669	23.3	1,32,872	33.7

FIs: Financial Institutions. NBFCs: Non-banking Financial Companies. L_1, L_2, L_3 : Liquidity aggregates.

Note : 1. Data are provisional.

2. Select aggregates are adjusted for the effect of conversion of a non-banking entity into a banking entity on October 11, 2004.

I.3.10 The moderation in monetary expansion *vis-à-vis* the preceding year was also reflected in the residency-based new monetary aggregate (NM_3), (which excludes the impact of foreign currency non-resident deposits) as well as in the liquidity aggregates (Appendix Tables I.18 and I.19). Banks' non-resident foreign currency deposits registered a modest increase during 2004-05 after the decline due to redemption of Resurgent India Bonds (RIBs) in 2003-04. Postal deposits maintained high growth. Deposit mobilisation by financial institutions (FIs), on the other hand, continued to dwindle, partially reflecting conversion of a financial institution into a bank. Public deposits with NBFCs stagnated, due to a reduction in the number of deposit taking NBFCs coupled with a shift towards relatively cheaper non-deposit sources of funds like secured debentures and other corporate borrowings (Table 1.18).

I.3.11 Currency demand moderated during the second half of 2004-05 reflecting a slowdown in agricultural activity and base effects of high currency growth during the second half of the previous year (Chart I.11).

Chart I.11: Currency Demand and Agricultural Activity

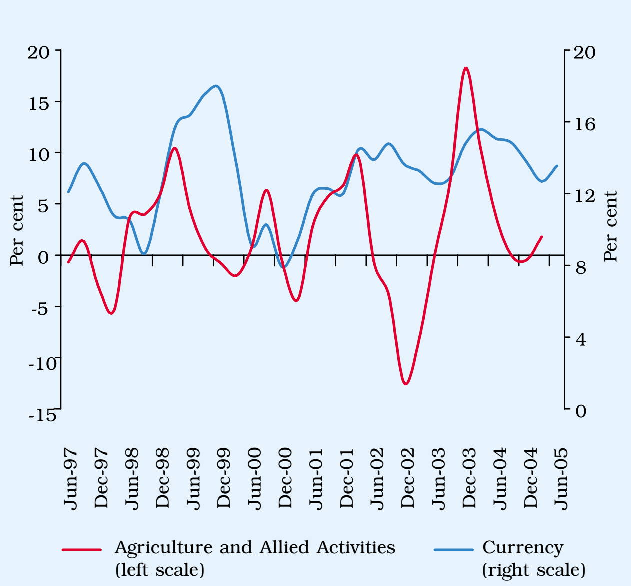
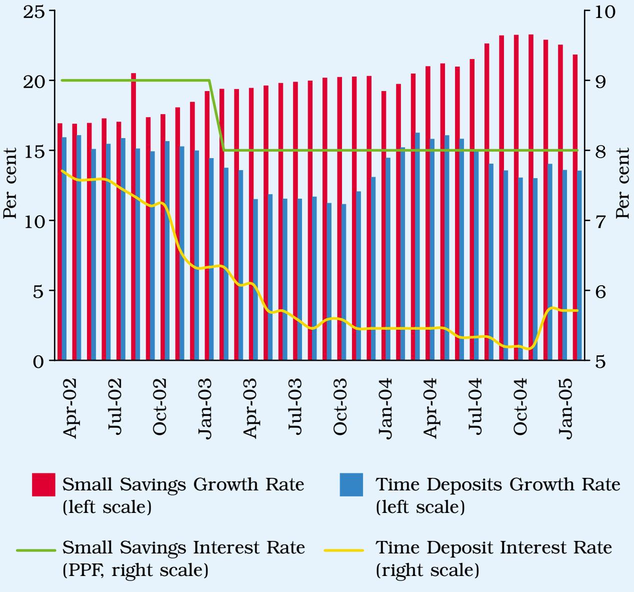


Chart I.12: Time Deposits and Small Savings



I.3.12 Banks' deposit growth decelerated, partly reflecting substitution in favour of postal deposits to take advantage of the dual benefit of tax incentives and the relatively attractive rate of return in comparison with banks' fixed deposits (Chart I.12).

I.3.13 The abundance of liquidity in the system and easier access to relatively low-cost international markets during the year provided commercial banks with the incentive to mobilise funds through the non-deposit route, both at home and abroad. Reflecting these alternative avenues, banks' term money borrowings from non-bank entities increased from Rs.24,670 crore at end-March 2004 to Rs.34,348 crore at end-March 2005. Similarly, borrowings from international markets by commercial banks rose from Rs.17,137 crore at end-March 2004 to Rs.25,666 crore at end-March 2005.

Sources of Money Supply

I.3.14 Domestic bank credit growth (including banks' non-SLR investments) accelerated to 12.9 per cent during 2004-05 from 10.8 per cent during the previous year. The share of the Government in total domestic credit fell sharply to 35.7 per cent by end-March 2005 from 40.2 per cent at end-March 2004.

I.3.15 Net bank credit to the Government increased by only 0.4 per cent during 2004-05 mainly due to a lower than budgeted borrowing programme of the Centre. The sustained decline in the Reserve Bank's net credit to the Government pushed the share of the banks in net bank credit to the Government to 102.4 per cent at end-March 2005 from 94.0 per cent at end-March 2004 and 37.1 per cent at end-March 1990. Commercial banks' appetite for Government paper was moderated by the upturn in the interest rate cycle. Growth in investments of scheduled commercial banks in Government paper, at 7.9 per cent during 2004-05, was the lowest since 1985-86. Notwithstanding this deceleration, commercial banks' holdings of Government securities, at 38.5 per cent of their net demand and time liabilities (NDTL) at end-March 2005, remained far in excess of the prescribed statutory minimum ratio of 25 per cent. Since the proceeds of the paper issued under the MSS to the banking system are parked with the Reserve Bank, the resultant increase in commercial banks' investments in Government paper is counterbalanced by a reduction in the Reserve Bank's net credit to the Government. Thus, the MSS is neutral to the size of the net bank credit to the Government, although there is a corresponding rebalancing of the shares of the Reserve Bank and commercial banks.

I.3.16 A noteworthy feature of monetary developments during the year was the acceleration in bank credit to the commercial sector. In contrast to the decline of the previous two years, food credit registered a turnaround due to higher procurement operations. The pick-up in commercial banks' non-food credit, which took root in July 2004, was sustained by the continued buoyancy in the industrial sector. Credit off-take from commercial banks, in fact, outpaced growth in deposits with the incremental credit-deposit ratio jumping up to 118.1 per cent during 2004-05 from 49.9 per cent during 2003-04 (Appendix Table I.20). Commercial banks' non-SLR investments also recorded an increase. Reflecting the improvement in equity prices, there were switches in the banks' non-SLR portfolio in favour of equities from PSU bonds (Table 1.19).

I.3.17 In addition to the surge in bank credit, industry also increased its recourse to non-bank sources of funds. Resources raised by way of external commercial borrowings (ECBs) increased, reflecting higher demand as well as attractive cost of external financing. The robust performance of the capital market encouraged corporates to mobilise funds through primary issues. Financial assistance extended by financial institutions, however, continued to dwindle. Improved corporate profitability led to higher retained earnings which emerged as another important source of funds for corporates during 2004-05 (Table 1.20).

Table 1.19: Commercial Banks' Non-SLR Investments

(Rupees crore)

Instrument	Outstanding as at end-March	
	2005	2004
1	2	3
1. Commercial Paper	3,891	3,770
2. Units of UTI and other Mutual Funds	12,623	11,808
3. Shares issued by	13,426	9,696
3.1 Public Sector Undertakings	1,613	1,272
3.2 Private Corporate Sector	10,288	7,395
3.3 Public Financial Institutions	1,525	1,029
4. Bonds/debentures issued by	1,13,695	1,12,370
4.1 Public Sector Undertakings	45,937	48,646
4.2 Private Corporate Sector	31,934	27,903
4.3 Public Financial Institutions	29,190	30,704
4.4 Others	6,633	5,118
Total (1+2+3+4)	**1,43,635**	**1,37,644**
Memo:		
Conventional Bank Credit	10,68,771	8,15,728

Note : Excluding Regional Rural Banks. Data include the impact of conversion of a non-banking entity into a banking entity since October 11, 2004.

I.3.18 Sectoral deployment of bank credit indicates that the priority sector continued to be the largest recipient of gross bank credit (Table 1.21). This was essentially on account of a substantially higher offtake by the 'other priority' segment, representing primarily small housing loans (loans up to Rs.15 lakh; Rs.10 lakh prior to September 2004). Large housing loans (above Rs.15 lakh) also maintained strong growth. Low interest rates and fiscal incentives have boosted the demand for housing loans (Appendix Table I.22).

I.3.19 Credit to medium and large industries registered a sharp expansion, led by an increase in credit to power, telecommunications, roads and ports, petroleum, gems and jewellery, drugs and pharmaceuticals, textiles, iron and steel and other metal and metal products. Infrastructure, as a sector, continued to lead the credit demand, accounting for 37 per cent of the industrial credit during the year. Credit to roads and ports and the telecommunication sector, in particular, recorded a sharp increase. Petroleum credit increased in contrast to the decline in 2003-04, reflecting the incomplete pass-through of the increase in international crude oil prices to prices of domestic finished petroleum products. The higher credit to the gems and jewellery sector was driven by strong export demand (Appendix Table I.23).

Table 1.20: Key Sources of Funds to Industry

(Rupees crore)

Item	2004-05	2003-04
1	2	3
A. Bank Credit to Industry	53,235	17,503
B. Flow from Non-banks to Corporates (1 to 5)	63,951	28,669
1. Capital Issues * (i+ii)	13,264	2,423
i) Non-Government Public Ltd. Companies (a+b)	10,580	2,323
a) Bonds/Debentures	0	0
b) Shares	10,580	2,323
ii) PSUs and Government Companies	2,684	100
2. ADR/GDR Issues +	2,960	3,098
3. External Commercial Borrowings (ECBs) $	38,887	18,113
4. Issue of CPs #	4,108	2,312
5. Financial assistance extended by FIs (net)	4,732	2,723
C. Retained Earnings@	28,589	15,870
D. Depreciation Provision@	21,094	19,327
Total Flow of Resources to Industry (A+B+C+D)	**1,66,869**	**81,369**

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

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

$: Including short-term credit and adjusted for redemption of RIBs in October 2003.

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

@ : Data on retained earnings and depreciation for the year 2004-05 are based on abridged results of 1273 non-financial non-Government companies. Retained earnings for 2004-05 have been taken as 60.4 per cent of net profit, the same ratio as during 2003-04.

Note : Data are provisional.

I.3.20 In brief, monetary and liquidity conditions remained easy even though there was a sharp pick-up in demand for bank credit during 2004-05. In order to finance this step-up in credit demand, banks significantly scaled down their incremental investments in Government securities during the year. Reserve money growth during 2004-05 was lower than 2003-04 and money supply growth remained within the indicative trajectory set out in the Annual Policy Statement in May 2004.

Developments during 2005-06

I.3.21 On a year-on-year basis, growth in broad money (M_3) decelerated to 14.5 per cent on August 5,

Table 1.21: Sectoral Deployment of Non-food Gross Bank Credit

(Amount in Rupees crore)

Sector	Outstanding as at end-March 2005	Variation			
		2004-05		2003-04	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
Non-food Gross Bank Credit	**9,31,466**	**2,03,044**	**27.9**	**1,08,367**	**17.5**
of which:					
1. Priority sector	3,45,627	81,793	31.0	52,225	24.7
2. Industry (Medium and Large)	2,90,186	42,976	17.4	12,042	5.1
3. Housing	75,173	23,192	44.6	15,394	42.1
4. Non-banking financial companies	18,610	1,808	10.8	2,675	18.9
5. Wholesale trade	33,814	8,947	36.0	2,289	10.1
6. Export Credit	65,914	8,227	14.3	8,485	17.2
Memo:					
Industry (Small, Medium and Large)	**3,66,300**	**53,235**	**17.0**	**17,503**	**5.9**
of which:					
1. Infrastructure	56,709	19,485	52.3	10,927	41.6
i) Power	26,973	7,318	37.2	4,613	30.7
ii) Roads and Ports	16,780	7,619	83.2	3,685	67.3
iii) Telecommunication	12,956	4,548	54.1	2,629	45.5
2. Iron and Steel	29,025	2,730	10.4	-1,770	-6.3
3. Other Metal Products	9,596	1,428	17.5	-388	-4.5
4. Cotton Textiles	20,011	2,845	16.6	1,404	8.9
5. Petroleum	14,618	2,352	19.2	-2,477	-16.8
6. Drugs and Pharmaceuticals	10,674	2,007	23.2	775	9.8

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

2005 from 15.5 per cent a year earlier. The lower order of M_3 growth reflected mainly slower growth in time deposits. Demand deposits, however, recorded strong growth, mirroring a sustained pick-up in banks' non-food credit. The slowdown in net bank credit to the Government helped in accommodating the surge in commercial credit.

SURVEY OF COMMERCIAL BANKING

I.3.22 Liquidity in the banking system remained comfortable throughout 2004-05 (Appendix Table I.21). The first quarter began with a large liquidity overhang in the system. This was augmented by strong time deposit mobilisation by commercial banks, even adjusted for the year-end bulge of March 2004. Banks' mobilisation of non-deposit funds in the form of call-term funding from FIs and overseas borrowings was also significant. The commencement of the Government's market borrowing programme and the introduction of the MSS got reflected in a beginning-of-the-year surge in commercial banks' investment in Government securities. Commercial credit growth was high in contrast to the seasonal slack at the beginning of the year. Food credit picked up, reflecting high *rabi* procurement (Table 1.22).

I.3.23 During the second quarter, time deposits went through a seasonal downturn. Bank credit started picking up despite repayments of food credit, reflecting the strong growth in commercial credit. This was funded in part by a reduction in banks' gilt portfolio.

I.3.24 Deposits continued to grow in the third quarter, although much lower than in the comparable quarter of the previous year. Credit to the commercial sector remained robust. The increase in food credit reflected higher procurement during the *kharif* season. Banks' investments in non-SLR securities expanded, reflecting a surge in their equity investments following the rally in the stock market. Commercial banks' net foreign currency assets recorded a decline due to higher overseas foreign currency borrowings. Banks' investments in Government securities declined in an environment of continued growth in non-food credit, occasional tightness in market liquidity owing to a hike in the CRR, a temporary slack in capital inflows, advance tax payments and festival season currency demand.

I.3.25 Both demand and time deposits recorded a seasonal spurt during the fourth quarter. Strong FII inflows added liquidity to the banking system. The spurt in conventional non-food credit was supplemented by large investments in non-SLR securities. The Reserve Bank's sterilisation operations were reflected in an increase in commercial banks' holding of Government securities.

Table 1.22: Operations of Scheduled Commercial Banks

(Rupees crore)

Item	Outstanding as on March 18, 2005	Variation							
		2004-05				2003-04			
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
1	2	3	4	5	6	7	8	9	10
Components									
1. Aggregate Deposits of Residents (a+b)	16,23,793	78,251	38,447	21,232	57,050	82,201	60,326	32,455	65,483
a. Demand Deposits	2,48,028	17,604	15,280	2,277	-12,155	30,822	18,496	-5,950	11,366
b. Time Deposits of Residents	13,75,766	60,647	23,167	18,955	69,206	51,380	41,830	38,405	54,117
2. Call/Term Funding from Financial Institutions	69,523	3,451	35,464	530	5,409	2,431	4,822	2,253	2,526
Sources									
1. Credit to the Government	7,18,982	39,632	-5,918	-9,546	40,056	32,133	18,342	45,333	35,534
2. Credit to the Commercial Sector (a to e)	12,68,425	79,929	1,08,835	40,538	32,884	58,139	42,823	5,083	9,610
a. Food Credit	41,120	-2,659	5,590	-4,872	7,100	-391	-1,112	-12,601	587
b. Non-food Credit	10,59,308	75,210	1,01,812	46,477	30,985	57,819	48,992	15,186	3,091
c. Net Credit to Primary Dealers	1,447	125	-923	977	-678	-2,276	-4,649	-779	4,485
d. Investments in Other Approved Securities	20,172	-680	-1,232	-561	-184	-928	50	-407	-13
e. Other Investments (in non-SLR Securities)	1,46,377	7,933	3,587	-1,482	-4,339	3,915	-458	3,685	1,460
3. Net Foreign Currency Assets of Commercial Banks (a-b-c)	-75,980	-8,652	-3,172	904	-6,706	541	5,515	2,745	1,564
a. Foreign Currency Assets	26,091	-8,051	2,441	56	-2,741	4,250	-5,311	4,108	199
b. Non-resident Foreign Currency Repatriable Fixed Deposits	76,405	692	-654	-189	953	319	-14,087	-1,273	-1,861
c. Overseas Foreign Currency Borrowings	25,666	-90	6,267	-658	3,012	3,391	3,261	2,636	496
4. Net Bank Reserves	96,527	-1,267	14,151	-3,644	10,392	-1,199	6,394	-14,272	20,149
5. Capital Account	1,33,688	3,423	9,435	1,393	14,884	7,280	-4,023	-2,088	15,555
6. Other items (net)	1,80,949	24,517	30,550	5,098	-717	-2,299	11,951	6,269	-16,708
Memo:									
1. Foreign Currency Loans to Residents	46,543	-486	3,028	-1,796	2,089	2,812	6,255	-2,168	807
2. Release of Resources through Change in CRR	–	0	-9,000	0	0	0	0	0	3,500
3. Net Open Market Sales to Commercial Banks	–	0	0	0	0	445	9,334	8,250	4,266*

*** :** Variation over March 31.

Note : 1. Data relate to last reporting Friday of each quarter.

2. Data include the impact of mergers since May 3, 2002 in the banking system and conversion of a non-banking entity into a banking entity since October 11, 2004.

PRICE SITUATION

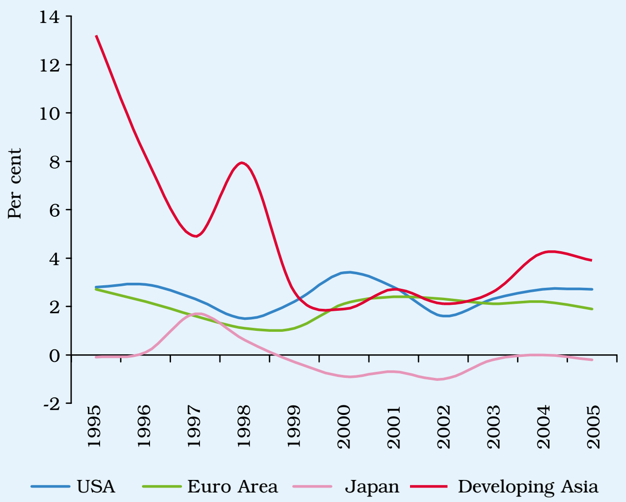
I.3.26 Inflation firmed up worldwide during 2004 as higher input demand emanating from global growth and the sustained expansion of the Chinese economy pushed up oil and non-oil commodity prices. Hardening international commodity prices as well as domestic food prices responding to a deficient monsoon fuelled a spurt in inflation in India during the second quarter of 2004-05. Inflation began to ease from September 2004 under the impact of a mix of fiscal measures to moderate the pass-through of imported inflation, monetary policy measures to stabilise inflation expectations, the waning of the impact of the South-West monsoon on agricultural commodity prices and the base effect of the sharp increase in prices in the last quarter of the preceding year.

Global Inflation Environment

I.3.27 According to the International Monetary Fund's *World Economic Outlook*, consumer price inflation in 2004 firmed up to 2.0 per cent in advanced economies after remaining below 2.0 per cent for two years in succession. Although inflation softened marginally in emerging market and developing countries to 5.7 per cent in 2004 from 6.0 per cent in the previous two years, developing Asia saw higher inflation at 4.2 per cent in 2004 (2.6 per cent in 2003), driven up by stronger economic activity and higher oil prices (Chart I.13).

I.3.28 Producer prices led consumer prices throughout the year. The increase in commodity prices was initially absorbed by firms in their profit margins, creating a wedge between producer and consumer prices in most economies. The persistence of increases in commodity prices and improvement in consumer demand generated some upward pressure on consumer prices. The possibility of easy monetary conditions fuelling asset prices and accommodating inflationary expectations led a number of central banks, including the US Federal Reserve,

Chart I.13: Consumer Price Inflation - Global Trends



Note: Data for 2005 are IMF projections.
Source: World Economic Outlook, IMF, April 2005.

to reverse their accommodative monetary policy stance through measured increases in policy rates (Table 1.23).

I.3.29 In the US, headline consumer price inflation accelerated during 2004, driven up by higher oil prices, a weakening of the US dollar and higher producer prices. In the Euro area, inflation, measured by the Harmonised Index of Consumer Prices (HICP), remained above the European Central Bank's (ECB) target of about 2.0 per cent in the latter half of 2004, due to higher oil prices. In the UK, CPI inflation decreased marginally from 1.4 per cent in 2003 to 1.3 per cent in 2004 but picked up in the first half of 2005. Producer price inflation hardened in Japan fuelled by higher growth in the first half of the year and higher oil prices, pushing consumer price inflation into neutral and even positive territory in the last quarter of 2004. The continued expansion of the Chinese economy and the surge in oil costs drove producer prices in China to 5.2 per cent in June 2005. Consumer price inflation, however, decelerated to 1.6 per cent in June 2005 from 5.0 per cent a year ago due to a decline in foodgrains prices, limited pass-through of high oil prices as well as a moderation in monetary and credit expansion.

Global Commodity Prices

I.3.30 The international inflation scenario in 2004-05 was essentially dominated by the developments in the commodity markets, especially metals and crude oil (Chart I.14). Although the upsurge in the last quarter of 2003 continued up to the first half of 2004, non-oil commodity prices stabilised over the rest of 2004 at elevated levels. Due to the depreciation of the US dollar against major currencies, the increase in commodity prices in the international markets in US dollar terms was higher than in terms of the Euro or the Japanese Yen.

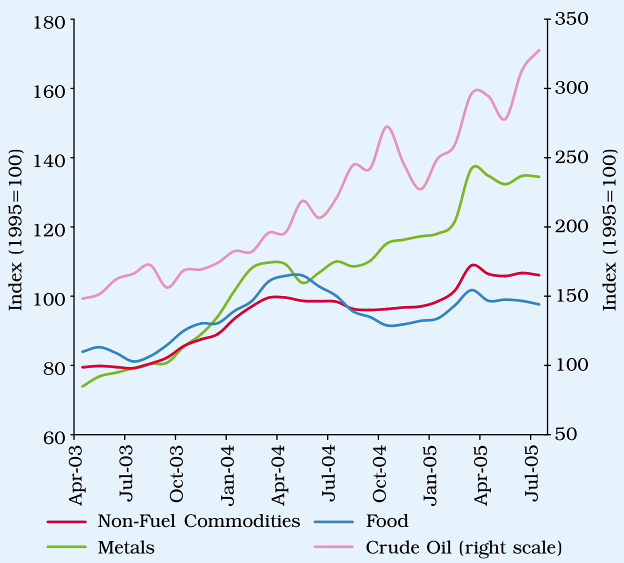
Table 1.23: Global Inflation Indicators

(Per cent)

Country/ Region	Key Policy Rate/ Bank Reserves Target	Policy Rates		2005		2004	
		Latest@	Change since January 2004 (basis points)	Inflation (July)	GDP Growth (Y-o-Y) (Q_2)	Inflation	GDP Growth (Y-o-Y)
1	2	3	4	5	6	7	8
US	Federal Funds Rate	3.50	250	3.2	3.6	2.7	4.4
UK	Repo Rate	4.50 $	75	2.3	1.7	1.3	3.1
Euro Area	Interest Rate on Main Refinancing Operations	2.00	Unchanged	2.2	1.2	2.2	2.0
Japan	Target Balance of Current Accounts of banks with the Bank of Japan	30-35 trillion yen	Raised by 3 trillion yen	- 0.5 #	1.4	0.0	2.6
Australia	Cash Rate	5.50	25	2.5 (Q_2)	1.9 *	2.3	3.2
New Zealand	Official Cash Rate	6.75	175	2.8 (Q_2)	1.9 *	2.3	5.0
Korea	Overnight Call Rate	3.25	(-) 50	2.5	3.3	3.6	4.6
Thailand	14-day Repurchase Rate	2.75	150	5.3	3.3 *	2.7	6.1

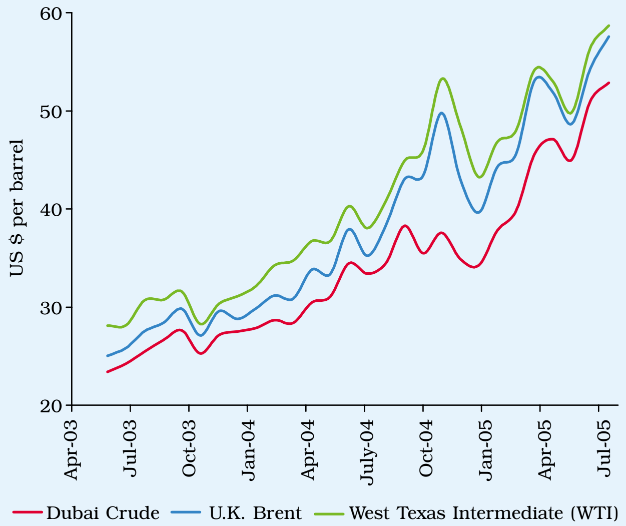
* : Q_1. @ : As on August 19, 2005. # : June 2005.
$: Repo rate was cut by 25 basis points to 4.50 per cent on August 4, 2005.
Source : IMF and websites of respective Central Banks.

Chart I.14: International Commodity Prices



Source: International Monetary Fund.

Chart I.15: International Crude Oil Prices



Source: International Monetary Fund.

I.3.31 Prices of agricultural commodities, as a group, hardened in the first half of 2004, as bad weather damaged crop prospects in a number of countries. Rice prices remained firm amidst supply concerns, especially as the crop in the major South Asian producers was reported to be affected by bad weather. During the course of the year, prices of key commodities such as wheat and oilseeds began to soften because of a bumper crop in the 2004-05 season. Despite strong demand, prices of oilseeds and oilseed-based products declined substantially in the latter half of 2004-05, as oilseeds production increased by 12 per cent during the year on the back of a bumper soya crop in Argentina, Brazil, China and the US. In sharp contrast to the previous year, global cotton prices softened through 2004 with production catching up with rising demand. World sugar prices, however, rose by about 28 per cent, on an average, during 2004-05 due to higher demand from developing countries, exacerbated by a decline in Chinese production for the second consecutive year.

I.3.32 Fuel prices rose sharply in 2004-05 amidst nervous sentiments in world markets about strong demand associated with a pick-up in economic activity, oil supply bottlenecks, low inventories and tight spare capacity (Chart I.15). Average international crude oil prices increased by 41.8 per cent from US $ 29.1 a barrel in 2003-04 to US $ 41.3 a barrel in 2004-05. In spite of periodic increases in supply by the Organisation of the Petroleum Exporting Countries (OPEC), a combination of adverse events such as the effects of Hurricane Ivan on production sites along the Gulf of Mexico, financial difficulties of the major Russian producer, Yukos and a drop in US oil inventories on the eve of the winter season drove US crude oil prices to a high of US $ 55 per barrel in late October 2004. After a brief respite in November, crude prices resumed hardening and climbed above US $ 57 a barrel in early April, 2005 as the market discounted a further 0.5 million barrels a day increase in the OPEC output ceiling in March 2005 on the perception that most members were already producing at close to full capacity. Crude oil prices rose further to cross US $ 62 per barrel in early July 2005 notwithstanding the OPEC's decision to further increase its production quota by 0.5 million barrels a day in its June 15, 2005 meeting as fears about hurricane-related supply disruptions in the Gulf of Mexico heightened. Notwithstanding forecasts of some deceleration in global oil demand in the rest of 2005, international oil prices continued to remain high and volatile, crossing US $ 67 a barrel on August 12, 2005 on concerns over stability of supplies from the Middle East and reports of slowdown in non-OPEC output.

I.3.33 Coal prices hardened in the first half of 2004-05 driven up by strong Chinese demand. Prices of metals, such as aluminium, copper, nickel, tin, steel and zinc hit multi-year peaks on the back of strong Chinese demand. The IMF's metal price index rose by 30 per cent, on an average, in 2004-05. The World Bank's composite index of steel products recorded an increase of 52 per cent during 2004-05.

I.3.34 In brief, the sharp rise in commodity prices in 2004-05 led to an increase in producers' prices in most countries. However, there was not a commensurate increase in consumer price inflation as, due to competitive pressures, firms partly absorbed higher commodity costs into their profit margins. The resolve of monetary authorities to rein in inflationary expectations through measured policy responses also helped moderate the increase in consumer price inflation.

INFLATION CONDITIONS IN INDIA

Wholesale Price Inflation

I.3.35 Headline inflation, measured by year-on-year (y-o-y) changes in the wholesale price index (WPI), moved in two distinct phases during 2004-05 (Table 1.24). The first phase covering April-August, 2004 witnessed a hardening of domestic prices of coal, petroleum products, iron ore and metals, reflecting essentially lagged adjustments to international prices. Petroleum product prices were revised upward twice in the first phase, effective June 16 and August 1, 2004. Besides, coal prices were also raised by 16.3 per cent in June 2004. The situation was exacerbated by the inadequate and uneven South-West monsoon which began to push up prices of food and non-food agricultural commodities by July 2004. Although rice prices hardened marginally, *jowar* price rise accelerated to double digits by August on expectations of a sharp decline in output of coarse cereals. Potato prices also rose sharply in the first half of the year as the unseasonal rainfall affected the crop on top of a lean season in 2003-04. As a result, headline inflation climbed to a peak of 8.7 per cent by end-August 2004, more than half of which was due to iron ore, metals, mineral oil and coal. It is against this backdrop that the Mid-term Review of the Annual Policy Statement placed the inflation rate for 2004-05, on a point-to-point basis, at around 6.5 per cent as against 5.0 per cent projected at the beginning of the year.

I.3.36 Inflation receded in the second phase beginning September 2004 as the adverse impact of the South-West monsoon turned out to be far more limited than perceived initially. This was led by a sharp decline in the prices of vegetables following the revival of the monsoon in August 2004. With the receding of drought fears, prices of oilseeds, edible oils, raw cotton and cotton textiles began declining in line with international trends.

Table 1.24: Variation in Wholesale Price Index during 2004-05

(Per cent)

Item	Phase I (end-August 2004 over end-March 2004)	Phase II (end-March 2005 over end-August 2004)	Financial Year (end-March 2005 over end-March 2004)
1	2	3	4
All Commodities	**4.9**	**0.2**	**5.1**
A. Primary Articles	**6.8**	**-5.2**	**1.3**
1. Vegetables	77.1	-36.8	11.9
2. Eggs, Fish and Meat	10.1	-2.5	7.3
3. Raw Cotton	0.8	-24.4	-23.8
4. Oilseeds	7.7	-13.2	-6.5
5. Iron Ore	190.0	-24.4	119.1
B. Fuel Group	**7.0**	**3.2**	**10.5**
1. Coal Mining	17.1	0.0	17.1
2. Mineral Oil	10.3	5.2	16.0
C. Manufactured Products	**3.5**	**1.1**	**4.6**
1. Sugar	10.3	8.5	19.7
2. Edible Oils	0.1	-8.5	-8.4
3. Oil Cakes	-8.5	-9.7	-17.4
4. Tea and Coffee Processing	9.1	-5.7	2.9
5. Cotton Textiles	-3.0	-10.0	-12.7
6. Man-made Textiles	2.4	-1.5	0.8
7. Iron and Steel	17.4	3.3	21.3
8. Electrical Machinery	4.8	-0.7	4.1
Memo Items:			
i. Total Food Items	4.4	-2.4	1.9
ii. Total Non-food Items	5.1	1.1	6.3

Petrol prices, raised earlier on November 5, 2004, were moderated somewhat effective November 15, 2004. Sugar prices hardened during the year, reflecting reduced domestic supply which also affected international prices.

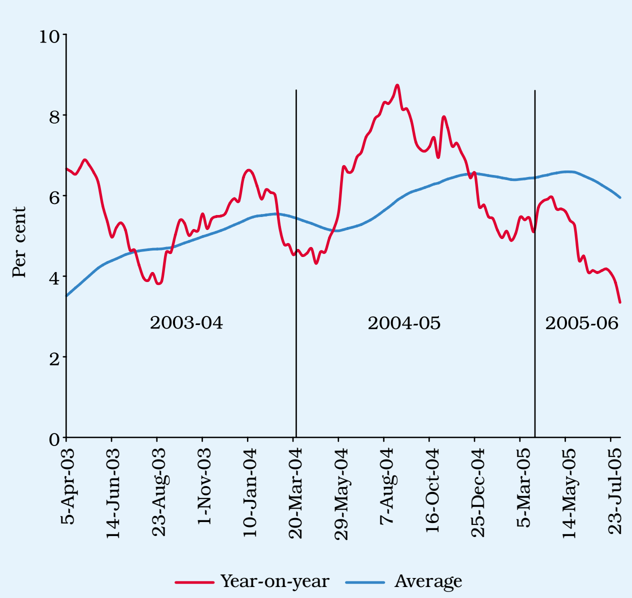
I.3.37 The impact of fiscal measures in the form of cuts in excise and customs duties in June and August 2004 cushioned the pass-through of the increase in international commodity prices to domestic inflation. The appreciation of the rupee against the US dollar during August-December 2004 (6.6 per cent) also offset some of the pressures of high international commodity prices on domestic inflation. Moreover, the administered nature of domestic urea prices limited the pass-through from high international prices. Administered prices of urea in India were not changed at all during 2004-05, despite an increase of 35 per cent in world urea prices. Finally, monetary policy measures by the Reserve Bank including an increase of 50 basis points in the CRR in September-October 2004, a 25 basis point increase in the reverse repo rate in October 2004 and re-introduction of overnight reverse repo in November 2004, along with the raising of ceiling of the MSS by Rs.20,000 crore signalled the resolve of the monetary authority to rein in inflationary expectations.

I.3.38 Headline inflation, year-on-year, eased to 5.1 per cent by the end of 2004-05 remaining close to the projection in the Annual Policy Statement for 2004-05. Annual average inflation, measured by annual changes in the average WPI, accelerated to 6.4 per cent in 2004-05 from 5.4 per cent a year ago (Chart I.16). Reflecting the supply side nature of inflation, year-on-year WPI inflation, excluding the fuel group worked out to 3.7 per cent in 2004-05 (5.2 per cent last year), well below the headline rate of 5.1 per cent.

Components of Inflation

I.3.39 Supply-side pressures dominated the inflation outcome in 2004-05. Mineral oil, coal, iron ore, iron and steel, sugar, and fruits and vegetables - the key movers of headline inflation in 2004-05 with a combined weight of less than 20 per cent in the overall WPI index - accounted for more than three-fourth of the headline inflation in 2004-05. The contribution of various commodity groups to overall inflation underwent significant changes during 2004-05. The contribution of primary articles prices moderated to 5.5 per cent in 2004-05 from 8.5 per cent a year ago. The fuel group

Chart I.16: Annual Wholesale Price Inflation



accounted for as much as 42.7 per cent of the overall inflation during the year, up from 11.6 per cent in the previous year. The share of the manufactured products group declined to 52.0 per cent from 80.5 per cent in 2003-04 as the increase in sugar prices was more than offset by the decline in the prices of cotton, edible oils and oil cakes (Table 1.25 and Appendix Tables I.25 and I.26).

I.3.40 Raw cotton prices began to harden in July 2004, reflecting worries about the South-West monsoon. With the receding of supply concerns, cotton prices began to decline from September 2004 in line with international price movements. Domestic oilseeds prices hardened in the first half of 2004-05 on concerns about a crop failure resulting from the inadequate rainfall and uncertainties over the possibilities of *El Nino* damaging Malaysian palm oil production. In order to contain rising prices, the Government reduced tariffs on vegetable oils in September 2004. Oilseeds and edible oils prices began to soften from end-September 2004 in line with international prices.

I.3.41 Sugar prices in India hardened in the latter half of 2004-05, reflecting the shortfall in output due to the deficient monsoon and higher international prices. International sugar prices were affected by the domestic situation as India is the world's largest consumer as well as producer of sugar. Although the Government released higher free sale quota of sugar during the latter half of the year, prices of sugar continued to increase.

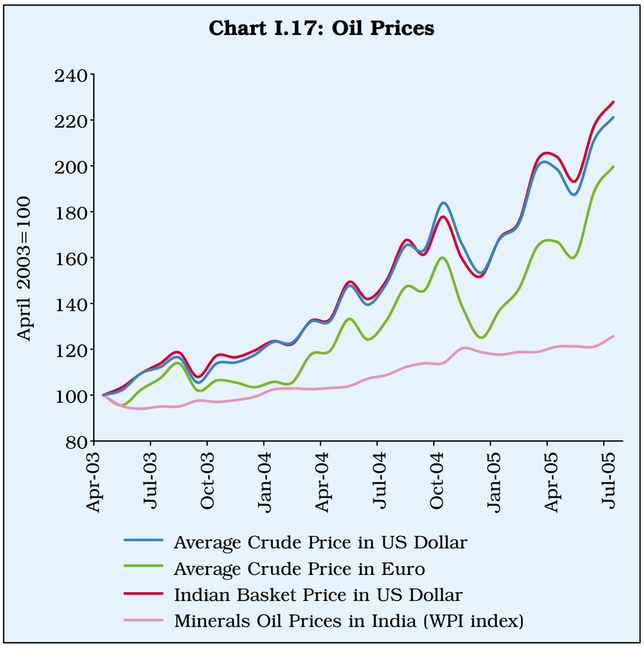
I.3.42 Fuel prices in India hardened during 2004-05, reflecting imported price pressures. The pass-through of the increase in international prices in 2004-05 to domestic prices was cushioned by the absorption of a part of the burden of the oil price increase by the Government and oil companies. On June 15, 2004 excise duties on petrol, high-speed diesel and liquefied petroleum gas (LPG) were reduced by 4 percentage points, 3 percentage points and 8 percentage points, respectively. On August 18, 2004, excise duties were further cut for petrol and diesel (3 percentage points each) and kerosene (4 percentage points). This was buttressed by a reduction of customs duties on petrol, diesel, LPG and kerosene by 5 percentage points each. Domestic mineral oils prices rose by only 16.0 per cent during 2004-05 as compared with an increase of 41.8 per cent in international crude oil prices (Chart I.17 and Box I.8).

Table 1.25: Annual WPI Inflation by Component
(Base: 1993-94=100)

(Per cent)

Major group / Item	Weight	Annual Inflation Rate (Year-on-year)			Weighted Contribution to Annual Inflation		
		2004-05	2003-04	2002-03	2004-05	2003-04	2002-03
1	2	3	4	5	6	7	8
All Commodities	**100.0**	**5.1**	**4.6**	**6.5**	**100.0**	**100.0**	**100.0**
1. Primary Articles	**22.0**	**1.3**	**1.6**	**6.1**	**5.5**	**8.0**	**21.6**
Food Articles	15.4	3.0	0.2	0.8	8.9	0.6	2.2
i. Cereals	4.4	2.9	-0.3	4.0	2.4	-0.3	2.9
ii. Pulses	0.6	-2.6	-2.6	0.3	-0.3	-0.3	0.0
iii. Vegetables	1.5	11.9	2.8	-15.7	2.3	0.6	-3.0
iv. Fruits	1.5	11.5	-8.6	7.6	4.1	-3.9	2.4
v. Milk	4.4	-1.7	8.4	0.6	-1.5	7.9	0.5
vi. Eggs, Fish and Meat	2.2	7.3	-6.5	-4.0	3.1	-3.4	-1.7
Non-Food Articles	6.1	-6.9	4.1	22.1	-8.8	5.8	19.3
i. Raw Cotton	1.4	-23.8	12.3	34.3	-6.5	3.4	5.4
ii. Oilseeds	2.7	-6.5	-1.2	30.0	-3.4	-0.7	10.6
iii. Sugarcane	1.3	-0.7	6.5	11.5	-0.2	2.3	2.8
2. Fuel, Power, Light and Lubricants	**14.2**	**10.5**	**2.5**	**10.8**	**42.7**	**11.6**	**33.9**
i. Mineral Oil	7.0	16.0	0.0	18.4	34.9	-0.1	29.7
ii. Electricity	5.5	0.8	4.9	3.4	1.2	8.1	4.2
iii. Coal Mining	1.8	17.1	9.2	0.0	6.4	3.7	0.0
3. Manufactured Products	**63.8**	**4.6**	**6.7**	**5.1**	**52.0**	**80.5**	**44.3**
i. Food Products	11.5	0.4	9.7	8.7	0.9	22.2	14.0
of which: Sugar	3.6	19.7	16.9	-15.0	10.3	8.7	-7.0
Edible Oils	2.8	-8.4	6.6	27.4	-4.0	3.4	8.5
Oil Cakes	1.4	-17.4	5.0	40.3	-6.4	2.0	8.8
ii. Cotton Textiles	4.2	-12.7	15.6	8.3	-10.4	12.8	4.8
iii. Man-made Fibre	4.4	0.6	-0.4	17.4	0.3	-0.2	5.8
iv. Chemicals and Chemical Products	11.9	3.9	0.1	4.2	9.1	0.3	8.2
of which: Fertilisers	3.7	3.3	-0.1	2.1	2.2	-0.1	1.2
v. Basic Metals, Alloys and Metal Products	8.3	17.1	22.1	6.6	28.4	34.4	7.3
of which: Iron and Steel	3.6	21.3	34.6	9.2	17.0	23.6	4.4
vi. Non-Metallic Mineral Products	2.5	11.4	3.0	3.3	4.7	1.4	1.1
of which: Cement	1.7	10.2	1.3	1.1	2.9	0.4	0.3
vii. Machinery and Machine Tools	8.4	7.1	3.1	0.5	8.6	4.3	0.5
viii. Transport Equipment and Parts	4.3	6.2	1.4	-0.9	4.3	1.1	-0.6
Food Items (Composite)	**26.9**	**1.9**	**4.0**	**3.9**	**9.8**	**22.8**	**16.2**
WPI excluding Food	**73.1**	**6.3**	**4.9**	**7.5**	**90.2**	**77.2**	**83.8**
WPI excluding Fuel	**85.8**	**3.7**	**5.2**	**5.4**	**57.3**	**88.4**	**66.1**
Memo Items:							
GDP Deflator		5.1	3.0	4.2			
Average WPI Inflation		6.4	5.4	3.4			
Average CPI Inflation:							
Industrial Workers		3.8	3.9	4.0			
Urban Non-Manual Employees		3.6	3.7	3.8			
Agricultural Labourers		2.6	3.9	3.2			
Rural Labourers		2.6	3.8	3.1			

I.3.43 Iron ore prices increased sharply by 119.1 per cent on a year-on-year basis in 2004-05 on top of an increase of 53.0 per cent last year. Domestic iron and steel prices also increased by 21.3 per cent on top of an increase of 34.6 per cent in 2003-04, contributing 17.0 per cent of the overall inflation. This was due to



the steep increase in international steel prices together with higher domestic demand and rising input costs, especially on account of scrap and coal. The impact of the increase in international steel prices on domestic prices was partly contained by cuts in customs and excise duties on inputs as well as on finished products.

I.3.44 To summarise, the increase in headline WPI inflation in India during the first half of the year reflected largely supply side shocks emanating from high international commodity prices, especially of crude oil and metals. Although demand-side pressures were relatively subdued, the liquidity overhang fuelled concerns about emergence of inflationary expectations. Monetary and fiscal measures were, therefore, initiated to check the cascading effect of these supply shocks and especially, to stabilise inflation expectations. These measures were successful and, consequently, headline inflation moderated to 5.1 per cent by end-March 2005, consistent with the projection given in the Annual Policy Statement in May 2004.

Consumer Price Inflation

I.3.45 Consumer price inflation, as measured by variation in the consumer price index for industrial workers (CPI-IW), increased from 3.5 per cent in March 2004 to 4.2 per cent in March 2005. The inflation rate had, however, accelerated to 4.8 per cent in September 2004 reflecting the increase in food prices (which have a weight of 57 per cent) emanating from the deficient and uneven progress of the South-West monsoon during July-August 2004 (Chart I.18). Food prices contributed as much

Box I.8
Impact of Oil Prices on Inflation

Rising oil prices fuelled inflationary expectations in 2004 across countries with implications for global growth and inflation. The impact of a hike in world oil prices, however, varies from country to country depending on the energy intensity of production, import intensity of consumption and impact on terms of trade. A change in the prices of petroleum products impacts inflation directly to the extent of its weighted contribution in the overall price index. As petroleum products are used as inputs in the production of several other commodities, prices of all those commodities also change which, in turn, impacts inflation indirectly. According to the IMF (2004), a permanent increase of US $ 5 per barrel in crude oil prices is estimated to increase inflation by 60-70 basis points in major developing regions - more than three times the increase in industrial economies.

India is the sixth largest consumer of petroleum products in the world, up from 14th position in 1993. India's share in global oil consumption has risen to 3.2 per cent in 2004 from 2.2 per cent in 1993 and 1.2 per cent in 1981. Indian oil demand grew by 4.7 per cent in 2004 (1.3 per cent in 2003), higher than the growth of 3.4 per cent in world oil demand. India's import basket of crude oil comprises 43 per cent of 'sweet' crude and 57 per cent of the 'sour' variety and is weighted in favour of the Dubai crude relative to the UK Brent or the US West Texas Intermediate (WTI). Average crude oil prices facing India escalated by 40.0 per cent from US $ 27.8 per barrel in 2003-04 to US $ 38.9 per barrel in 2004-05. The Indian basket price increased further during April-July 2005 and stood at US $ 50.8 a barrel or about 47 per cent higher over the corresponding period of the previous year. In the absence of any countervailing policy intervention, every US dollar increase in crude oil prices could potentially add 15 basis points to WPI inflation as a direct effect and another 15 basis points as an indirect effect.

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Chart I.18: Commodity-wise CPI Inflation (Industrial Workers)

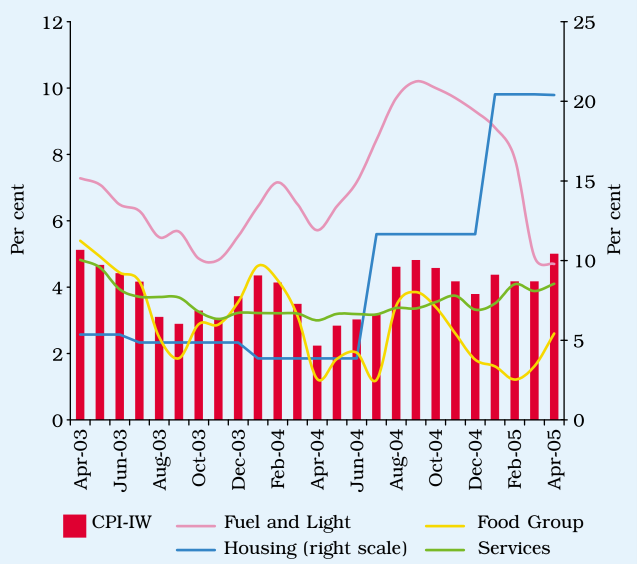
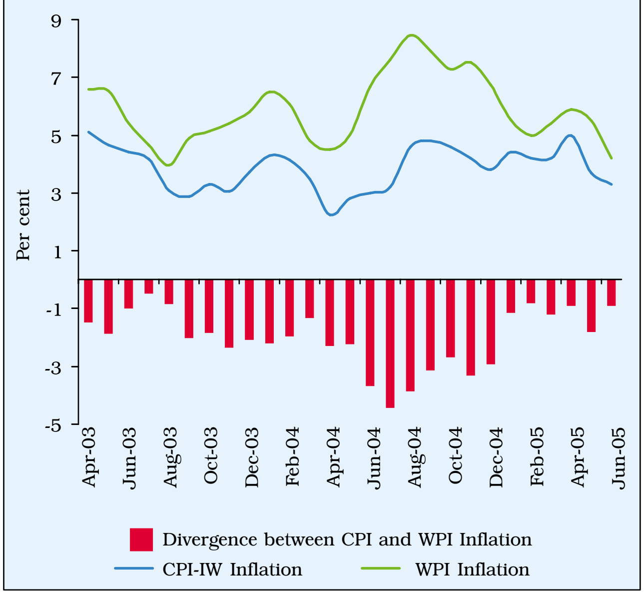


Chart I.19: CPI and WPI Inflation



as 45 per cent of the overall inflation (y-o-y) in September 2004. After easing somewhat, CPI-IW inflation firmed up again to 4.4 per cent in January 2005 mainly due to an increase in the prices of housing. Food price inflation moderated to 1.6 per cent in March 2005 from 4.2 per cent a year ago. While domestic housing prices in the CPI-IW increased sharply by 20.4 per cent in 2004-05 as compared with 3.9 per cent a year ago, services prices (proxied by the broad miscellaneous group) increased moderately by 4.1 per cent (3.2 per cent in the previous year). On an average basis, CPI inflation at 3.8 per cent in 2004-05 was marginally lower than that of 3.9 per cent a year ago.

I.3.46 A distinctive feature of the recent inflation experience is that consumer price inflation has been lower than wholesale price inflation (Chart I.19). This essentially reflected the lower weightage of key drivers of wholesale price inflation such as fuels and metals in the CPI basket.

I.3.47 The year-on-year CPI inflation for Urban Non-Manual Employees (UNME) increased to 4.0 per cent in 2004-05 from 3.4 per cent a year ago. CPI inflation for Agricultural Labourers (AL) increased from 1.5 per cent in the beginning of the financial year to 3.6 per cent by October 2004, but gradually declined thereafter to 2.4 per cent by March 2005, comparable to the previous year's level of 2.5 per cent. CPI inflation for Rural Labourers (RL) also increased from 1.8 per cent in the beginning of the year to 3.6 per cent by October 2004 and declined thereafter to 2.4 per cent in March 2005. Consumer price inflation, measured by CPI-IW and CPI-UNME, was thus higher than that measured by CPI-AL and CPI-RL. This essentially reflected the fact that housing prices, which recorded a steep increase in 2004-05, have a significant weightage in the CPI-IW and CPI-UNME but are excluded in CPI-AL and CPI-RL. It is in this context that there is a need for constructing an economy-wide harmonised index of consumer prices (Box I.9).

I.3.48 To conclude, consumer price inflation remained moderate *vis-à-vis* WPI inflation during 2004-05. This essentially reflected the supply side character of WPI inflation as well as absence of demand side pressures in the economy.

Asset Prices and Inflation

I.3.49 Asset prices in India generally hardened during 2004-05, reflecting the overall improvement in macroeconomic conditions. Equity markets, in particular, remained bullish. Gold prices also remained at elevated levels, indicative of higher demand. Gilt yields showed signs of firming up during the first half of 2004-05 in the wake of hardening of domestic inflation in an environment of a sustained pick-up in credit demand, hardening of international interest rates and the persistence of pressures in international crude oil markets. The yields stabilised by December 2004 with the easing of domestic inflation. The exchange rate, on an average, appreciated against the US dollar, reflecting continued strength of capital inflows (Chart I.20).

Box I.9
Harmonised Index of Consumer Prices (HICP)

Various price indices are currently available to measure prices paid by a consumer or a producer. Most countries, therefore, compute indices of consumer prices to capture the cost of living and producer prices to capture the cost of production. In India, there are two sets of indices, *viz.*, wholesale price index (WPI) and consumer price indices (CPIs), the latter based on occupational classification and category of residence (rural or urban). The four broad measures of CPIs available at the national level to capture prices of a defined basket of goods and services consumed by a particular segment of the population are: CPI for Agricultural Labourers (CPI-AL) (defined as households which derive half their income through agricultural labour); CPI for Rural Labourers (CPI-RL) (households which derive half their income through rural labour); CPI for Industrial Workers (CPI-IW) (working class families, essentially in urban areas) and CPI for Urban Non-Manual Employees (CPI-UNME) (urban middle class families).

There are two key sources of difference in the four CPIs. The weight of cereals is about 10 per cent in the CPI basket for urban non-manual employees and about 20 per cent for industrial workers, while it is around 40 per cent for the agricultural/rural labourers. Housing is not considered in the CPI for agricultural/rural labourers, while it has a weight of as high as 16.4 per cent in the CPI for urban non-manual employees and 8.7 per cent in the CPI for industrial workers.

Although various measures of CPI do move together in the long run, significant variations have been observed in the short-run (Chart). This renders the interpretation of inflationary pressures difficult which, in turn, complicates the process of monetary policy formulation. The analytical value of information provided by different CPIs, however, can be enhanced by combining them into a Harmonised Index of Consumer Prices (HICP) which assesses consumer price inflation on an economy-wide scale.

In this context, the HICP in the Euro area provides an interesting experience. The HICP was developed as a statistical indicator for common measurement and international comparison of inflation within the European Union (EU) as part of the convergence criteria for the European Monetary Union (EMU). Because of significant differences in coverage and methodology used to construct national CPIs, measured inflation rates were not comparable across EU member-countries. The basic objective behind the construction of HICP was to get comparable inflation for member countries through harmonisation of the methodology used in the construction of national HICPs, homogenisation of the treatment and coverage of goods and services based on a common expenditure classification and prescription of certain minimum standards on incorporation of newly significant goods and services, quality adjustment, representativeness of the sample and use of comparable formulae for aggregating prices at the most basic level. The European Community's Statistical Office began publishing monthly HICPs in March 1997 which were used initially in the assessment of a country's eligibility to join the Monetary Union in 1998. Since January 1999, this has been used by the European Central Bank to measure inflation in the Euro area for monetary policy purposes. A similar HICP for India for all consumers taken together would perhaps provide a better indicator of underlying inflationary pressures in the economy from the perspective of monetary policy formulation.

Chart: Alternative Measures of CPI Inflation in India

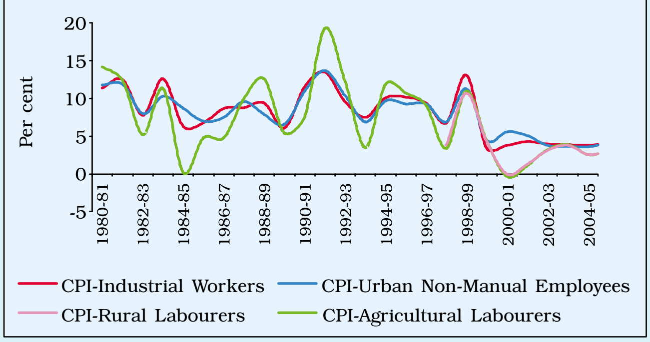


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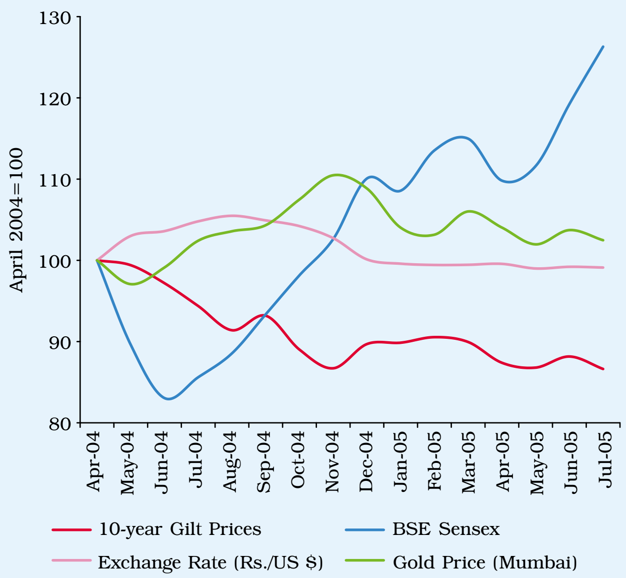
Chart I.20: Asset Price Movements



Developments during 2005-06

I.3.50 Year-on-year WPI inflation accelerated to 6.0 per cent by April 23, 2005 due to hardening of prices of fruits and vegetables under seasonal pressures and some upward adjustment in the prices of aviation turbine fuel, naphtha, furnace oil and iron and steel. In view of the persistently rising international crude oil prices, domestic prices of petrol and diesel were increased by about 7-8 per cent on June 20, 2005 after a gap of almost seven months. Electricity prices were also raised by 5.1 per cent in early June 2005. Despite these increases, inflation eased to 3.4 per cent by August 6, 2005 reflecting the base effect of higher prices last year and monetary policy measures. Consumer price inflation (Industrial Workers) also eased from 4.2 per cent in March 2005 to 3.3 per cent by June 2005.

IV. GOVERNMENT FINANCES

I.4.1 Key fiscal indicators for 2004-05 show consolidation and improvement in both Central and State Government finances. The notification of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 set the stage for a front-loaded fiscal correction path for the Central Government in 2004-05. However, the unanticipated fiscal stress encountered during the course of the year on account of post-budget duty concessions undertaken to ease emerging inflationary pressures, increased fertiliser subsidy and the delay in the passage of the Finance Act resulted in slippages from the budgetary projections (in respect of both revenue and fiscal deficits in terms of revised estimates but only revenue deficit in terms of provisional accounts). However, the FRBM targets for fiscal and revenue deficits were achieved. State finances indicated some improvement in the revenue deficit mainly on account of increase in States' own tax collections and higher grants from the Centre. With capital expenditure overshooting the budgeted level, there was a slippage in the fiscal deficit *vis-à-vis* the budget estimates.

I.4.2 An overview of the combined finances of the Centre and State Governments for 2004-05 reveals a considerable improvement in the revenue deficit over the preceding year mainly on account of improved tax and non-tax collections and a decline in interest payments as a proportion to GDP (Table 1.26).

Table 1.26: Indicators of Fiscal Policy

(Per cent of GDP)

Item	2004-05 RE	2003-04	1995-96	1990-91
1	2	3	4	5
Gross Fiscal Deficit (GFD)	8.3	8.4	6.5	9.4
Revenue Deficit	4.1	5.8	3.2	4.2
Primary Deficit	2.2	2.0	1.6	5.0
Revenue Receipts	19.9	18.5	18.3	18.6
Tax Revenue	15.7	14.8	14.7	15.4
Direct Taxes	5.0	4.5	3.5	2.5
Indirect Taxes	10.7	10.3	11.2	12.9
Non-tax Revenue	4.1	3.7	3.6	3.2
Total Expenditure*	28.7	28.5	25.4	28.7
Developmental Expenditure	14.9	14.9	13.9	17.1
Non-developmental Expenditure*	13.8	13.6	11.5	11.6
Interest Payments	6.1	6.4	5.0	4.4
Debt@	82.0	81.1	61.3	64.8
	Per cent			
Capital Outlay/ Total Expenditure	13.6	10.8	10.8	13.1
Interest Payments/ Revenue Receipts	30.6	34.5	27.2	23.6
Revenue Deficit/GFD	49.7	69.5	48.8	44.6

RE : Revised Estimates. * : Net of repayments.

@ : Includes 'reserve funds' and 'deposits and advances'.

Note : 1. All indicators are based on combined data of the Centre and States with inter-Governmental transactions netted out.

2. Data in respect of the State Governments are provisional for the years 2003-04 and 2004-05 and relate to budgets of 28 State Governments.

CENTRAL GOVERNMENT FINANCES, 2004-05

Revised Estimates

I.4.3 The Central Government finances in 2004-05 were guided by the FRBM Act, 2003 and FRBM Rules, 2004. The FRBM Rules, *inter alia*, stipulate minimum annual reductions of 0.5 percentage points in the revenue deficit (RD) to GDP ratio and of 0.3 percentage points in the gross fiscal deficit (GFD) to GDP ratio. The revised estimates for 2004-05 indicate that the FRBM targets were achieved (Table 1.27). The Union Budget for 2004-05 had, however, aimed at achieving larger reductions in the GFD and RD than the FRBM thresholds. The budget projections could not be met due to the post-budget duty concessions and increase in fertiliser subsidy to contain inflationary pressures. The time taken for the passage of the Finance Act also implied that several tax measures proposed in the Budget could become effective only towards the latter part of the year.

I.4.4 Consequent upon shortfall in tax collections, reductions in capital expenditure (capital outlay and net lending) restricted the slippage in the fiscal deficit (Table 1.28).

I.4.5 The financing pattern of the Centre's GFD underwent a change *vis-à-vis* the budgeted pattern during 2004-05 as the National Small Savings Fund (NSSF) reinvested redemption proceeds from the Debt Swap Scheme (DSS) in the special securities of the Centre, thereby financing 24.4 per cent of the GFD. Accordingly, the Centre's market borrowings in the revised estimates were lower by 49 per cent than the budget estimates, thereby financing 33 per cent of the GFD.

Provisional Accounts

I.4.6 Provisional accounts of the Central Government for 2004-05, which have become available subsequently, show that all the key deficit indicators were placed lower than the revised estimates, reflecting higher non-tax revenues and lower capital expenditure, especially during the last quarter of the year. In particular, the gross fiscal deficit and the primary deficit were lower by 0.4 percentage points of GDP each on account of a sharp cut back in capital outlays. The fiscal outcome in 2004-05, thus, showed a marked improvement over the performance in 2003-04. Notably, the revenue deficit in 2004-05 declined by one percentage point of GDP over 2003-04, achieving twice the minimum annual reduction stipulated under the FRBM Act/Rules.

Table 1.27: Deficit Indicators of the Centre

(Per cent of GDP)

Deficit Indicators	2004-05			2003-04	
	RE	BE	FRBM target@	Actuals	RE
1	2	3	4	5	6
Fiscal Deficit	4.5	4.4	4.5	4.5	4.8
Revenue Deficit	2.7	2.5	3.1	3.6	3.6

RE : Revised Estimates. BE : Budget Estimates.
@ : Derived over 2003-04 (RE).

Table 1.28: Gross Fiscal Deficit of the Centre – Budget *vis-à-vis* Revised Estimates

(Rupees crore)

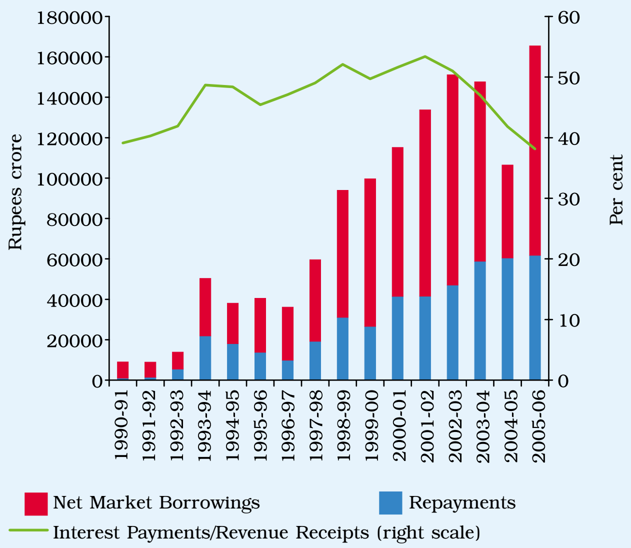
Items	2004-05 (RE)	2004-05 (BE)	Variation (RE over BE)
1	2	3	4
Gross Fiscal Deficit (3+4+5+6-1-2)	**1,39,231**	**1,37,407**	**1,824**
1. Revenue Receipts	3,00,904	3,09,322	-8,418
2. Disinvestment Receipts	4,091	4,000	91
3. Revenue Expenditure	3,86,069	3,85,493	576
4. Capital Outlay	56,616	60,718	-4,102
Of which: Defence	33,483	33,483	0
5. Public Debt Repayments to NSSF	32,665	0	32,665
6. Net Lending	-31,124 @	4,518	-35,642

RE: Revised Estimates. BE: Budget Estimates.
@: Net lending is negative on account of increase in recovery of loans from the State Governments under the Debt Swap Scheme.

Debt Position of the Central Government

I.4.7 The outstanding domestic liabilities of the Central Government increased to 62.1 per cent of GDP at end-March 2005 from 61.3 per cent at end-March 2004 (Appendix Table I.34). This was mainly on account of an increase of 38 per cent in the liabilities of the NSSF over the level in the preceding year. According to the accounting arrangements, the net small savings collections by the NSSF are passed on to the States; however, the NSSF continues to be a part of 'other liabilities' of the Central Government. Internal debt, in relation to GDP, on the other hand, declined from 41.4 per cent at end-March 2004 to 40.9 per cent at end-March 2005 despite the inclusion of amounts raised by the Central Government under

Chart I.21: Debt Service Burden of the Central Government



the Market Stabilisation Scheme (MSS). This decline is attributable to the truncation of the net market borrowings during 2004-05 to around half of the budgeted amount.

I.4.8 An encouraging feature in recent years has been the decline of interest payments from 53.4 per cent of revenue receipts in 2001-02 to 47.0 per cent in 2003-04 and further to 41.8 per cent in 2004-05 (Chart 1.21). This reflected mainly a steady reduction in the interest cost of the Central Government's market borrowings and improved revenue buoyancy.

I.4.9 The average interest rate on outstanding market loans continued to decline despite the firming up of the weighted average interest rate during 2004-05. The average interest cost of borrowings from the NSSF also declined significantly in 2003-04 and 2004-05, reflecting the impact of State debt swap transactions, whereby the Centre redeemed its high cost securities issued to the NSSF with the proceeds from the DSS and replaced them with securities carrying lower interest rates (Table 1.29).

STATE GOVERNMENT FINANCES - 2004-05[3]

I.4.10 Some moderation in fiscal imbalances of State Governments has been visible in recent years after a period of deterioration since the early 1990s. There has been a growing urgency surrounding

Table 1.29: Average Interest Rates on Outstanding Domestic Liabilities of the Centre

(Per cent)

Year	Market Loans	Small Savings/ NSSF*	State Provident Funds	Special Deposits
1	2	3	4	5
1990-91 to 1994-95 (Average)	10.86	10.85	11.63	11.53
1995-96 to 1999-2000 (Average)	11.62	11.62	11.62	10.93
2000-01	12.99	11.60	10.54	9.87
2001-02	12.83	11.61	9.09	10.50
2002-03	12.11	11.56	8.53	8.82
2003-04	9.86	10.88	7.66	7.94
2004-05 RE	9.07	9.36	7.58	7.76

RE: Revised Estimates.

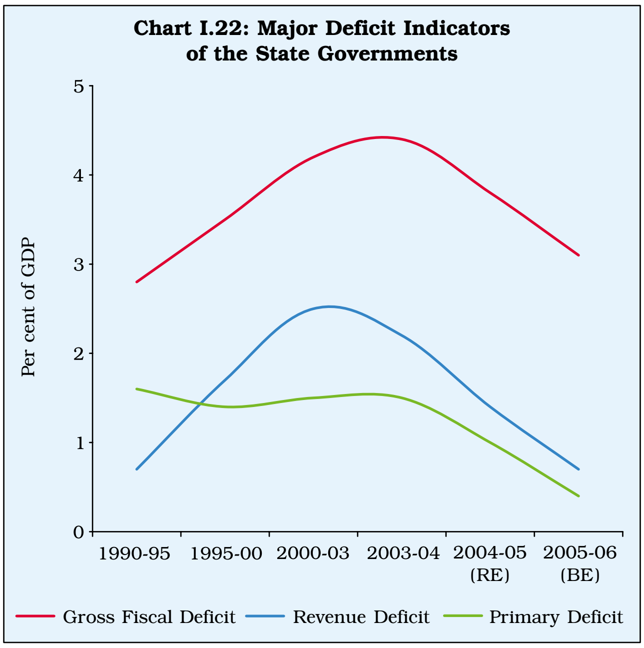
* : Since 1999-2000, interest on small savings represents interest on Central Government Special Securities issued to the NSSF.

Note : 1. Market loans represent dated securities.

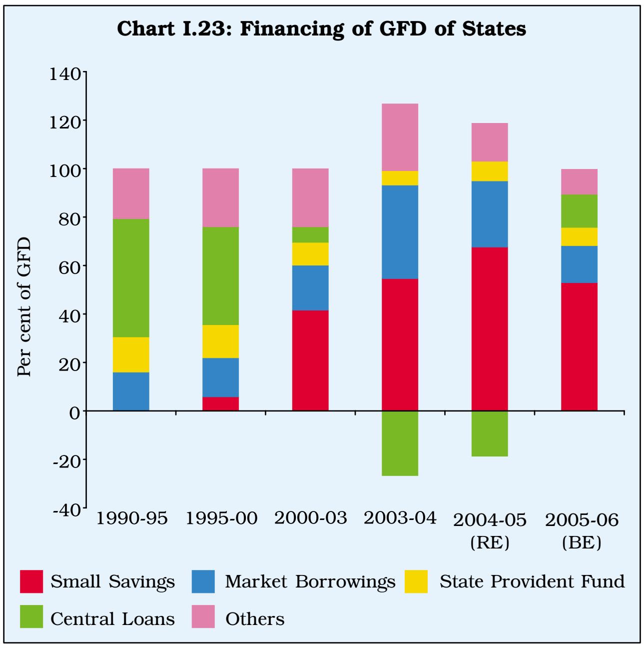
2. Small savings represent small saving deposits, certificates and public provident fund.
3. The Government notified the freezing of the corpus of the Special Deposit Scheme as on June 30, 2003.
4. The interest rate for each component is computed by dividing the interest payments in a year by the outstanding liabilities at the end of the preceding year.

fiscal consolidation in the States with the speeding up of various fiscal and institutional reforms. The revised estimates for 2004-05 showed slippages in the gross fiscal deficit (GFD) and the primary deficit of States from their budgeted levels. Notably, however, the revenue deficit recorded a decline from the budget estimates with its ratio to GDP declining to 1.4 per cent from 1.5 per cent. The reduction in the revenue deficit was brought about mainly by an increase in States' own tax collections and higher grants from the Centre. Enhanced provisions for capital outlay, mainly in respect of the irrigation sector, resulted in a higher GFD than budgeted. Both the revenue deficit and the primary deficit turned out to be lower than their average levels during the triennium 2000-03 as well as the second half of the 1990s (Chart 1.22). All the three major deficit indicators, as ratios to GDP, were placed much lower in the revised estimates for 2004-05 than their respective levels reassessed by the Twelfth Finance Commission (TFC).

[3] The analysis of State Finances for 2004-05 (Revised Estimates) is based on the Budget documents of 28 State Governments, of which 2 are Vote-on-Accounts. All data are provisional.



I.4.11 The financing pattern of GFD shows that small savings continued to remain the predominant source, accounting for more than two-third of the GFD in 2004-05 (Chart 1.23). Net loans from the Centre remained negative for the third year in succession on account of large repayments by the States under the DSS. On the other hand, the share of market borrowings has been increasing over the recent years, reflecting additional allocations under the DSS.



Contingent Liabilities

I.4.12 While contingent liabilities do not directly form part of the debt burden of the State Governments, the associated debt servicing remains their obligation in the event of a default. Recognizing the debilitating implication of such liabilities, the TFC has recommended that States should set up Guarantee Redemption Funds through earmarked guarantee fees. So far, five States, *viz.*, Andhra Pradesh, Haryana, Goa, Orissa and Gujarat have set up such Guarantee Redemption Funds.

I.4.13 The Reserve Bank has been sensitising the State Governments on the possible adverse implications of guarantees provided by the State Governments. As part of its initiative, a Standing Committee has been constituted within the Reserve Bank to collect and monitor information on State Government guaranteed advances and bonds from the investors' side on a periodic basis.

COMBINED BUDGETARY POSITION OF THE CENTRE AND STATES

I.4.14 An analysis of the combined fiscal position of the Centre and States reveals slippages in the key deficit indicators in the revised estimates for 2004-05 from their budget estimates, primarily reflecting higher expenditures. Tax collections, both direct and indirect, also turned out to be lower than the budget estimates during 2004-05. Non-tax revenues, however, exceeded the budgeted level significantly. The aggregate disbursements were higher than the budgeted level, mainly on account of higher developmental expenditure (Table 1.30).

Social Sector Expenditure

I.4.15 The State Governments have traditionally played a dominant role in undertaking social expenditures. Accordingly, the steady decline in the allocation for social expenditures by the State Governments since 1998-99 is worrisome. On the other hand, the Centre has allocated increasing amounts under all categories of social services and also emphasised outcomes, rather than mere outlays, so as to improve the delivery mechanism of public expenditure programmes.

Combined Debt

I.4.16 The persistence of fiscal deficits of the Centre as well as the States over the years led to a further

Table 1.30: Indicators of Combined Finances of the Centre and States

(Rupees crore)

Items	2004-05 RE	2004-05 BE	2003-04	1995-96	1990-91	Variation (RE over BE) Amount	Per cent
1	2	3	4	5	6	7	8
Gross Fiscal Deficit	2,58,082	2,45,954	2,32,852	77,671	53,580	12,128	4.9
	(8.3)	(7.9)	(8.4)	(6.5)	(9.4)		
Revenue Deficit	1,28,355	1,21,261	1,59,500	37,932	23,871	7,094	5.9
	(4.1)	(3.9)	(5.8)	(3.2)	(4.2)		
Primary Deficit	69,543	55,508	56,282	18,598	28,585	14,035	25.3
	(2.2)	(1.8)	(2.0)	(1.6)	(5.0)		
Total Receipts(A+B)	9,40,127	8,97,445	8,46,551	2,96,629	1,52,398	42,682	4.8
A. Revenue Receipts (1+2)	6,16,747	6,05,343	5,11,079	2,17,526	1,05,757	11,404	1.9
1. Tax Receipts (a+b)	4,89,098	4,92,761	4,09,588	1,74,851	87,564	-3,663	-0.7
a) Direct Taxes	1,56,036	1,57,197	1,24,271	41,603	14,267	-1,161	-0.7
b) Indirect Taxes	3,33,062	3,35,564	2,85,317	1,33,248	73,297	-2,502	-0.7
2. Non Tax Receipts	1,27,649	1,12,582	1,01,491	42,675	18,193	15,067	13.4
B. Capital Receipts (a+b)	3,23,380	2,92,102	3,35,472	79,102	46,641	31,278	10.7
a) Non Debt Capital Receipts	17,973	14,473	43,259	6,968	3,233	3,500	24.2
b) Debt Capital Receipts	3,05,407	2,77,629	2,92,213	72,134	43,408	27,778	10.0
Aggregate Expenditure(1+2+3 = 4+5)	8,92,803	8,65,770	7,87,189	3,02,166	1,62,886	27,033	3.1
1. Revenue Expenditure	7,45,102	7,26,603	6,70,579	2,55,457	1,29,628	18,499	2.5
2. Capital Outlay	1,21,439	1,19,530	85,204	32,594	21,371	1,909	1.6
3. Loans and Advances	26,262	19,636	31,407	14,115	11,887	6,626	33.7
4. Development Expenditure	4,63,722	4,29,054	4,11,815	1,65,361	97,167	34,668	8.1
5. Non-Development Expenditure@	4,29,081	4,36,716	3,75,374	1,36,805	65,719	-7,635	-1.7

RE : Revised Estimates. BE : Budget Estimates @ : Excludes repayments.

Notes: 1. Inter-Governmental transactions have been netted out.
2. Figures in parentheses are percentages to GDP.
3. Data in respect of States are provisional from 2003-04 onwards and relate to 28 States.

rise in the ratio of combined outstanding liabilities to GDP reaching a significantly high level of 82.0 per cent during 2004-05 (Table 1.31).

Contingent Liabilities/ Guarantees of the Government

I.4.17 The outstanding amount of guarantees by the Central Government decreased for the second successive year even as those of State Governments continued to increase. As a proportion to GDP, the guarantees by the Centre and States together continued their falling trend (Table 1.32).

Table 1.31: Combined Liabilities of the Centre and States

(Rupees crore)

Year (end-March)	Outstanding Liabilities			Debt-GDP Ratio (per cent)		
	Centre	States	Combined	Centre	States	Combined
1	2	3	4	5	6	7
1990-91	3,14,558	1,25,662	3,66,331	55.3	22.1	64.4
1995-96	6,06,232	2,49,922	7,27,241	51.0	21.0	61.2
2000-01	11,68,541	5,81,710	14,71,669	55.9	27.8	70.4
2001-02	13,66,408	6,79,823	17,22,109	60.1	29.9	75.8
2002-03	15,59,201	7,85,301	19,69,678	63.3	31.9	80.0
2003-04	17,36,678	9,09,833	22,38,407	62.9	33.0	81.1
2004-05 RE	19,81,514	10,24,538	25,46,526	63.8	33.0	82.0
2005-06 BE	22,31,886	11,34,249	28,29,306	64.1	32.6	81.3

RE: Revised Estimates. BE: Budget Estimates.

Note: 1. Data in respect of the States are provisional from 2003-04 onwards and relate to 28 States.
2. Under ‘combined liabilities’, inter-Governmental transactions are netted out.
3. Data include ‘reserve funds’ and ‘deposits and advances’.

Table 1.32: Outstanding Government Guarantees

(Rupees crore)

Year (End-March)	Centre		States		Total	
	Amount	Per cent of GDP	Amount	Per cent of GDP	Amount	Per cent of GDP
1	2	3	4	5	6	7
1993	58,088	7.8	42,515	5.7	1,00,603	13.4
1994	62,834	7.3	48,865	5.7	1,11,700	13.0
1995	62,468	6.2	48,479	4.8	1,10,947	11.0
1996	65,573	5.5	52,631	4.4	1,18,204	9.9
1997	69,748	5.1	63,409	4.6	1,33,157	9.7
1998	73,877	4.9	73,751	4.8	1,47,628	9.7
1999	74,606	4.3	97,454	5.6	1,72,060	9.9
2000	83,954	4.3	1,32,029	6.8	2,15,983	11.2
2001	86,862	4.2	1,68,719	8.1	2,55,581	12.2
2002	95,859	4.2	1,65,386	7.3	2,61,245	11.5
2003	90,617	3.7	1,84,294 (P)	7.5	2,74,911	11.2
2004	87,780	3.2	2,03,963 (P)	7.4	2,91,743	10.6

P : Provisional.

Note : Ratios to GDP may not add up to the total due to rounding off.

Source : 1. Data on Centre's guarantees are from budget documents of the Central Government.
2. Data on States' guarantees are based on the information received from State Governments and pertain to 17 major States. Data for 2004 pertain to 15 major states.

FISCAL OUTLOOK FOR 2005-06

Central Government

I.4.18 The Union Budget, 2005-06 was presented against the backdrop of sustained growth momentum with intermittent inflationary pressures, upbeat business confidence and strong industrial recovery supported by a pick-up in non-food bank credit off-take during 2004-05. Operationalising the recommendations of the Twelfth Finance Commission (TFC) and implementation of the State-level Value Added Tax (VAT) necessitated a 'pause' in the path set out under the FRBM Rules, 2004. Against this backdrop, the revenue deficit to GDP is pegged at 2.7 per cent in 2005-06 (Table 1.33). The fiscal deficit to GDP ratio is budgeted to be lower by 0.2 percentage point in 2005-06 than in 2004-05 RE (FRBM stipulates annual reduction of 0.3 percentage point). Disinvestment proceeds would no longer finance budgetary expenditure and would be credited to an 'Investment Fund' to finance social infrastructure expenditure and to provide capital to viable public sector undertakings.

I.4.19 A decomposition of the gross fiscal deficit budgeted for 2005-06 brings to the fore the following special features: First, the proportion of revenue deficit to GFD during 2005-06 *vis-à-vis* 2004-05 is budgeted to increase reflecting the increase in grants to the States. Second, the share of net lending of the Central Government in GFD is budgeted to turn negative in 2005-06 on account of elimination of Plan loans to States as recommended by the TFC. Third, the proportion of capital outlay to GFD, which rose sharply in 2004-05 due to defence outlays, is budgeted to increase further in 2005-06 due to higher capital outlays on 'special area programmes', 'science', 'technology and environment', 'communications' and 'general economic services' (Table 1.34).

Table 1.33: Major Fiscal Indicators of the Centre

(Rupees crore)

Item	2005-06 (BE)	2004-05 (RE)	Variation (BE over RE)	
			Amount	Per cent
1	2	3	4	5
Total Receipts (1+2)	**5,14,344 (14.8)**	**5,05,791 (16.3)**	**8,553**	**1.7**
1.Revenue Receipts	3,51,200 (10.1)	3,00,904 (9.7)	50,296	16.7
2.Capital Receipts	1,63,144 (4.7)	2,04,887 (6.6)	-41,743	-20.4
Total Expenditure (3+4)	**5,14,344 (14.8)**	**5,05,791 (16.3)**	**8,553**	**1.7**
3.Revenue Expenditure	4,46,512 (12.8)	3,86,069 (12.4)	60,443	15.7
4.Capital Expenditure	67,832 (1.9)	1,19,722 (3.9)	-51,890	-43.3
Expenditure Excluding Repayments to NSSF				
Total Expenditure	5,14,344 (14.8)	4,73,126 (15.2)	41,218	8.7
Capital Expenditure	67,832 (1.9)	87,057 (2.8)	-19,225	-22.1
Gross Fiscal Deficit	**1,51,144 (4.3)**	**1,39,231 (4.5)**	**11,913**	**8.6**
Revenue Deficit	**95,312 (2.7)**	**85,165 (2.7)**	**10,147**	**11.9**
Primary Deficit	**17,199 (0.5)**	**13,326 (0.4)**	**3,873**	**29.1**

BE : Budget Estimates. RE : Revised Estimates.

Note: Figures in parentheses are percentages to GDP.

Table 1.34: Decomposition of the GFD of the Centre

(Per cent)

Year	Revenue Deficit	Capital Outlay	Net Lending	Other Non-debt Receipts @
1	2	3	4	
1990-91	41.6	27.2	31.2	0.0
1995-96	49.4	23.4	29.6	-2.3
2000-01	71.7	20.8	9.2	-1.8
2001-02	71.1	18.8	12.7	-2.6
2002-03	74.4	20.1	7.7 *	-2.2
2003-04	79.7	27.8	6.3 *	-13.8
2004-05 (RE)	61.2	40.7	1.1 *	-2.9
2005-06 (BE)	63.1	41.1	-4.2	0.0

@ : Include disinvestment proceeds and value of bonus shares.
* : Adjusted for debt swap transactions.

Pattern of Receipts

I.4.20 The revenue receipts in 2005-06 are budgeted to increase by 16.7 per cent. Accordingly, the tax/GDP ratio is budgeted to improve to 10.6 per cent from 9.9 per cent in 2004-05. All the major tax collections, except under customs duty, are budgeted to improve as ratios to GDP (Table 1.35). The ratio of revenues from service tax to GDP is budgeted to increase from 0.46 per cent to 0.50 per cent. Overall, the measures taken in respect of direct taxes are expected to yield a gain of Rs.6,000 crore. Among the indirect taxes, the customs duty collections are budgeted to decline with the peak duty for non-agricultural products being reduced to 15 per cent from 20 per cent. Excise duty collections are, however, budgeted to accelerate. The overall impact of measures in respect of indirect taxes would be broadly revenue neutral.

I.4.21 Non-tax revenues are budgeted to register a moderate growth reflecting mainly enhanced collections under dividends and profits and higher returns from economic services. Interest receipts are budgeted to decline, mainly on account of a decline in interest receipts from States reflecting the impact of DSS.

Table 1.35: Revenue Position of the Centre

(Rupees crore)

Item	2005-06 (BE)	2004-05 (RE)	Variation (BE over RE)	
			Absolute	Per cent
1	2	3	4	5
Total Receipts (1+2)	**5,14,344 (14.8)**	**5,05,791 (16.3)**	**8,553**	**1.7**
1.Revenue Receipts	3,51,200 (10.1)	3,00,904 (9.7)	50,296	16.7
Tax Revenue (Net)	2,73,466 (7.9)	2,25,804 (7.3)	47,662	21.1
Non-Tax Revenue	77,734 (2.2)	75,100 (2.4)	2,634	3.5
2.Capital Receipts	1,63,144 (4.7)	2,04,887 (6.6)	-41,743	-20.4
Memo Items				
Gross Tax Revenue	**3,70,025 (10.6)**	**3,06,021 (9.9)**	**64,004**	**20.9**
Corporation Tax	1,10,573 (3.2)	83,000 (2.7)	27,573	33.2
Income Tax	66,239 (1.9)	50,929 (1.6)	15,310	30.1
Customs Duty	53,182 (1.5)	56,250 (1.8)	-3,068	-5.5
Union Excise Duty	1,21,533 (3.5)	1,00,720 (3.2)	20,813	20.7
Service Tax	17,500 (0.5)	14,150 (0.5)	3,350	23.7

BE : Budget Estimates. RE : Revised Estimates.
Note : Figures in parentheses are percentages to GDP.

Table 1.36: Capital Receipts of the Centre

(Rupees crore)

Item	2005-06 (BE)	2004-05 (RE)	Variation (BE over RE)	
			Amount	Per cent
1	2	3	4	5
Capital Receipts* (1+2)	**1,63,144**	**2,04,887**	**-41,743**	**-20.4**
1. Non-Debt Capital Receipts	12,000	65,656	-53,656	-81.7
2. Debt Capital Receipts*	1,51,144	1,39,231	11,913	8.6

BE : Budget Estimates. RE : Revised Estimates.
* : Net of issuances under the Market Stabilisation Scheme.

I.4.22 Capital receipts are budgeted to decline in 2005-06 from the revised estimates for 2004-05 (Table 1.36). Under non-debt capital receipts, recovery of loans is projected to be lower in 2005-06, mainly reflecting the discontinuance of the DSS.

Pattern of Expenditure

I.4.23 The total expenditure as a proportion to GDP is budgeted to be lower during 2005-06 (Table 1.37).

Table 1.37: Expenditure Pattern of the Centre

(Rupees crore)

Item	2005-06 (BE)	2004-05 (RE)	Variation (BE over RE)	
			Absolute	Per cent
1	2	3	4	5
Total Expenditure (1 + 2)	**5,14,344 (14.8)**	**4,73,126 * (15.2)**	**41,218**	**8.7**
1. Non-Plan Expenditure	**3,70,847 (10.7)**	**3,35,739 * (10.8)**	**35,108**	**10.5**
i) Interest Payments	1,33,945 (3.8)	1,25,905 (4.1)	8,040	6.4
ii) Defence	83,000 (2.4)	77,000 (2.5)	6,000	7.8
iii) Subsidies	47,432 (1.4)	46,514 (1.5)	918	2.0
iv) Grants/loans to States	34,053 (1.0)	15,543 (0.5)	18,510	119.1
v) Other non-Plan Expenditure	72,417 (2.1)	70,777 (2.3)	1,640	2.3
2. Plan Expenditure	**1,43,497 (4.1)**	**1,37,387 (4.4)**	**6,110**	**4.4**
i) Budgetary Support to Central Plan	1,10,385 (3.2)	82,529 (2.7)	27,856	33.8
ii) Central Assistance for State & UT Plans	33,112 (1.0)	54,858 (1.8)	-21,746	-39.6
Grants	32,612	29,856	2,756	9.2
Loans	500	25,002	-24,502	-98.0

BE: Budget Estimates. RE: Revised Estimates.
* : Net of repayments to the NSSF.
Note: Figures in parentheses are percentages to GDP.

Revenue expenditure is budgeted to record a substantial increase primarily on account of higher devolution of resources to the States in the form of grants rather than loans. On the other hand, the substantial reduction in capital expenditure in 2005-06 would be on account of discontinuance of the DSS and the elimination of the Centre's loan support for the State Plans as recommended by the TFC.

I.4.24 Subsidies are expected to decline to 1.4 per cent of GDP from 1.5 per cent in 2004-05. Deceleration in food subsidy expenditure is envisaged on account of the proposed policy to undertake procurement of foodgrains on a decentralised basis, especially in the non-traditional States. Fertiliser subsidy would also decelerate and the Union Budget is committed towards further rationalisation after the Working Group's examination of issues involved in implementing the New Pricing Scheme for fertilisers (Box 1.10).

I.4.25 An analysis of the revenue expenditure indicates that the share of the Plan component would improve to 26.0 per cent from 23.2 per cent in 2004-05 on account of higher allocation for the Central Plan. In the non-Plan revenue expenditure, the combined share of interest payments, defence and subsidies would form 69.6 per cent of the total as compared with 72.9 per cent in 2004-05.

I.4.26 Capital expenditure is budgeted to decrease by 22.1 per cent in 2005-06 as against an increase of 38.1 per cent (excluding repayments to NSSF) in 2004-05. A major policy change affecting the capital expenditure pattern emanates from implementing the recommendations of the TFC whereby the Central Government's loan support to States' Plans would be eliminated. Adjusting for the loans to States, capital expenditure is estimated to increase by 9.2 per cent. The growth of capital outlay is budgeted to moderate in 2005-06 from the

Box I.10
Central Government Subsidies

The "Central Government Subsidies in India: A Report" brings to the fore policy issues inherent in containing and targeting subsidies to the poor and needy. Key recommendations of the Report and proposals for specific subsidies are:

- A three-tier hierarchy of Government's social and economic services with the merit category of goods and services to be bifurcated into Merit I and Merit II categories while rest of the goods and services to be residually grouped into non-merit category.
- Subsidising non-merit category requires detailed analysis of user charges and recovery rates.
- Targeting of subsidies directly at the intended beneficiaries by eliminating input subsidies and focusing more on transfers than subsidies.
- Improving transparency and explicitly reporting subsidies in the Budget.
- Avoiding multiple subsidies to serve same policy objective.

Food Subsidies

- Realistic Minimum Support Price (MSP) for foodgrains, especially wheat.
- Specific procurement targets before every sowing season supported by self-financing price insurance system.
- Reimbursement of costs of Food Corporation of India (FCI) on the basis of normative costs and actual quantity.
- Postponement of actual delivery to the actual time of purchase.
- Self-targeting of foodgrain distribution to the poor by subsidising coarse grains, locating the Public Distribution System (PDS) where the poor live and allowing the purchase of PDS grains on a weekly rather than monthly basis.

Fertiliser Subsidies

- A flat rate of explicit subsidy to the urea industry.
- Rationalisation of urea price subsidy.
- Distribution of fertilisers to the targeted farm households through tradable coupons.

Petroleum Subsidies

- Gradual removal of LPG subsidy.
- Channelling of all sales of kerosene through retail markets by encouraging small distributors.
- Coupons for subsidised purchase of kerosene could be distributed to ration cardholders below poverty line.

Reference

1. Government of India (2004), *Central Government Subsidies in India: A Report* (Prepared with the assistance of the National Institute of Public Finance and Policy), December.

Table 1.38: Capital Expenditure of the Centre

(Rupees crore)

	2005-06 (BE)	2004-05 (RE)	2003-04	Growth Rate (per cent) 2005-06 (BE)	2004-05 (RE)
1	2	3	4	5	6
1. Capital expenditure (CE)	67,832	1,19,722	1,09,228	-43.3	9.6
2. NSSF Repayments	0	32,665	46,211	-100.0	-29.3
3. CE less NSSF (1-2)	67,832	87,057	63,017	-22.1	38.1
4. Loans and Advances	5,652	30,442	28,768	-81.4	5.8
(a) Loans to States	179	25,108	22,990	-99.3	9.2
5. CE net of NSSF and Loans to States (3-4a)	67,653	61,949	40,027	9.2	54.8
6. Capital outlay (3-4)	62,180	56,615	34,249	9.8	65.3
7. Defence Capital	34,375	33,483	16,863	2.7	98.6
8. Non-defence Capital outlay (6-7)	27,805	23,132	17,386	20.2	33.0

BE: Budget Estimates. RE: Revised Estimates.

substantial increase in 2004-05; non-defence capital outlay would show a higher growth than defence capital outlay (Table 1.38).

I.4.27 The sectoral allocation of expenditure indicates the Government's thrust on rural development through agriculture and universalisation of education. The shares of agriculture and rural development in total expenditure are budgeted to increase in 2005-06 on account of provision made for developing agriculture market infrastructure, establishment of Rural Knowledge Centre and for initiating strategic agricultural research. The increase in the share of health spending reflects higher allocation for financing, *inter alia*, the National Rural Health Mission (NRHM) which will be launched from 2005-06 (Table 1.39).

Table 1.39: Expenditure on Select Developmental Heads of the Centre

(Rupees crore)

Items	2005-06(BE)	2004-05 (RE)	2003-04
1	2	3	4
Agriculture	39,727 (7.7)	36,614 (7.2)	32,900 (7.0)
Education	15,941 (3.1)	12,999 (2.6)	10,630 (2.3)
Health	7,907 (1.5)	6,032 (1.2)	4,980 (1.1)
Rural Development	11,359 (2.2)	8,525 (1.7)	12,138 (2.6)
Irrigation	425 (0.1)	323 (0.1)	370 (0.1)

BE : Budget Estimates. RE : Revised Estimates.
Note: Figures in parentheses are percentages to total expenditure.

Financing of Gross Fiscal Deficit

I.4.28 Net market borrowings (excluding allocations budgeted under the MSS) would finance 68.7 per cent of the GFD in 2005-06 as compared with 33.0 per cent in the previous year. Draw down of surplus cash balance with the Reserve Bank would finance 2.1 per cent of the GFD as against 15.1 per cent in 2004-05. Securities against small savings, which financed 24.4 per cent of the GFD in 2004-05, are expected to finance only 2.0 per cent, since they largely represented the transactions under the DSS which was discontinued from 2005-06.

I.4.29 The substantial increase in the market borrowings of the Centre budgeted for 2005-06, coupled with the firming up of interest rate conditions, would have implications for interest cost. According to the budget estimates, the average cost of market loans works out to 9.5 per cent in 2005-06 as compared with 9.1 per cent in 2004-05. On the other hand, the average cost of borrowings from other sources is expected to decline in 2005-06.

I.4.30 To conclude, a noteworthy feature of Central Government finances since 2002-03 has been the progressive reduction in key deficit indicators. This has been, *inter alia*, enabled by attempts to increase the tax base which is reflected in a sustained increase in tax/GDP ratio from 8.8 per cent in 2002-03 to 9.9 per cent in 2004-05 and expected to increase further to 10.6 per cent in 2005-06. Moreover, the surge in economic activity, especially in the industrial sector, has also enabled an improvement in the tax/GDP ratio and the Central Government finances.

Table 1.40: Major Deficit Indicators of State Governments

(Rupees crore)

Item	2005-06 (BE)	2004-05 (RE)	2004-05 (BE)	2003-04	2000-03 (Average)	1995-00 (Average)	1990-95 (Average)	Percentage variation	
								Col.2/3	Col.3/4
1	2	3	4	5	6	7	8	9	10
Gross Fiscal Deficit	1,07,041	1,19,288	1,11,860	1,21,420				-10.3	6.6
	(3.1)	(3.8)	(3.6)	(4.4)	(4.2)	(3.5)	(2.8)		
Revenue Deficit	24,494	43,190	45,090	61,238				-43.3	-4.2
	(0.7)	(1.4)	(1.5)	(2.2)	(2.5)	(1.7)	(0.7)		
Primary Deficit	14,666	32,142	21,475	40,660				-54.4	49.7
	(0.4)	(1.0)	(0.7)	(1.5)	(1.5)	(1.4)	(1.6)		

RE: Revised Estimates. BE : Budget Estimates.

Note: Figures in parentheses are percentages to GDP.

STATE BUDGETS - 2005-06[4]

I.4.31 The State budgets for 2005-06 envisage a sharp correction of fiscal imbalances. All the major deficit indicators are budgeted much lower than their levels in the previous year (Table 1.40).

I.4.32 The improvement in the revenue account during 2005-06 is proposed to be brought about mainly by the containment of growth in non-interest revenue expenditure. The growth rate of almost all major developmental heads under revenue expenditure is budgeted to decelerate. Within non-developmental revenue expenditure, the growth rate of interest payments would decelerate, while that of administrative services is expected to increase sharply. Capital outlay is proposed to be enhanced during 2005-06, though as a ratio to GDP, it would remain at the previous year's level. In the aggregate, the ratio of developmental expenditure to GDP would record a larger decline than that of non-developmental expenditure to GDP during 2005-06 (Table 1.41).

I.4.33 On the receipts side, the ratio of States' own tax revenue to GDP is expected to show a further, *albeit* marginal, increase (Table 1.42).

Table 1.41: Expenditure Pattern of State Governments

(Rupees crore)

Item	2005-06 (BE)	2004-05 (RE)	2004-05 (BE)	2003-04	2000-03 (Average)	1995-00 (Average)	1990-95 (Average)	Percentage variation	
								Col.2/3	Col.3/4
1	2	3	4	5	6	7	8	9	10
Total Expenditure	5,67,835	5,84,073	5,44,071	5,16,350				-2.8	7.4
(1+2 =3+4+5)	(16.3)	(18.8)	(17.5)	(18.7)	(16.7)	(15.3)	(16.0)		
1. Revenue Expenditure	4,45,818	4,20,322	4,12,459	3,70,468				6.1	1.9
of which	(12.8)	(13.5)	(13.3)	(13.4)	(13.8)	(12.6)	(12.8)		
Interest Payments	92,375	87,147	90,384	80,760				6.0	-3.6
	(2.7)	(2.8)	(2.9)	(2.9)	(2.7)	(2.0)	(1.7)		
2. Capital Expenditure	1,22,017	1,63,751	1,31,612	1,45,883				-25.5	24.4
of which	(3.5)	(5.3)	(4.2)	(5.3)	(2.9)	(2.7)	(3.2)		
Capital outlay	74,655	65,519	58,812	50,956				13.9	11.4
	(2.1)	(2.1)	(1.9)	(1.8)	(1.5)	(1.4)	(1.6)		
3. Development Expenditure	3,16,793	3,07,425	2,81,733	2,74,080				3.0	9.1
	(9.1)	(9.9)	(9.1)	(9.9)	(9.6)	(9.6)	(10.8)		
4. Non-Development Expenditure	2,08,264	1,90,679	1,97,247	1,66,074				9.2	-3.3
	(6.0)	(6.1)	(6.4)	(6.0)	(6.0)	(4.9)	(4.3)		
5. Others	42,779	85,969	65,091	76,196				-50.2	32.1
	(1.2)	(2.8)	(2.1)	(2.8)	(1.2)	(0.7)	(0.9)		

RE: Revised Estimates. BE: Budget Estimates.

Note : Figures in parentheses are percentages to GDP.

[4] The analysis of State Finances for 2005-06 (Budget Estimates) is based on the Budget documents of 28 State Governments, of which 2 are Vote-on-Accounts. All data are provisional.

Table 1.42: Aggregate Receipts of State Governments

(Rupees Crore)

Item	2005-06 (BE)	2004-05 (RE)	2004-05 (BE)	2003-04	2000-03 (Average)	1995-00 (Average)	1990-95 (Average)	Percentage variations Col.2/3	Col.3/4
1	2	3	4	5	6	7	8	9	10
Aggregate Receipts (1+2)	5,70,479	5,78,069	5,41,450	5,17,563				-1.3	6.8
	(16.4)	(18.6)	(17.4)	(18.8)	(16.8)	(15.2)	(16.1)		
1. Total Revenue Receipts (a+b)	4,21,324	3,77,132	3,67,369	3,09,230				11.7	2.7
	(12.1)	(12.1)	(11.8)	(11.2)	(11.3)	(10.9)	(12.1)		
(a) States own Revenue	2,57,383	2,33,449	2,31,392	1,94,807				10.3	0.9
	(7.4)	(7.5)	(7.5)	(7.1)	(7.2)	(6.9)	(7.3)		
States Own Tax	2,12,353	1,85,494	1,83,085	1,57,691				14.5	1.3
	(6.1)	(6.0)	(5.9)	(5.7)	(5.7)	(5.3)	(5.4)		
States Own Non-Tax	45,030	47,955	48,307	37,116				-6.1	-0.7
	(1.3)	(1.5)	(1.6)	(1.3)	(1.5)	(1.6)	(1.8)		
(b) Central Transfers	1,63,942	1,43,683	1,35,977	1,14,423				14.1	5.7
	(4.7)	(4.6)	(4.4)	(4.1)	(4.1)	(4.0)	(4.9)		
Shareable Taxes	87,160	77,800	75,770	64,915				12.0	2.7
	(2.5)	(2.5)	(2.4)	(2.4)	(2.3)	(2.4)	(2.6)		
Central Grants	76,782	65,883	60,208	49,508				16.5	9.4
	(2.2)	(2.1)	(1.9)	(1.8)	(1.8)	(1.6)	(2.3)		
2. Capital Receipts (a+b)	1,49,155	2,00,937	1,74,081	2,08,333				-25.8	15.4
	(4.3)	(6.5)	(5.6)	(7.5)	(5.5)	(4.2)	(4.0)		
(a) Loans from Centre@	32,203	32,683	33,018	25,752				-1.5	-1.0
	(0.9)	(1.1)	(1.1)	(0.9)	(1.0)	(1.0)	(1.2)		
(b) Other Capital Receipts	1,16,953	1,68,254	1,41,063	1,82,582				-30.5	19.3
	(3.4)	(5.4)	(4.5)	(6.6)	(4.4)	(3.2)	(2.9)		

BE: Budget Estimates. RE: Revised Estimates.

@ With the change in the system of accounting with effect from 1999-2000, States' share in small savings which was included earlier under loans from Centre is included under internal debt and shown as special securities issued to National Small Saving Fund (NSSF) of the Central Government. The data for the years prior to 1999-2000 as reported in this Table, however, exclude loans against small savings, for the purpose of comparability.

Note : Figures in parentheses are percentages to GDP.

I.4.34 The implementation of VAT by 20 State Governments with effect from April 1, 2005 (apart from Haryana which had introduced VAT in April 2003) would have an important bearing on the growth rate of States' own tax revenues during the year. The implementation of VAT follows the release of a White Paper on the subject by the Empowered Committee of State Finance Ministers (Box 1.11). The Union

Box 1.11

White Paper on State-Level Value Added Tax: Salient Features

The Empowered Committee of State Finance Ministers (Convenor: Dr. Asim Kumar Dasgupta) was constituted by the Ministry of Finance, Government of India in November 1999 for laying down the broad contours for introducing State-level Value Added Tax (VAT). The Committee released "*A White Paper on State-level VAT*" in January 2005. The White Paper incorporates the justification and background for switching over to VAT, delineates its main design and addresses key related issues.

In general, all goods would be covered under VAT, excepting a few whose prices are not fully market determined which would continue to be taxed under the existing Sales Tax Act or by making special provisions in the VAT Act. There would be only two basic VAT rates: 4 per cent and 12.5 per cent covering 550 goods. There would be a category of 46 tax-exempted goods comprising natural and unprocessed products in the unorganised sector and a few commodities which are of local social importance for individual States. Another special VAT rate of 1 per cent is for gold and silver ornaments. The 4 per cent rate category would comprise items of basic necessities such as medicines and drugs, all agricultural and industrial inputs, capital goods and declared goods. The remaining commodities will fall under the general VAT rate of 12.5 per cent. On items presently attracting additional excise duties, *viz.*, sugar, textile and tobacco, VAT will not be imposed for one year and will be reviewed thereafter.

The White Paper indicates the need for phasing out the Central Sales Tax (CST) and adequate compensation from the Government of India. The CST would be reviewed during 2005-06. In this regard, the Taxation Information Exchange System is being set up. Acknowledging the possibility of revenue loss due to VAT in the initial years, the Government of India has agreed to compensate the States for the loss up to 100 per cent in the first year, 75 per cent in the second year and 50 per cent in the third year.

Table 1.43: Decomposition and Financing Pattern of the Gross Fiscal Deficit of States

(Per cent)

Item	2005-06 (BE)	2004-05 (RE)	2004-05 (BE)	2003-04	2000-03 (Average)	1995-00 (Average)	1990-95 (Average)
1	2	3	4	5	6	7	8
Decomposition (1+2+3)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Revenue Deficit	22.9	36.2	40.3	50.4	58.5	44.7	24.7
2. Capital Outlay	69.7	54.9	52.6	42.0	34.7	43.2	55.3
3. Net Lending	7.4	8.9	7.1	7.6	6.8	12.1	20.0
Financing (1+2+3+4+5)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Small Savings *	52.9	67.6	56.3	54.6	41.6	5.8	–
2. Market Borrowings	15.3	27.3	24.3	38.6	18.6	16.1	16.0
3. State Provident Fund	7.3	7.9	9.3	5.7	9.2	13.4	14.3
4. Central Loans	13.9	-18.7	-7.8	-26.7	6.6	40.6	49.0
5. Others	10.6	15.9	17.9	27.8	24.0	24.0	20.7

BE: Budget Estimates. RE: Revised Estimates. – : Not applicable.

* : Denotes loans against securities issued to the National Small Savings Fund (NSSF)

Government has reiterated its promise of compensating the revenue loss incurred by the States following the implementation of VAT and has, accordingly, provided Rs.5,000 crore for this purpose in its Budget for 2005-06. Some States have, however, indicated that the expected revenue from VAT during 2005-06 would be higher than from the erstwhile Sales Tax.

I.4.35 The States' own non-tax revenues, as a ratio to GDP, are expected to decline in 2005-06, mainly as a result of a sharp decline in interest receipts. Current transfers from the Centre, as a ratio to GDP, are budgeted to increase marginally to 4.7 per cent from 4.6 per cent in 2004-05. According to the Union Budget for 2005-06, the total impact of the recommendations of the TFC on the Centre (and as a mirror image, on the States) for the year 2005-06 would be Rs.26,000 crore. States are likely to gain from higher tax devolution, enhanced grants as well as the debt relief schemes.

I.4.36 Small savings and market borrowings of the State Governments are budgeted to finance a lower proportion of the GFD during 2005-06 (Table 1.43). Loans from the Centre, which showed net repayment during the previous three years, are budgeted to finance a considerable proportion of the States' borrowings requirements.

I.4.37 There are wide variations in the data on various heads of devolution and transfers as recommended by the TFC (and accepted by the Centre) and those reported by the State budgets. For instance, the TFC had recommended the elimination of the loan component of Central assistance for State Plans with effect from 2005-06. Accordingly, the Union Budget for 2005-06 has not made provision for Central loans for State Plans and instead, has indicated that the States would have to mobilise Rs.29,003 crore directly from the market for financing their Annual Plans. Notwithstanding this, Central Plan loans to States have been placed at Rs.32,203 crore in the State budgets. Gross market borrowings and loans from banks and financial institutions have been placed at Rs.21,026 crore and Rs.6,278 crore, respectively. Incorporating the net Central loans for State Plans as reported in the Union Budget 2005-06 and assuming that the State Plans are maintained at the budgeted level, the market borrowings during 2005-06 would not be substantially higher than the budgeted level on account of higher devolution of taxes and grants as envisaged in the Union Budget in accordance with the TFC recommendations and larger receipts from NSSF.

Combined Budgets for 2005-06

I.4.38 The renewed thrust on fiscal consolidation at the Centre as well as at the State level is manifested in the budgeted reductions in all the key deficit indicators in terms of GDP; the revenue deficit and primary deficit are budgeted to decline even in absolute terms (Table 1.44). The reduction in deficits is sought through buoyancy in tax collections coupled with deceleration in expenditure.

I.4.39 Revenue receipts are budgeted to increase solely on account of improved tax collections (Table 1.45). The combined tax-GDP ratio is, therefore, budgeted to improve to 16.5 per cent of GDP in 2005-06 from 15.8 per cent in 2004-05. On the other hand, non-tax revenue is projected to decline by 6.5 per

Table 1.44: Measures of Deficit of the Central and State Governments

(Rupees crore)

Year	Gross Fiscal Deficit	Revenue Deficit	Primary Deficit	Per cent to GDP: Gross Fiscal Deficit	Per cent to GDP: Revenue Deficit	Per cent to GDP: Primary Deficit
1	2	3	4	5	6	7
1990-91	53,580	23,871	28,585	9.4	4.2	5.0
1995-96	77,671	37,932	18,598	6.5	3.2	1.6
2000-01	1,99,852	1,38,803	75,035	9.6	6.6	3.6
2001-02	2,26,425	1,59,350	84,039	10.0	7.0	3.7
2002-03	2,34,987	1,62,990	76,363	9.5	6.6	3.1
2003-04	2,32,852	1,59,500	56,282	8.4	5.8	2.0
2004-05 BE	2,45,954	1,21,261	55,508	7.9	3.9	1.8
2004-05 RE	2,58,082	1,28,355	69,543	8.3	4.1	2.2
2005-06 BE	2,67,872	1,19,806	59,701	7.7	3.4	1.7

BE: Budget Estimates. RE: Revised Estimates.

Note: Data in respect of the States are provisional from 2003-04 onwards and relate to 28 States.

cent mainly on account of interest receipts. On the expenditure side, the share of developmental expenditure is budgeted to decline during 2005-06 to 51.1 per cent of total expenditure.

I.4.40 Market borrowings are budgeted to finance a higher part of the combined gross fiscal deficit during 2005-06 than in 2004-05. The share of small savings and State provident funds is expected to remain broadly stable while recourse to other sources of finance including draw down of Centre's cash balances is budgeted to come down (Table 1.46).

Table 1.45: Combined Receipts and Disbursement of the Centre and States

(Rupees crore)

Item	2005-06 (BE)	2004-05 (RE)	Variation (BE over RE): Amount	Variation (BE over RE): Per cent
1	2	3	4	5
I. Total Receipts (A+B)	9,94,604 (28.6)	9,40,127 (30.3)	54,477	5.8
A. Revenue Receipts (1+2)	6,92,350	6,16,747	75,603	12.3
1. Tax Receipts	5,72,979	4,89,098	83,881	17.2
a) Direct Taxes	1,97,164	1,56,036	41,128	26.4
b) Indirect Taxes	3,75,815	3,33,062	42,753	12.8
2. Non-Tax Receipts	1,19,371	1,27,649	-8,278	-6.5
B. Capital Receipts	3,02,254	3,23,380	-21,126	-6.5
II. Total Disbursements* (A+B)	9,67,852 (27.8)	8,92,803 (28.7)	75,049	8.4
A. Developmental Expenditure	4,94,238	4,63,722	30,516	6.6
B. Non-Developmental Expenditure (Including others*)	4,73,614	4,29,081	44,533	10.4

RE: Revised Estimates. BE : Budget Estimates.

* : Exclude repayments.

Note : 1. Figures in parentheses are percentages to GDP.
2. Data in respect of the States are provisional and relate to 28 States.

Social Sector Expenditure

I.4.41 The social sector expenditure of the Centre and the State Governments mainly consists of outlays on health, education and rural development. It has been widely recognised that the level of social sector expenditure has important implications for long-term growth prospects of the economy. The Government's spending on social sectors has,

Table 1.46: Financing of Gross Fiscal Deficit of the Centre and States

(Rupees crore)

Year	Market Borrowings	State Provident Fund	Small Savings	External Borrow-ings	Others	Gross Fiscal Deficit
1	2	3	4	5	6	7
2003-04	1,35,709 (58.3)	11,824 (5.1)	81,408 (35.3)	-13,488 (-5.8)	17,399 (7.5)	2,32,852 (100.0)
2004-05 BE	1,17,576 (47.8)	14,244 (5.8)	70,000 (28.7)	8,077 (3.3)	36,057 (14.7)	2,45,954 (100.0)
2004-05 RE	78,488 (30.4)	13,450 (5.2)	85,000 (33.1)	9,035 (3.5)	72,109 (27.9)	2,58,082 (100.0)
2005-06 BE	1,20,158 (44.9)	12,765 (4.8)	90,000 (33.9)	9,656 (3.6)	35,293 (13.2)	2,67,872 (100.0)

BE : Budget Estimates. RE : Revised Estimates.

Note: 1. Figures in parentheses are percentages to GFD.
2. Data in respect of the States are provisional and relate to 28 States.

Table 1.47: Combined Expenditure of the Centre and States on Social Sector

(Rupees crore)

	2005-06 (BE)	2004-05 (RE)	2004-05 (BE)	2003-04
1	2	3	4	5
Expenditure on Social Sector*	2,60,227	2,38,018	2,23,517	2,06,543
of which: Social Services	2,00,482	1,82,582	1,71,157	1,53,995
of which: i) Education	97,152	87,962	83,939	79,833
ii) Medical & Public Health	45,122	40,509	39,657	34,083
Per cent to GDP				
Expenditure on Social Sector	7.5	7.7	7.2	7.5
of which: Social Services	5.8	5.9	5.5	5.6
of which: i) Education	2.8	2.8	2.7	2.9
ii) Medical & Public Health	1.3	1.3	1.3	1.2
Per cent to Total Expenditure				
Expenditure on Social Sector	26.9	26.7	25.8	26.2
of which: Total Social Services	20.7	20.5	19.8	19.6
of which: i) Education	10.0	9.9	9.7	10.1
ii) Medical & Public Health	4.7	4.5	4.6	4.3

* : Expenditure on Social Sector includes expenditure on social services, rural development and food subsidies.

Note : Data in respect of the States are provisional and relate to 28 States.

however, remained low over time. Although some improvement was witnessed in 2004-05, social sector expenditure is budgeted to decline to 7.5 per cent of GDP in 2005-06 (Table 1.47).

I.4.42 To conclude, combined finances of the Centre and States envisage a further reduction in key deficit indicators during 2005-06 enabled by buoyancy in tax collections as well as deceleration in expenditure. The Union Budget for 2005-06 seeks to continue with the process of fiscal consolidation while aiming to build the spirit of cooperative fiscal federalism through higher devolution of resources to States. Fiscal policy is premised on tax reforms and expenditure management with emphasis on outcomes than mere outlays. State Budgets for 2005-06 also envisage substantial fiscal correction through containment of non-interest revenue expenditure.

V. FINANCIAL MARKETS

I.5.1 Financial markets operated in an environment of uncertainty worldwide. The upturn in the interest rate cycle, threat of sharp currency movements emanating from large and growing global macroeconomic imbalances and high and volatile international crude oil prices were major sources of risk. Investor appetite for both mature and emerging markets, nevertheless, remained strong but for a brief lull in the second quarter of 2004-05.

I.5.2 Domestic financial markets remained broadly stable during 2004-05 facilitated by the Reserve Bank's liquidity management. Money markets continued to be guided by the policy reverse repo rate, barring occasional spells of tight liquidity. The foreign exchange market remained orderly despite the ebbing of capital flows during May-October 2004 and the rise in demand for foreign exchange due to higher oil prices. Yields in the Government securities market hardened in consonance with higher credit off-take, a resurgence of inflationary pressures in the first two quarters of the year and the hardening of international interest rates. After a setback in May 2004, the equity markets staged a strong rally in the second half of 2004-05 (Table 1.48).

INTERNATIONAL FINANCIAL MARKETS

I.5.3 Money market rates firmed up in some economies as leading central banks, including the US Federal Reserve, began to reverse their accommodative monetary policy stance in response to inflationary pressures (Table 1.49). In other countries/areas such as the UK and the Euro area, however, short-term interest rates reversed their rising trend during the first quarter of 2005-06 in the face of a weakening of economic activity.

I.5.4 Government bond yields in advanced economies firmed up during April-August 2004 as inflation began to climb up on account of a spurt in fuel and other key commodity prices. A correction set in after September 2004 as inflationary expectations eased with the levelling off of commodity price inflation (Chart I.24). A higher demand for gilts was also engendered by expectations that monetary authorities would be restrained from tightening monetary conditions further because of the fragility of the economic recovery in many economies, on the one hand, and the demand for fixed income products from baby boomers approaching retirement, on the other. As a result, the yield curve has been flattening in

Table 1.48: Domestic Financial Markets at a Glance

Month	Call Money		Govt. Securities		Foreign Exchange				Liquidity Management		Equity			
	Average Daily Turnover (Rupees crore)	Average Call Rates* (Per cent)	10-year Yield@ (Per cent)	Turnover in Govt. Securities (Rupees crore)#	Average Daily Inter-bank Turnover (US $ million)	Average Exchange Rate (Rs. per US $)	RBI's Net Foreign Currency Sales(-)/ Purchases(+) (US $ million)	Average Forward Premia 3-month (Per cent)	MSS Outstanding (Rupees crore)	Average Daily Reverse Repo (LAF) Outstanding (Rupees crore)	Average Daily BSE Turnover (Rupees crore)	Average Daily NSE Turnover (Rupees crore)	Average BSE Sensex**	Average S & P CNX Nifty**
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2004-05														
April	12,916	4.29	5.14	3,00,864	10,302	43.93	7,427	-0.36	22,851	75,006	2,243	5,048	5809	1848
May	10,987	4.30	5.29	1,92,264	8,882	45.25	-220	-1.33	30,701	74,502	2,188	4,710	5205	1640
June	10,973	4.35	5.81	1,75,802	7,847	45.51	-413	0.93	37,812	61,981	1,681	3,859	4824	1506
July	8,632	4.31	6.18	1,30,400	7,756	46.04	-1,180	2.25	46,206	59,594	1,793	4,265	4973	1568
August	11,562	4.41	6.16	1,29,373	5,974	46.34	-876	2.85	51,635	42,692	1,736	3,948	5144	1615
September	17,088	4.45	6.23	1,75,635	7,348	46.09	19	2.20	52,255	31,589	1,800	4,023	5423	1692
October	16,667	4.63	6.89	1,12,709	7,262	45.78	-99	2.87	55,087	10,805	1,730	3,785	5702	1795
November	13,820	5.62	7.18	78,225	9,930	45.13	3,792	2.16	51,872	-5,066	1,786	4,102	5961	1874
December	19,527	5.28	6.57	1,33,447	9,447	43.98	1,393	2.03	53,481	7,570	2,183	5,026	6394	2022
January	16,534	4.72	6.69	1,10,535	9,114	43.75	0	2.50	54,499	18,721	2,310	5,249	6307	1978
February	16,041	4.76	6.45	1,29,917	11,583	43.68	4,974	1.99	60,835	19,895	2,484	4,999	6595	2067
March	15,293	4.72	6.65	87,892	11,286	43.69	6,030	1.82	64,211	29,809	2,706	5,139	6679	2096
2005-06														
April	17,213	4.77	7.31	90,040	9,880	43.74	0	1.96	67,087	30,675	1,890	4,136	6379	1987
May	15,269	4.99	6.97	1,17,969	10,083	43.49	0	1.57	69,016	22,754	1,971	3,946	6483	2002
June	20,135	5.10	6.89	2,04,197	10,871	43.58	-107	1.40	71,681	13,916	2,543	4,843	6926	2134
July	20,046	5.02	7.01	1,14,634	n.a.	43.54	n.a.	1.56	68,765	10,754	3,095	6,150	7337	2237

* : Average of daily weighted call money borrowing rates. # : Outright turnover in Central Government dated securities during the month.
@ : End-Month. ** : Average of daily closing indices. MSS : Market Stabilisation Scheme. LAF : Liquidity Adjustment Facility.
BSE : The Stock Exchange, Mumbai. NSE : National Stock Exchange of India Ltd. n.a. : Not available.

advanced countries. In the US, the 10-year Treasury yield at 3.8 per cent reached at a 14-month low in early-June 2005. Japanese 10-year bond yields and Euro area bond yields also dropped to record lows in May and June 2005. Similarly, yield curves in Australia, New Zealand and the UK flattened or inverted.

Table 1.49: Short-term Interest Rates

(Per cent)

Country	July 2005	March 2005	March 2004
1	2	3	4
Advanced Economies			
US	3.49	2.90	1.04
UK	4.56	4.95	4.31
Euro Area	2.13	2.15	1.96
Japan	0.02	0.02	0.03
Sweden	1.45	1.97	2.12
Emerging Market Economies			
China	2.00	2.25	n.a.
Hong Kong	3.54	2.79	0.17
South Korea	3.49	3.54	3.90
Argentina	6.88	4.56	2.88
Brazil	19.75	19.25	16.02
Malaysia	2.88	2.82	3.00
Philippines	6.75	7.25	9.19
Singapore	2.00	2.06	0.69
Thailand	3.05	2.64	1.31

n.a. : Not available.
Source : The Economist.

Chart I.24: 10-year Government Bond Yields

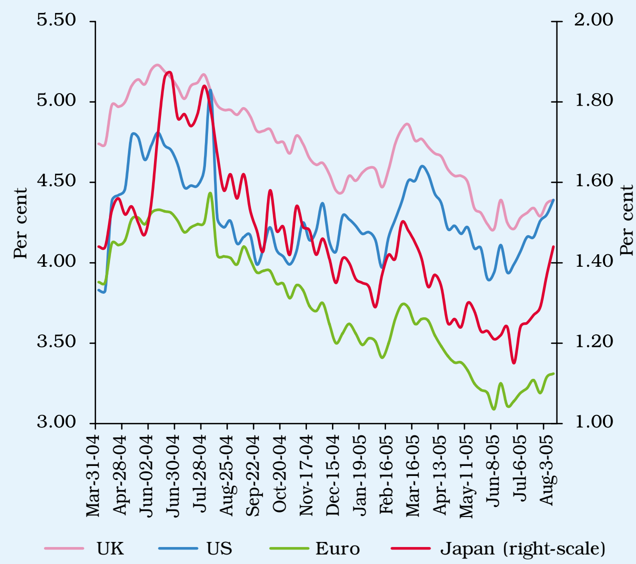


Table 1.50: Domestic and International Equity Markets in 2004-05

Country/ Region	Index	Percentage Variation*	Volatility**
1	2	3	4
EMEs	MSCI Emerging Market Index	12.0	10.8
Hong Kong	Hang Seng	6.6	6.2
India	**BSE Sensex**	**16.1**	**11.2**
Indonesia	Jakarta Composite Index	46.8	15.8
Japan	Nikkei 225	-0.4	3.3
Korea	KOSPI	9.7	9.1
Malaysia	KLSE Composite Index	-3.4	4.5
Taiwan	Taiwan Index	-7.9	5.3
Thailand	SET Composite Index	5.3	5.8
UK	FTSE 100	11.6	4.5
US	Dow Jones Industrial Average	1.4	2.7
US	Nasdaq Composite	0.3	4.9

EMEs : Emerging Market Economies.
MSCI : Morgan Stanley Capital International Inc.
KOSPI : Korean Composite Stock Price Index.
KLSE : Kuala Lumpur Stock Exchange.
SET : The Stock Exchange of Thailand.
* : Point-to-point variation over previous year.
** : Measured as coefficient of variation.

I.5.5 The performance of the equity markets was guided by country-specific factors as well as international factors. Most equity markets gained on the back of positive expectations generated by the global recovery, *albeit* dampened by higher oil prices. The Indian stock markets outperformed a number of major markets (Table 1.50). Despite some firming up of the risk premia, international investor confidence in emerging market economies (EMEs) continued to be strong.

DOMESTIC FINANCIAL MARKETS

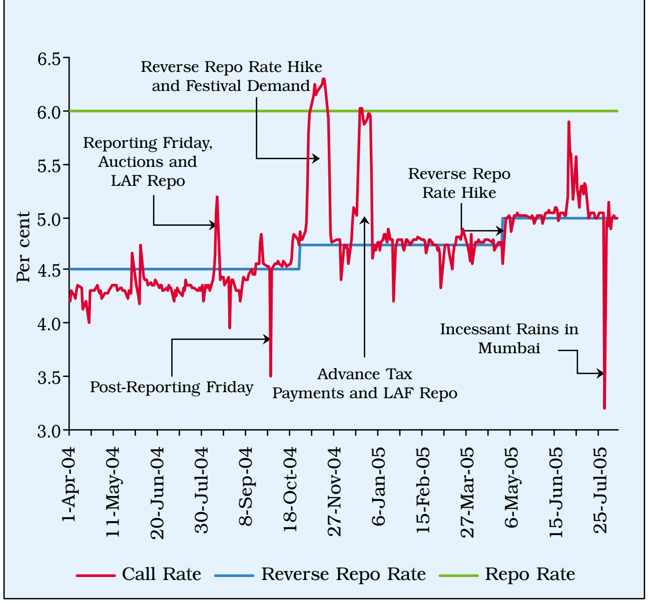
Money Market

Call/Notice Money Market

I.5.6 Liquidity in the call/notice money markets remained adequate in 2004-05. Reflecting easy liquidity conditions, average daily call money borrowing rates generally ruled below reverse repo rate levels, but were anchored to the policy rate (Chart I.25).

I.5.7 Call rates remained soft in April 2004 as the seasonal jump in market liquidity was reinforced by the initial liquidity overhang of about Rs.81,000 crore, a bunching of capital flows and the cancellation of a Government bond auction. The Reserve Bank, in fact, held nine auctions under the newly-operationalised

Chart I.25: Call Rate and the Reverse Repo Rate



Market Stabilisation Scheme (MSS) (Rs.23,000 crore) to supplement large-scale reverse repo operations in mopping up market liquidity. Although foreign institutional investor (FII) inflows began to dry up with the dip in Asian equity markets by mid-May 2004, the weighted average call rates continued to remain below the reverse repo rate till July 2004. A spike in the call rates in August due to an outflow of funds on account of auction of Central Government securities, redemption pressure on mutual funds and under-covering of reserve maintenance was assuaged by the Reserve Bank by injecting Rs.5,000 crore under the LAF (Appendix Table I.37). With the hike in the Cash Reserve Ratio (CRR) by 25 basis points with effect from September 18, 2004, the daily average turnover in the call/notice money market increased.

I.5.8 Call rates firmed up in early October 2004 with the increase in the CRR by another 25 basis points with effect from October 2, 2004. Liquidity conditions also came under some pressure during the latter part of the month. The hike of 25 basis points in the LAF reverse repo rate effective October 27, 2004 correspondingly raised the floor in the money market. Call rates touched an intra-year peak of 6.30 per cent on November 18, 2004. The Reserve Bank injected liquidity under the LAF repo auctions to comfort market sentiments. The Reserve Bank reintroduced overnight fixed rate reverse repo auctions under the LAF with effect from November 1, 2004 and discontinued 7-day and 14-day reverse repo auctions. Liquidity conditions began to ease by end-November 2004, interrupted by occasional

Table 1.51: Call/Notice Money Market Borrowing Rates - Summary Statistics

	Low				High				Weighted Average			
Month	Min (%)	Max (%)	Avg. (%)	CV	Min. (%)	Max (%)	Avg. (%)	CV	Min. (%)	Max (%)	Avg. (%)	CV
1	2	3	4	5	6	7	8	9	10	11	12	13
2003-04	**1.00**	**5.25**	**3.38**	**0.18**	**4.50**	**12.00**	**4.89**	**0.13**	**3.99**	**6.21**	**4.62**	**0.06**
2004-05	**0.60**	**6.50**	**3.59**	**0.21**	**3.50**	**10.95**	**5.02**	**0.14**	**3.50**	**6.30**	**4.65**	**0.10**
April	1.00	3.80	3.09	0.22	4.50	4.55	4.52	0.01	4.01	4.42	4.29	0.02
May	2.00	3.75	3.14	0.17	4.50	7.50	4.61	0.12	4.16	4.67	4.30	0.02
June	2.50	4.00	3.51	0.10	4.50	6.25	4.61	0.07	4.18	4.74	4.35	0.02
July	2.00	3.80	3.41	0.10	4.50	4.80	4.52	0.01	4.13	4.41	4.31	0.01
August	1.50	3.50	3.21	0.17	4.50	10.95	5.19	0.26	3.96	5.20	4.41	0.05
September	2.00	4.00	3.32	0.19	3.50	6.12	4.82	0.11	3.50	4.85	4.45	0.05
October	2.00	4.00	3.49	0.18	4.65	6.10	5.01	0.06	4.32	4.86	4.63	0.03
November	3.50	5.00	4.49	0.11	5.05	7.00	6.06	0.09	4.76	6.30	5.62	0.10
December	2.25	5.00	4.00	0.15	4.85	6.30	5.70	0.09	4.42	6.03	5.28	0.11
January	2.00	4.60	3.64	0.19	4.80	6.00	5.13	0.05	4.20	4.88	4.72	0.03
February	3.00	4.00	3.79	0.07	4.85	5.30	5.22	0.02	4.67	4.81	4.76	0.01
March	0.60	4.00	3.39	0.26	4.80	6.25	5.09	0.06	4.15	5.00	4.72	0.04
2005-06												
April	2.00	4.30	3.70	0.10	4.80	6.10	5.06	0.06	4.55	5.01	4.77	0.02
May	3.00	4.00	3.80	0.10	5.05	5.30	5.14	0.01	4.89	5.07	4.99	0.01
June	2.50	4.60	4.14	0.09	5.05	6.50	5.36	0.08	4.95	5.89	5.10	0.08
July	1.00	4.65	4.05	0.24	5.05	6.25	5.58	0.06	3.19	5.60	5.02	0.10

Min. : Minimum. Max: Maximum. Avg.: Average. CV: Coefficient of Variation.

pressures. By March 2005, the weighted average call rates ranged between 4.15-5.00 per cent with some firmness during the latter part of the month on account of balance sheet adjustments, coupled with advance tax outflows. The volatility in call money rates was somewhat higher during 2004-05 than in the preceding year, essentially on account of fluctuations in call rates during November-December 2004 (Table 1.51).

I.5.9 The call money market began the first quarter of 2005-06 under conditions of comfortable liquidity stemming from the overhang in the system. Despite FII outflows in April, the Reserve Bank had to supplement reverse repo operations with sale of Government paper under the MSS to absorb liquidity and balance market conditions. Average daily call money borrowing rates hovered around reverse repo rate levels. With the increase in the fixed reverse repo rate by 25 basis points on April 29, 2005 call rates also edged up by a similar magnitude. Towards the end of June 2005, call rates rose above the reverse repo rate under demand pressures emanating from advance tax payments, scheduled Treasury Bills auctions and a higher oil import bill. The Reserve Bank injected Rs.210 crore and Rs.575 crore under the LAF repo on June 28, 2005 and June 30, 2005, respectively, to assuage the demand pressure. On a net basis, however, on these two days, there was liquidity absorption. Call money rates eased by mid-July 2005 and stood at 5.00 per cent on August 18, 2005.

I.5.10 In recent years, relative shares of the different constituents of the money market have undergone significant changes. Banks' share of borrowings from call market witnessed a gradual decline over the years till 2003-04, reflecting lower demand for funds in the wake of excess liquidity in the economy and substantial scaling down of CRR prescriptions. Thus, in a scenario of shrinking turnover in the call money market, primary dealers (PDs), whose demand was guided by the volume of market borrowing programme, emerged as the largest borrower as a group in this market. The situation changed during 2004-05 with banks re-emerging as the largest group of borrowers following a pick up in credit and the increase in CRR with effect from September 18, 2004. The truncation in the market borrowing programme of the Central Government reduced the demand from PDs in the call/notice money market (Table 1.52). On the lending side, the share of non-bank entities had declined during 2001-02 and 2002-03 following the commencement of the process of their phasing out from the call/notice market. Their shares, however, increased during 2003-04 in relative terms due to shrinkage in the aggregate turnover of the call market. The share of the banking sector has been rising since September 2004 on account of strong growth in non-food credit.

Table 1.52: Relative Shares in Call/Notice Money Market

(Per cent)

Year	Borrowing		Lending		
	Banks	PDs	Banks	PDs	Non-banks
1	2	3	4	5	6
2000-01	67	33	47	12	41
2001-02	62	38	65	10	25
2002-03	53	47	69	2	29
2003-04	36	64	57	2	41
2004-05	65	35	70	1	29
2005-06*	72	28	90	0	10

* : Up to July 2005.

Repo and CBLO Markets

I.5.11 The gradual phasing out of non-bank participants from the call market, tightening of prudential norms relating to the call exposure of banks and availability of cheaper funds led to increased activity in the repo market (outside the LAF). The monthly average turnover increased by 64.2 per cent to Rs.17,135 crore during 2004-05 and further to Rs.18,103 crore in July 2005. Apart from banks, mutual funds and financial institutions were the main participants in the repo market. The repo rates ranged between 3.70 per cent and 5.58 per cent during the year, barring occasional spikes in November and December 2004.

I.5.12 The collateralised borrowing and lending obligations (CBLO) market continued to expand during 2004-05. By July 2005, 121 members had been admitted in the CCIL's CBLO segment out of which 56 were active members. The daily average turnover increased from Rs.2,496 crore in April 2004 to Rs.9,625 crore by March 2005 and further to Rs.15,291 crore by July 2005. Initially, only one insurance company and few co-operative banks supplied funds in this market. Currently, mutual funds have emerged as the largest suppliers of funds. On the demand side, apart from banks, PDs have also been participating regularly on account of lower borrowing costs in CBLO *vis-à-vis* call market.

I.5.13 A distinctive feature of 2004-05 was the growth in the turnover of the CBLO market *vis-à-vis* the call money market (Chart I.26). A number of players preferred to migrate from the uncollateralised call/notice market to market repo and CBLO segments, essentially on account of cheaper funding costs. In June 2005, however, turnover in the call money market increased on account of increased demand for funds due to tightening of liquidity conditions.

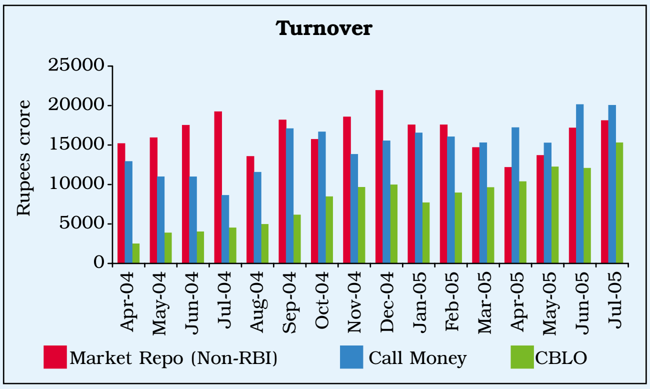
Term Money Market

I.5.14 During 2004-05, the average outstanding volume of transactions in the term money market was Rs.477 crore, down from Rs.519 crore during the previous year (Table 1.53). During 2005-06 (up to July 2005), the average outstanding increased to Rs.614 crore.

Certificates of Deposit

I.5.15 The outstanding amount of certificates of deposit (CDs) issued by scheduled commercial banks increased markedly during 2004-05, reflecting the banks' requirement of funds in view of sustained increase in credit demand (Chart I.27 and Appendix Table I.38). The typical discount rate (for 3-month maturity) on CDs also increased by about 94 basis points over the year. Issuances of CDs depend not only on overall liquidity conditions but also on bank-specific factors. In this context, select foreign and private sector banks have been

Chart I.26: Activity in Call, Repo and CBLO Markets



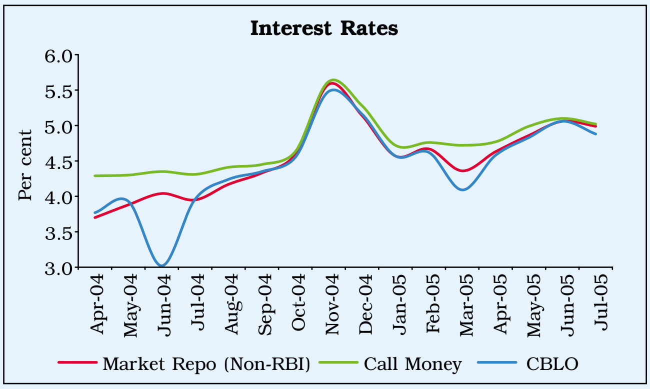


Table 1.53: Activity in Other Money Market Segments

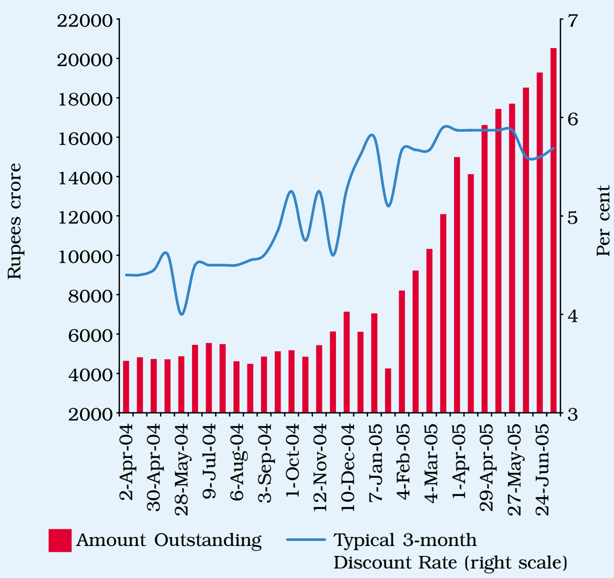
(Rupees crore)

Month	Average Daily Turnover			Outstanding Amount		Forward Rate Agreements/ Interest Rates Swaps (Notional Amount)	Commercial Bills Rediscounted by Commercial Banks
	Term Money Market	Repo Market (Outside the LAF)	Collateralised Borrowing and Lending Obligation (CBLO)	Commercial Paper	Certificates of Deposit		
1	2	3	4	5	6	7	8
2004-05							
April	325	15,195	2,496	10,362	4,725	5,76,808	330
May	372	15,932	3,872	11,038	4,860	6,11,595	370
June	274	17,517	4,015	10,950	5,438	6,04,669	85
July	445	19,226	4,508	11,038	5,478	5,90,118	100
August	311	13,561	4,962	11,002	4,480	6,40,173	195
September	487	18,178	6,149	11,371	5,112	8,53,195	375
October	539	15,719	8,466	10,409	4,785	9,25,175	320
November	407	18,560	9,651	10,719	6,118	9,50,151	1,099
December	504	21,922	9,962	13,272	6,103	9,75,135	288
January	514	17,556	7,701	13,092	4,236	10,14,442	316
February	878	17,562	8,952	13,189	9,214	9,46,293	375
March	1,253	14,688	9,625	14,235	12,078	10,62,242	401
2005-06							
April	661	12,174	10,369	15,598	16,602	10,76,513	785
May	545	13,688	12,233	17,182	17,689	10,72,684	755
June	534	17,163	12,075	17,797	19,270	10,93,367	n.a.
July	717	18,103	15,291	18,349	20,509 *	12,13,895	n.a.

n.a. : Not available. * : As on July 8, 2005.

raising resources through the issuance of CDs on account of a smaller retail network and cost effectiveness. The steady expansion in issuance of CDs during 2004-05 was encouraged by factors such as reduction in stamp duty on CDs effective March 1, 2004, no tax deduction at source, no premature closure of deposits under CDs *vis-à-vis* alternative competing instruments such as fixed deposits and greater opportunity for secondary market trading. Furthermore, mutual funds (MFs) have also turned to CDs after the Securities and Exchange Board of India (SEBI) placed a bar on parking their funds in bank deposits. An encouraging development was that some of the top issuing banks got their CDs rated for better access to the market even when such rating was not mandatory under the extant guidelines.

Chart I.27: Certificates of Deposit



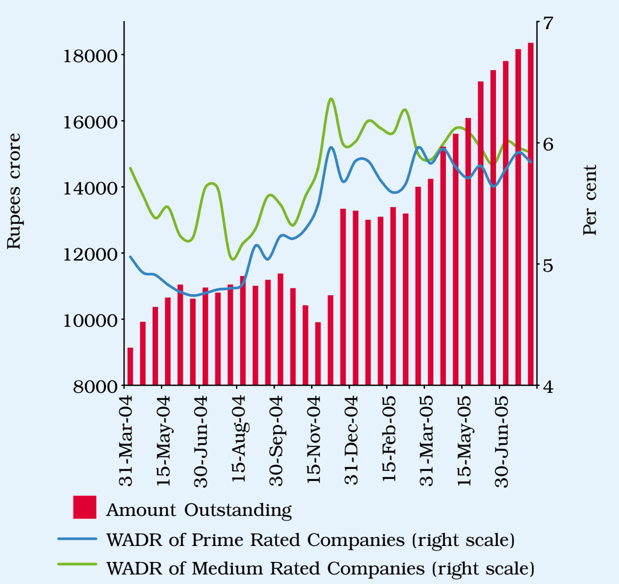
I.5.16 Balances under CDs recorded a further pick-up during 2005-06 (up to July 8, 2005) mainly due to higher issuances by some private sector banks. The higher recourse to CDs was also driven by the reduction in the minimum maturity period to seven days. The typical three-month discount rate on CDs remained broadly stable during the quarter. Total CDs outstanding constituted 5.1 per cent of the aggregate deposits of the issuing banks.

Commercial Paper

I.5.17 The market for commercial paper (CP) continued to remain buoyant during 2004-05 (Chart I.28). In tandem, the discount rate firmed up from a range of 4.70-6.50 per cent during 2003-04 to 5.20-7.25 per cent during 2004-05, with the weighted average discount rate (WADR) moving up from 5.11 per cent to 5.84 per cent. The spread of the WADR between the prime-rated and medium-rated companies declined to 3 basis points during the fortnight ended March 31, 2005 from 73 basis points during the fortnight ended March 31, 2004. The preferred maturity of CP was for periods ranging from '61 to 90 days' and '180 days and above'.

I.5.18 In terms of groups of issuers, there has been a decline in the amount of CPs being issued by manufacturing companies over time. Their share in the aggregate amount of CPs raised came down to 31 per cent during 2004-05 from 44 per cent during 2003-04. On the other hand, the share of finance/leasing companies increased to 56 per cent (38 per cent during 2003-04) while FIs accounted for 13 per cent (18 per cent during 2003-04). The decline in CP issuance by manufacturing companies reflected larger internal accruals due to enhanced efficiency in their operations. Introduction of sub-PLR lending has also enabled corporates to raise funds at comparable rates from banks without incurring any additional cost towards stamp duty, dematerialisation costs or fees for issuing and paying agents (IPAs). Furthermore, easier access to external commercial borrowings (ECBs) also helped top-rated corporates to borrow cheaper funds instead of relying essentially on domestic sources. Larger issuances of CP by finance and leasing companies was partly on account of the policy-induced phasing out their access to public deposits. Large investment interest by mutual funds on account of the Reserve Bank's guidelines on non-SLR debt securities by banks and reduction in stamp duty on CP effective March 1, 2004 also boosted CP issuances. Though the CP market is overwhelmingly dominated by first class prime rated issuers (*i.e.*, P1+ and above of CRISIL or its equivalent), their share in issuances of CP declined marginally to 88.2 per cent in 2004-05 from 91.9 per cent during 2002-03. During 2004-05, around 91 per cent of the CP issuances was accounted for by the corporates with net worth of more than Rs.50 crore.

Chart I.28: Commercial Paper

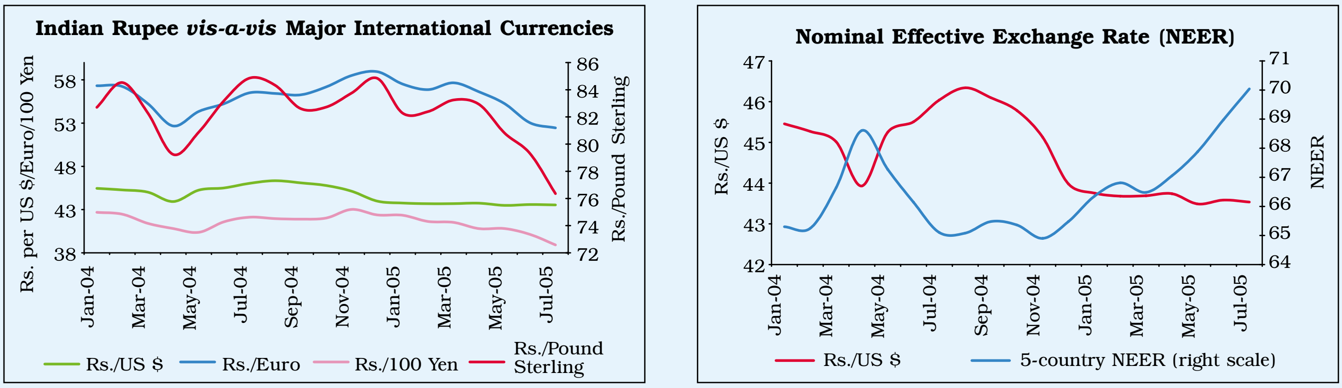


I.5.19 The market for CPs continued to remain strong in 2005-06 (up to end-July 2005) and outstanding CPs increased from Rs.14,235 crore at end-March 2005 to Rs.18,349 crore by end-July 2005 (Appendix Table I.39). Leasing and finance companies accounted for 62.5 per cent of the total CP outstanding in July 2005. The WADR on CPs increased by four basis points to 5.88 per cent on July 31, 2005 over its level on March 31, 2005.

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

I.5.20 There was a sharp increase in volumes in the FRAs/IRS market during 2004-05. FRAs/IRS transactions rose from 20,413 contracts amounting to Rs.5,76,808 crore in April 2004 to 37,864 contracts for Rs.10,62,242 crore in March 2005. The major participants in this market include select foreign banks, private sector banks and PDs. In a majority of these contracts, the National Stock Exchange (NSE)-Mumbai Inter-bank Offered Rate (MIBOR) and Mumbai Inter-bank Forward Offered Rate (MIFOR) were used as the benchmark rates. The other benchmark rates used included secondary market yields of Government of India securities having a residual maturity of one year and primary cut-off yields on 364-day Treasury Bills. During 2005-06 (up to July 2005), the number of contracts increased further to 45,225 amounting to Rs.12,13,895 crore.

Chart I.29: Movement of the Indian Rupee



FOREIGN EXCHANGE MARKET

I.5.21 The foreign exchange market remained generally stable during 2004-05. In response to the switches in capital flows during the year, the rupee moved in a relatively wide range of Rs.43.36-Rs.46.46 per US dollar during the year. The rupee appreciated by 2.2 per cent against the US dollar on an annual average basis while it weakened against the euro, the pound sterling and the Japanese yen by 4.5 per cent, 6.3 per cent and 2.6 per cent, respectively, during 2004-05. Reflecting these cross-currency movements, the nominal effective exchange rate (NEER) depreciated by 1.9 per cent during 2004-05 (Chart I.29).

I.5.22 Excess supply in the foreign exchange market in April 2004 drove the forwards into discounts during the month (Chart I.30). The excess supply situation changed by mid-May 2004 because of the turbulence in equity markets leading to outflows on account of FIIs and rising global oil prices. As a result, the rupee depreciated by 4.3 per cent against the US dollar during May-August 2004. The Reserve Bank made net market sales of US $ 2.7 billion during this period (Table 1.54). The two-way movement in the rupee prompted corporates to hedge foreign currency exposures and forwards moved into premia in June 2004. The pressure on the rupee started easing from September 2004 onwards with the revival in FII flows, step-up in trade credits and ECBs by importers. Remittances from exporters and heavy FII inflows continued to provide strength to the rupee against the US dollar in the following months. The weakness of the US dollar against other major currencies led the rupee to appreciate by 6.6 per cent during August-December 2004. Although FII flows slowed down in January 2005, the rupee remained strong against the US dollar during the last quarter of the financial year as the US dollar weakened sharply in the international markets. The Reserve Bank made net market purchases of US $ 16.1 billion during September 2004-March 2005.

I.5.23 During April-May 2005, despite outflows by FIIs and a higher merchandise trade deficit, the rupee firmed up against the US dollar from Rs.43.76 at end-March 2005 to Rs.43.30 per US dollar on May 12, 2005. In subsequent weeks, the Indian rupee depreciated, reaching Rs.43.76 on June 2, 2005 due to strengthening of the US dollar in the international markets. With the revaluation of the Chinese yuan on July 21, 2005, there were appreciation pressures and the rupee stood at Rs.43.58 per US dollar on August 19, 2005. On the whole, the Indian rupee appreciated by 0.4 per cent over its level on March 31, 2005.

Chart I.30: Forward Premia/Discount

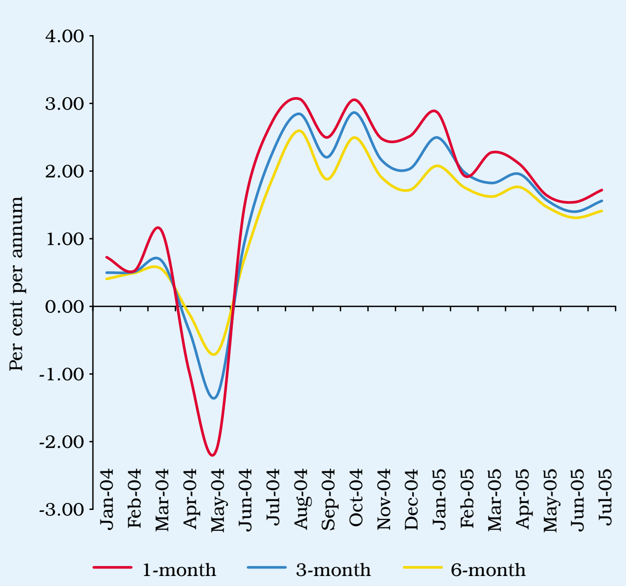


Table 1.54: Purchases and Sales of US dollars by the Reserve Bank

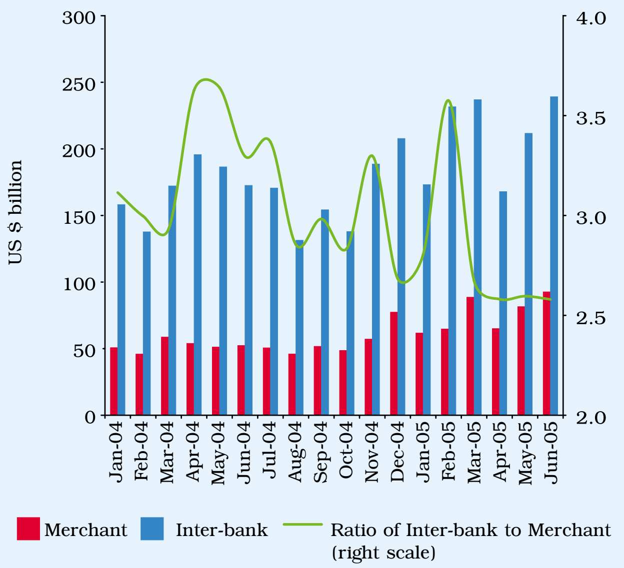
(US $ million)

Month	Purchases(+)	Sales (-)	Net@ (+/-)	Cumulative (during the financial year)	Outstanding Net Forward Sales (-) /Purchases (+) (end of month)
1	2	3	4	5	6
2004-05					
April	10,759	3,332	(+) 7,427	(+) 7,427	(+) 311
May	3,220	3,440	(-) 220	(+) 7,207	(+) 125
June	970	1,383	(-) 413	(+) 6,793	(+) 115
July	0	1,180	(-) 1,180	(+) 5,614	(+) 115
August	5	881	(-) 876	(+) 4,738	(+) 110
September	143	124	(+) 19	(+) 4,757	(+) 5
October	5	104	(-) 99	(+) 4,658	0
November	3,792	0	(+) 3,792	(+) 8,450	0
December	1,501	108	(+) 1,393	(+) 9,843	0
January	0	0	0	(+) 9,843	0
February	4,974	0	(+) 4,974	(+) 14,817	0
March	6,030	0	(+) 6,030	(+) 20,847	0
2005-06					
April	0	0	0	0	0
May	0	0	0	0	0
June	0	107	(-) 107	(-) 107	0

(+) : Implies purchases including purchase leg under swaps and outright forwards.
(-) : Implies sales including sale leg under swaps and outright forwards.
@ : Includes transactions under India Millennium Deposits (IMDs).
Note : This Table is based on value dates.

I.5.24 Spot market conditions kept forward premia low during the first quarter of 2005-06. Forward premia declined in May 2005 in view of the announcement to phase out the Mumbai Inter-bank Forward Offered Rate (MIFOR) as a benchmark for pricing interest rate derivative deals for non-banks.

Chart I.31: Merchant and Inter-bank Turnover



I.5.25 The turnover in both the merchant and inter-bank segments of the foreign exchange market increased sharply, reflecting the strong growth in merchandise trade, services and capital flows (Appendix Table I.40). While the merchant turnover increased from US $ 54.0 billion in April 2004 to US $ 88.6 billion in March 2005, the inter-bank turnover increased from US $ 195.7 billion to US $ 237.0 billion during the same period (Chart I.31). The ratio of inter-bank to merchant turnover hovered in the range of 2.7-3.6 during the year, indicative of orderly market conditions.

I.5.26 According to the BIS Triennial Survey, the average daily turnover in the international markets rose to US $ 2.4 trillion in 2004 from US $ 1.6 trillion in 2001. India's share in global foreign exchange turnover has been increasing, although it still remains quite low (Table 1.55).

Table 1.55: Foreign Exchange Market Turnover*

(US $ billion)

Item	2004	2001	1998
1	2	3	4
Global Turnover	2,408	1,618	1,968
India's Share in Global Turnover (%)	0.3	0.2	0.1

* : Net of local inter-dealer double counting.
Source: Triennial Central Bank Survey, 2004, BIS.

GOVERNMENT SECURITIES MARKET

I.5.27 Yields hardened in the Government securities market reflecting the upturn in the international interest rate cycle, rise in international crude oil prices, domestic monetary policy tightening and edging up of inflation in the first half of 2004-05. The growth of the aggregate volume of transactions (outright as well as repos) in Central and State Government dated securities and Treasury Bills slowed down to 3.2 per cent during 2004-05 from 36.0 per cent during 2003-04 reflecting the reduced appetite for Government securities (Box I.12 and Appendix Table I.42). While the Central Government dated securities constituted 92.0 per cent of the outright transactions, Treasury Bills constituted 7.0 per cent. The share of State Government securities was negligible at 1.0 per cent.

I.5.28 During 2004-05, the yield curve underwent an upward shift. The secondary market yields on the 10-year Government securities moved up by 150 bps between end-March 2004 and end-March 2005 (Chart I.32).

Box I.12
Surplus Bank Liquidity and Yields

Assuming that the loan business has the first charge on banks' resources after meeting the statutory reserve requirements, the surplus liquidity of commercial banks could, therefore, be computed as the resources available in excess of statutory pre-emptions and credit offtake. Consequently, as the surplus bank liquidity increases, commercial banks' appetite for Government paper increases leading to a decline in yields and *vice versa* (Chart A).

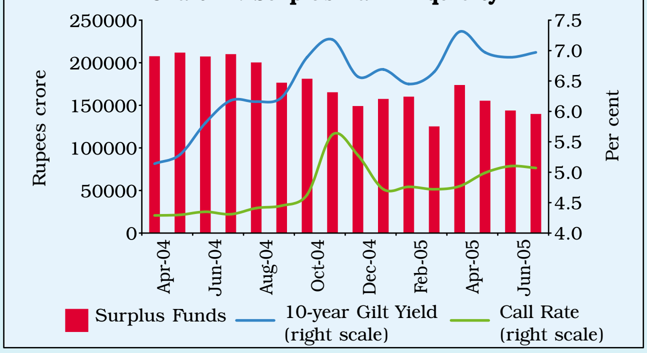


Chart A : Surplus Bank Liquidity

The dynamics of surplus liquidity in response to shocks are examined through an unrestricted vector autoregression (VAR) model. Using monthly data for the period April 2000 to March 2005, the VAR model was estimated with four endogenous variables in the following order: secondary market 10-year yield in the Government securities market, seasonally-adjusted wholesale price index (WPI), seasonally-adjusted index of industrial production (IIP) and seasonally-adjusted surplus liquidity of commercial banks. The domestic price of petroleum, oil and lubricants (POL) was also included as an exogenous variable. Impulse response analysis indicates that an increase in surplus liquidity pushes yields below the baseline for almost two years. On the other hand, an increase in the IIP leads to higher G-sec yields with the peak effect occurring 16 months after the increase in IIP. An increase in prices raises yields after a lag of two months and the maximum effect occurs at the eighteenth month (Chart B). In brief, while increases in output and prices lead to hardening of yields, increase in surplus liquidity lowers the yields.

Chart B: Response of Government Securities Yield

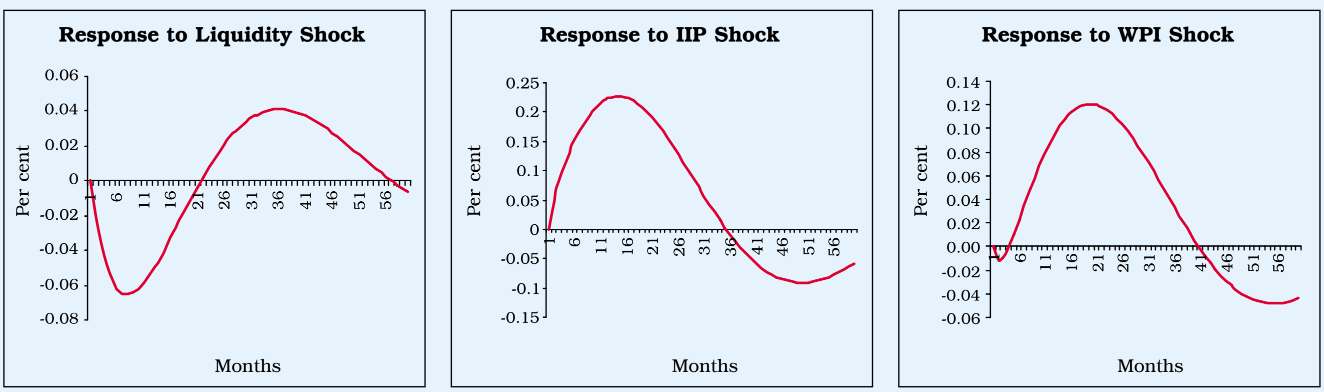


Chart I.32: Yield Curve of Central Government Securities

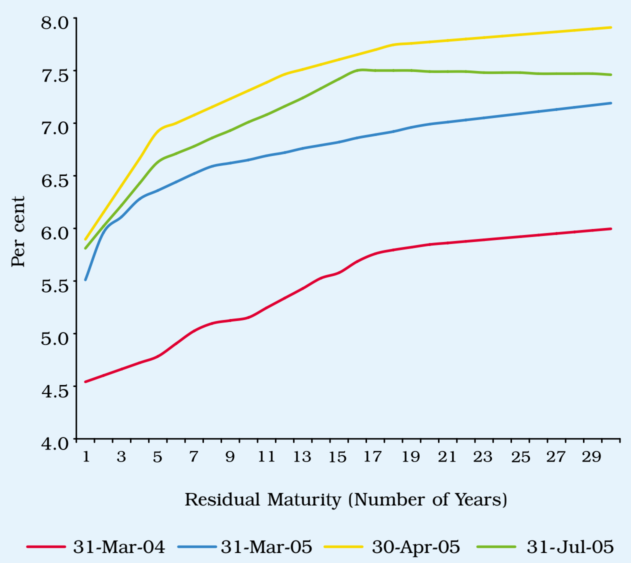


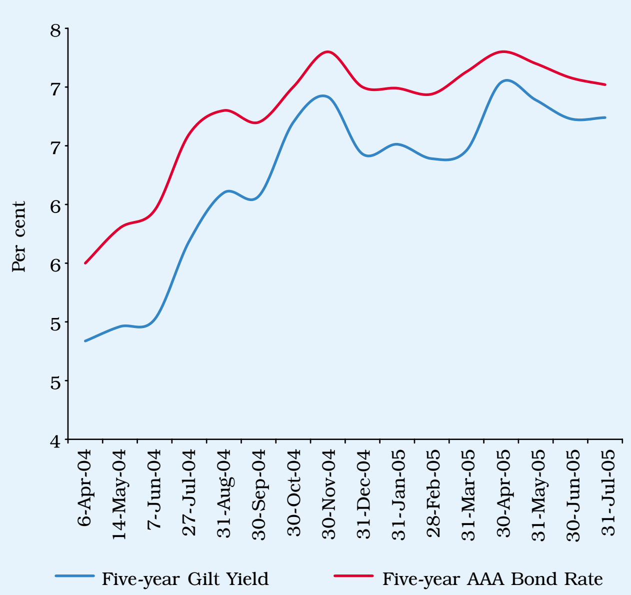
Chart I.33: Movement of 10-Year Yields

I.5.29 The yield on 10-year Government paper rose from 5.15 per cent as on March 31, 2004 to 6.73 per cent on August 11, 2004 with the gradual tightening of liquidity conditions following a drying up of capital inflows, a spurt in domestic inflation, strong growth and the reversal of the accommodative monetary policy stance by the US Federal Reserve. The yield, however, retracted to 5.89 per cent by September 3, 2004 reflecting fiscal measures taken by the Government to rein in inflation, a lower than anticipated hike in the MSS ceiling amount, some moderation in global oil prices and a one-time permission by the Reserve Bank to banks to transfer securities to the held-to-maturity (HTM) category. With liquidity conditions tightening again due to an increase in the CRR in September-October 2004 and the hike in the reverse repo rate in October 2004, the 10-year yield edged up and peaked at 7.31 per cent on November 8, 2004. Subsequently, yields fell on cancellation of scheduled auctions, ebbing of international oil prices and easing of liquidity conditions following the revival of capital inflows. The market rallied in February 2005, buoyed by the Standard & Poor's rating upgrade, lower inflation numbers and news of a decline in the fiscal deficit. During March 2005, however, yields firmed up again on concerns about the higher than expected Government borrowings as announced in the Union Budget, 2005-06. Persistent concerns about international crude oil prices and year-end balance sheet adjustments hardened the 10-year yield to 6.73 per cent on March 22, 2005 before it finally closed at 6.65 per cent on March 31, 2005 (Chart I.33).

I.5.30 During 2005-06, yields started to harden from the second week of April 2005, reflecting a further rise in international crude oil prices, higher than expected inflation and a hike in the reverse repo rate. The 10-year benchmark yield firmed up to 7.31 per cent on April 30, 2005 from 6.65 per cent on March 31, 2005. Yields softened during the first three weeks of May 2005 with the decline in international crude oil prices and easing of inflation. As crude oil prices renewed their upward climb, the 10-year yield hardened to 7.23 per cent as on July 11, 2005. With the reverse repo rate being left unchanged on July 26, 2005 in the First Quarter Review of the Annual Statement on Monetary Policy, yields softened under comfortable liquidity conditions and stood at 7.08 per cent on August 19, 2005. Thus, yields hardened by 43 basis points between end-March and August 19, 2005.

I.5.31 In line with the Government securities market, the yields on 5-year AAA-rated corporate bonds edged up during 2004-05. The yield spread between 5-year AAA-rated corporate bonds and 5-year Government securities, however, narrowed to 28 basis points at end-July 2005 from 66 basis points at end-March 2004 (Chart I.34).

Chart I.34: Yield Spreads



CREDIT MARKET

I.5.32 Despite a strong pick-up in credit demand, deposit and lending rates of banks remained broadly stable, reflecting appropriate liquidity in the system. Deposit rates, in fact, eased till December 2004 before edging up in March 2005 (Table 1.56). Public sector banks (PSBs) realigned their deposit rates in the tenor of one year and above to 5.25-6.50 per cent by June 2005 from a range of 4.75-7.00 per cent in March 2005.

I.5.33 Benchmark prime lending rates (BPLR) for public sector and foreign banks experienced some softening even while that of private sector banks hardened. Sub-BPLR lending of the banking system (excluding exports, the bulk of which is at sub-BPLR) constituted over 65 per cent of total outstanding advances above Rs.2 lakh.

EQUITY AND DEBT MARKETS

I.5.34 Strong macroeconomic fundamentals kept the capital market buoyant during 2004-05. The primary segment benefited from the positive sentiment in the secondary market and an upbeat investment climate. Equity issues by corporates through initial public offerings recorded a substantial increase. Privately placed debt issuances by public sector companies dominated the primary market segment. Issuances in international markets by Indian corporates also increased during the year. Stock markets recovered from the setback of May 2004 to touch all-time high levels towards the close of the year. During the most

Table 1.56: Movements in Deposit and Lending Rates

(Per cent)

Interest Rate	June 2005	March 2005	December 2004	September 2004	June 2004	March 2004
1	2	3	4	5	6	7
1. Domestic Deposit Rate @						
Public Sector Banks						
Up to 1 year	2.75-6.00	2.75-6.00	3.50-5.00	3.50-5.00	3.50-5.25	3.75-5.25
More than 1 year and up to 3 years	5.25-6.00	4.75-6.50	4.75-5.50	4.75-5.75	5.00-5.75	5.00-5.75
More than 3 years	5.50-6.50	5.25-7.00	5.00-5.75	5.25-5.75	5.25-5.75	5.25-6.00
Private Sector Banks						
Up to 1 year	3.00-6.50	3.00-6.25	3.00-6.00	3.00-6.00	3.00-6.00	5.00-6.50
More than 1 year and up to 3 years	5.00-7.00	5.25-7.25	5.00-6.75	5.00-6.50	5.00-6.50	5.00-6.50
More than 3 years	5.75-7.25	5.25-7.00	5.25-6.50	5.25-7.00	5.25-7.00	5.25-7.00
Foreign Banks						
Up to 1 year	3.00-5.50	3.00-6.25	3.00-5.75	2.75-7.50	2.75-7.50	2.75-7.75
More than 1 year and up to 3 years	3.50-6.50	3.50-6.50	3.50-7.00	3.25-8.00	3.25-8.00	3.25-8.00
More than 3 years	4.00-7.00	3.50-7.00	3.50-7.00	3.25-8.00	3.25-8.00	3.25-8.00
2. Benchmark Prime Lending Rate						
Public Sector Banks	10.25-11.25	10.25-11.25	10.25-11.25	10.25-11.50	10.25-11.50	10.25-11.50
Private Sector Banks	11.00-13.50	11.00-13.50	10.50-13.50	9.75-13.00	9.75-13.00	10.50-13.00
Foreign Banks	10.00-14.50	10.00-14.50	10.00-15.00	11.00-14.85	11.00-14.85	11.00-14.85
3. Actual Lending Rate*						
Public Sector Banks	3.35-16.50	2.75-16.00	3.50-19.50	2.75-16.00	4.25-16.00	4.00-16.00
Private Sector Banks	3.15-24.94	3.15-22.00	2.62-22.00	3.15-21.48	4.00-22.19	4.50-22.00
Foreign Banks	4.00-25.00	3.55-23.50	3.00-23.00	2.55-23.00	3.75-23.00	3.75-23.00

* : Interest rate on non-export demand and term loans above Rs.2 lakh excluding lending rates at the extreme five per cent on both sides.
@ : As on June 10, 2005.

part of the period November 2004-March 2005, the BSE Sensex remained above the 6000-mark. The BSE Sensex reached new highs during July-August 2005, closing at 7,860 on August 17, 2005. The rise in indices was accompanied with a sharp increase in turnover in a market flush with liquidity. The rally in the stock markets was broad-based and spread widely across small and mid-cap companies from various sectors. FIIs evinced keen interest in the Indian capital market.

Primary Market

I.5.35 Resource mobilisation from the primary market through public issues (excluding offers for sale) almost trebled during 2004-05 (Table 1.57). The average size of a public issue was substantially higher at Rs.371 crore in 2004-05 than Rs.168 crore in 2003-04 and Rs.106 crore during the five-year period 1999-2004. The amounts raised through public issues more than doubled to 0.7 per cent of GDP in 2004-05 from 0.3 per cent in the previous year (Chart I.35).

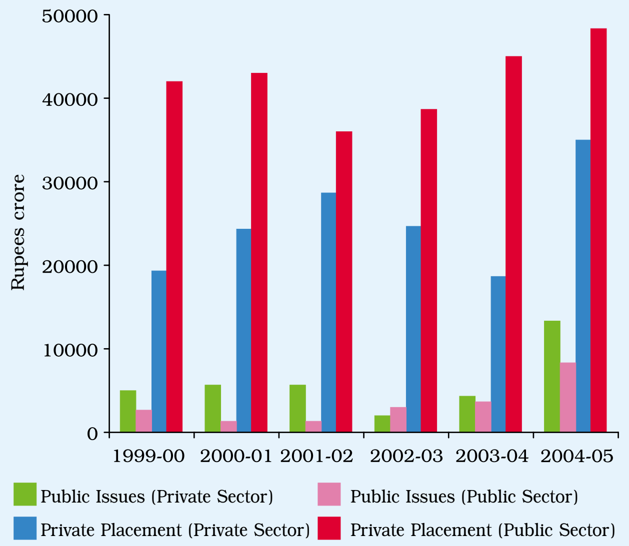
Table 1.57: Mobilisation of Resources from the Primary Market

(Amount in Rupees crore)

Item	2004-05P No. of Issues	2004-05P Amount	2003-04 No. of Issues	2003-04 Amount
1	2	3	4	5
A. Prospectus and Rights Issues*				
1. Private Sector (a+b)	54	13,482 (266.9)	38	3,675 (95.7)
a) Financial	11	5,702	4	1,353
b) Non-financial	43	7,780	34	2,322
2. Public Sector (a+b+c)	5	8,410 (101.4)	9	4,176 (39.7)
a) Public Sector Undertakings	–	–	–	–
b) Government Companies	1	2,684	1	100
c) Banks/Financial Institutions	4	5,726	8	4,076
3. Total (1+2)	59	21,892 (178.8)	47	7,851 (61.3)
Of which:				
(i) Equity	54	18,024	40	3,427
(ii) Debt	5	3,868	7	4,424
B. Private Placement				
1. Private Sector	716	35,144 (90.5)	640	18,760 (30.7)
a) Financial	255	20,974	344	12,551
b) Non-financial	461	14,770	296	6,209
2. Public Sector	198	48,308 (7.0)	234	45,141 (6.8)
a) Financial	128	26,128	132	26,461
b) Non-financial	70	22,180	102	18,680
3. Total (1+2)	914	84,052 (31.5)	892	63,901 (-7.8)
C. Total (A+B)	**970**	**1,03,718 (45.9)**	**909**	**71,091 (-1.0)**
Memo :				
Euro Issues		3,353 (8.2)		3,098 (9.6)

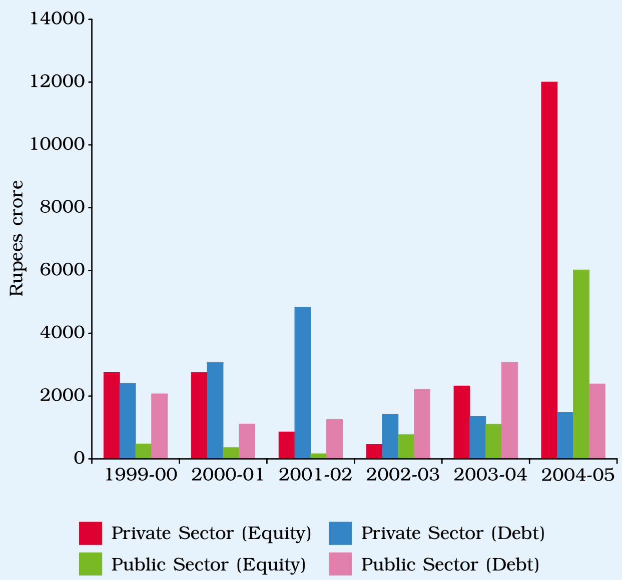
P : Provisional. * : Excluding offers for sale. – : Nil/Negligible.
Note : Data in parentheses are percentage variations over the previous year.

Chart I.35: Resource Mobilisation in the Primary Market



I.5.36 Non-Government public limited companies (private sector) accounted for 61.6 per cent of resources mobilised by way of public issues during 2004-05 as compared with 46.8 per cent during 2003-04 (Appendix Table I.45 and Chart I.36). Banks and

Chart I.36: Public Issues - Instrument-wise



financial institutions (in both public and private sector) mobilised 52.2 per cent of resources by public issues. Two public sector banks raised equity worth Rs.3,336 crore during 2004-05. The share of the initial public offerings (IPOs) by unlisted companies increased substantially during 2004-05, both in terms of number of issues and amounts raised. Out of 59 public issues, 23 issues were IPOs, constituting 24.4 per cent of the total resource mobilisation. All the IPOs generated enthusiastic investor response. Equity issues constituted 82.3 per cent of the total resource mobilisation through public issues during 2004-05 as compared with 43.7 per cent during the previous year. Out of the 59 public issues during 2004-05, only five were debt issues. The Indian corporate sector has been relying on the private placement route for raising debt alongside tapping the international markets.

I.5.37 During April-June 2005, resource mobilisation through public issues (excluding offers for sale) amounted to Rs.3,884 crore through 25 issues as compared with Rs.3,251 crore through five issues during April-June 2004. The bulk of resources were raised by way of equity issues. Non-Government public limited companies (private sector) accounted for 41.6 per cent of resources mobilised during April-June 2005. Two public sector banks raised equity worth Rs.2,270 crore during April-June 2005.

I.5.38 Mobilisation of resources through private placement underwent a substantial turnaround during 2004-05 (Table 1.57). Public sector entities (both financial and non-financial) continued to dominate the private placement market although their share fell to 57.5 per cent of the total mobilisation from 70.6 per cent in 2003-04. Resources raised by financial intermediaries (both public sector and private sector) accounted for 56.0 per cent of the total mobilisation by private placements during 2004-05 as compared with 61.1 per cent during 2003-04. While all-India financial institutions, *viz.*, IDBI, IFCI and IIBI, mobilised Rs.4,541 crore through private placements during 2004-05, private and public sector banks mobilised Rs.10,552 crore through private placements. The amount raised by way of private placements increased to 2.7 per cent of GDP during 2004-05 from 2.3 per cent in the previous year.

I.5.39 During 2004-05, resources raised by Indian corporates from the international capital markets increased by 8.2 per cent. These were mainly by way of Global Depository Receipts (GDRs). There was no American Depository Receipt (ADR) issue, while resource mobilisation through Foreign Currency Convertible Bonds (FCCBs) recorded a marginal decline. Most of the issues were by private non-financial companies. IT companies accounted for nearly half of the GDR issues. During April-June 2005, the resources raised through Euro issues by Indian corporates increased sharply by 138.5 per cent to Rs.1,834 crore.

Mutual Funds

I.5.40 Net funds mobilised by mutual funds (net of redemptions) declined by 95.3 per cent during 2004-05 (Table 1.58). The UTI Mutual Fund and public sector mutual funds recorded net outflows during 2004-05 in contrast to net inflows during 2003-04. Net resource mobilisation by private sector mutual funds was also substantially lower than in the previous year. Net assets under management of mutual funds increased by 12.9 per cent during 2004-05.

I.5.41 The bulk of the resources mobilised by mutual funds during 2004-05 were under liquid/money market and growth/equity-oriented schemes (Table 1.59). Mobilisation under debt schemes, which have traditionally been garnering the largest amount of resources, declined during the year due to a hardening of yields. Equity-oriented schemes

Table 1.58: Resource Mobilisation by Mutual Funds

(Rupees crore)

Mutual Fund	2004-05			2003-04		
	Gross Mobilisation	Net Mobilisation@	Net Assets*	Gross Mobilisation	Net Mobilisation@	Net Assets*
1	2	3	4	5	6	7
Private Sector Mutual Funds	7,36,463	7,600	1,17,487	5,34,649	42,545	1,07,087
Public Sector Mutual Funds	56,589	-2,677	11,374	31,548	1,667	11,912
UTI Mutual Fund	46,656	-2,722	20,740	23,993	2,597	20,617
Total	**8,39,708**	**2,201**	**1,49,601**	**5,90,190**	**46,809**	**1,39,616**

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

Table 1.59: Funds Mobilised by Mutual Funds - Type of Schemes

(Amount in Rupees crore)

Scheme	2004-05				2003-04			
	No. of Schemes	Gross Mobilisation	Net Mobilisation@	Net Assets*	No. of Schemes	Gross Mobilisation	Net Mobilisation@	Net Assets*
1	2	3	4	5	6	7	8	9
A. Income/Debt Oriented Schemes	**227**	**7,98,674**	**-5,244**	**1,06,250**	**197**	**5,60,972**	**39,603**	**1,10,255**
(i) Liquid/Money Market	39	6,38,594	10,348	54,068	36	3,75,646	24,577	41,704
(ii) Gilt	30	4,361	-1,345	4,576	30	12,387	2,232	6,026
(iii) Debt (other than assured return)	158	1,55,719	-14,247	47,605	131	1,72,940	12,805	62,524
(iv) Debt (assured return)	0	0	0	0	0	0	-10	0
B. Growth/Equity Oriented Schemes	**188**	**37,280**	**7,100**	**38,484**	**169**	**26,695**	**7,219**	**25,281**
(i) Equity Linked Savings Schemes	37	155	-194	1,727	43	53	-466	1,668
(ii) Others	151	37,125	7,294	36,757	126	26,642	7,685	23,613
C. Balanced Schemes	**35**	**3,755**	**345**	**4,867**	**37**	**2,523**	**-13**	**4,080**
D. Fund of Funds Scheme	**12**	**1,827**	**59**	**980**	**8**	**1,189**	**777**	**816**
Total	**462**	**8,41,535**	**2,260**	**1,50,581**	**411**	**5,91,379**	**47,587**	**1,40,431**

@ : Net of redemptions. * : As at the end of March.

Source: Securities and Exchange Board of India.

attracted higher funds mainly due to attractive returns in a buoyant secondary market. A substantial amount was parked in liquid/money market schemes which accounted for 35.9 per cent of total assets under management, followed by debt-oriented schemes (31.6 per cent). Net assets under equity-oriented schemes increased sharply by 52.2 per cent on account of increase in the market value of the equity portfolio. During April-June 2005, net funds mobilised by mutual funds declined by 32.5 per cent to Rs.14,273 crore mainly due to large redemptions.

All-India Financial Institutions

I.5.42 Financial institutions (FIs) can raise resources from the markets provided that the total outstanding at any time does not exceed 10 times their Net Owned Funds (NOF). Consequent upon IDBI converting itself into a scheduled bank with effect from October 2004, and IFCI and IIBI's NOF turning negative, the aggregate umbrella limit for raising of resources declined from Rs.23,873 crore on April 2, 2004 to Rs.16,160 crore on March 18, 2005. In the event, the aggregate amount of outstanding resources mobilised by FIs by way of these instruments declined from Rs.6,496 crore (27.2 per cent of limit) on April 2, 2004 to Rs.2,431 crore (15.0 per cent of limit) on March 18, 2005. On an average basis, CP was the most preferred instrument (Rs.2,387 crore), followed by term deposits (Rs.1,305 crore). Besides the erstwhile IDBI, only the EXIM Bank, NHB, IDFC and SIDBI were active in mobilising through these instruments during 2004-05. The aggregate umbrella limit increased to Rs. 17,536 crore on July 8, 2005 and the aggregate amount of outstanding resources raised by these FIs also increased to Rs.3,145 crore (17.9 per cent of limit).

1.5.43 Total resources mobilised by the All-India Financial Institutions (AIFIs), excluding erstwhile IDBI, increased by 16.4 per cent during 2004-05. FIs such as IFCI Ltd. and IIBI Ltd. continued to be barred from mobilising fresh resources on account of their poor financial performance. While the weighted average maturity of the instruments issued shortened, the weighted average cost of funds rose across the FIs (Table 1.60). Financial assistance sanctioned and disbursed by AIFIs declined by 8.6 per cent and 21.1 per cent, respectively (Appendix Table I.46).

Secondary Market

I.5.44 The stock market exhibited sustained buoyancy in the latter half of 2004-05 after a volatile period during April-June 2004. Gaining a speedy recovery from the decline on May 17, 2004, the BSE Sensex gathered momentum to close at its intra-year peak of 6915 on March 8, 2005 (Appendix Table I.47 and Chart I.37). The dramatic drop in the Indian stock markets on May 17, 2004 reflected domestic political uncertainties as well as adverse investor sentiment

Table 1.60 : Resources Raised by way of Bonds/Debentures by Select All-India FIs

(Amount in Rupees crore)

Institution	Resources Raised		Outstanding Borrowings		Weighted Average Cost of Funds (Per cent)		Weighted Average Maturity (years)	
	2004-05	2003-04	March 2005	March 2004	2004-05	2003-04	2004-05	2003-04
1	2	3	4	5	6	7	8	9
IIBI	..	176	2,229	2,420	..	8.7	..	18.0
IFCI	..	..	13,385	17,564	..	8.2	..	3.2
TFCI	23	172	421	546	10.4	8.6	4.9	10.0
Exim Bank	5,430	6,881	14,704	12,752	6.6	5.9	4.2	6.7
IDFC	4,253	3,575	6,533	3,975	6.0	5.6	3.7	5.9
SIDBI	2,364	2,972	8,427	10,535	5.9	4.9	1.9	2.8
NABARD	8,843	5,334	23,805	11,883	5.5	5.4	5.0	5.4
NHB	5,172	3,290	14,385	10,569	6.3	5.4	2.6	3.2
Total	**26,085**	**22,401**	**83,889**	**70,245**				

.. : Not applicable.

Note : 1. Data on resources raised include: long-term resources mobilised through bonds/debentures; short-term resources mobilised through commercial papers, certificates of deposit, ICDs, term deposits and term money; and foreign currency resources mobilised through bonds.

2. Data are provisional.

Source : Respective Financial Institutions (FIs).

in many other emerging market economies. Stock markets in South Korea (-5.1 per cent), Taiwan (-5.1 per cent) and Thailand (-4.6 per cent) also declined on the same day. The concerns arising out of the imposition of the securities transaction tax had a short-lived impact on the markets.

I.5.45 Buoyant conditions resumed in the market during the second half of August 2004 in line with positive sentiments in world equity markets (Chart I.38). The robust macroeconomic outlook, encouraging investment climate, strong investments by FIIs, policy initiatives relating to foreign direct investment in telecom and construction sectors and impressive financial performance of Indian companies were the main factors that boosted the market sentiment in the second half of the financial year. Consistent growth

Chart I.37: Movements in Stock Market Indices

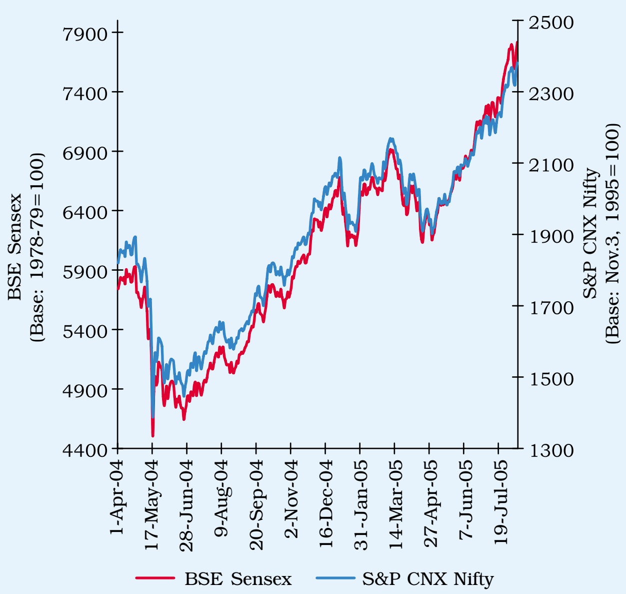


Chart I.38: Movement in International Stock Indices (Normalised to March 2004 = 100)

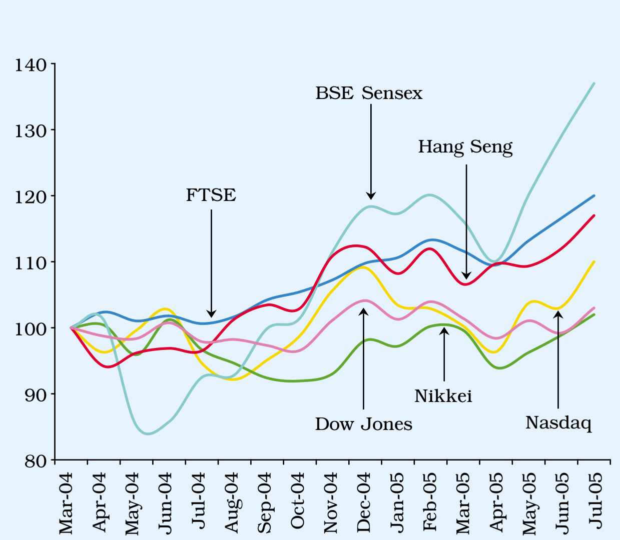


Table 1.61 Corporate Financial Performance

(Growth rates in per cent)

Item			2004-05				2003-04			
	2004-05	2003-04	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
1	2	3	4	5	6	7	8	9	10	11
Sales	25.2	15.4	21.0	24.1	23.7	24.8	19.6	20.5	14.6	11.1
Expenditure	24.0	14.7	19.8	24.3	22.4	23.4	17.5	20.7	14.8	11.6
Gross Profit	38.9	26.6	35.3	30.5	35.8	36.0	37.8	25.3	18.2	16.0
Interest Cost	-2.0	-11.5	-5.4	-13.0	2.1	-3.2	-17.1	-16.6	-15.9	-15.5
Profit after Tax	53.8	57.9	51.4	45.5	45.3	51.2	67.2	52.3	54.6	40.6
Memo:										
No. of Companies	1,273	2,201	1,301	1,464	1,353	1,255	1,386	1,263	1,213	1,202

Note : 1. Growth rates are percentage change in the level in the period under reference over the corresponding period of the previous year.
2. Data are based on the unaudited /audited abridged results of non-financial non-Government companies except column (3) which are based on the audited balance sheets for 2003-04 .

in corporate profits was a key factor driving markets (Table 1.61). Moderation in domestic inflation and easing of international crude oil prices also contributed to the upsurge.

I.5.46 Stock markets exhibited weakness in April, 2005 reflecting rise in international crude oil prices, slowdown of investment by FIIs and a cautious approach adopted by investors ahead of the announcement of corporate results for the last quarter of 2004-05. Buoyancy returned to the markets in May 2005 with the declaration of satisfactory results by some companies, announcement of fresh reform measures in the banking sector and firm trends in major international markets. The stock market was invigorated in the third week of June 2005 with the settlement of the Reliance family dispute and the revival of the monsoon. The BSE Sensex crossed the 7000-mark during intra-day trading for the first time in its history on June 20, 2005 and closed at an all-time high of 7860 on August 17, 2005. The BSE Sensex registered an increase of around 21 per cent between August 17, 2005 and end-March 2005.

I.5.47 The rally in the stock market during 2004-05 was spread across mid-cap and small-cap companies. The broad-based BSE 500 index increased by 21.9 per cent on a point-to-point basis during 2004-05 as compared with an increase of 16.1 per cent in the BSE Sensex. The major sectoral indices registered gains during 2004-05 in line with the generally upbeat sentiment in the stock market (Chart I.39).

I.5.48 The market capitalisation of the BSE increased by 41.4 per cent during 2004-05 reflecting increase in stock prices as well as listing of new securities (Table 1.62 and Appendix Table I.48). Despite an increase in stock prices, the price-earning (P/E) ratio remained generally attractive due to an increase in corporate earnings. Although the P/E ratio of the BSE Sensex was marginally higher than in other emerging markets, the ratio is much lower than in earlier years. Volatility in the stock market declined substantially during 2004-05 although it remained higher than most of the international stock markets. The number of companies listed in the BSE came down due to mergers and acquisitions and de-listing of companies.

I.5.49 The turnover in major stock exchanges increased with a surge in liquidity. The average daily turnover (BSE and NSE) increased by 3.5 per cent during 2004-05. The increase in turnover in equity derivatives was even stronger at 19.5 per cent

Chart I.39: BSE 500 and Sectoral Indices (Normalised to March 2004=100)

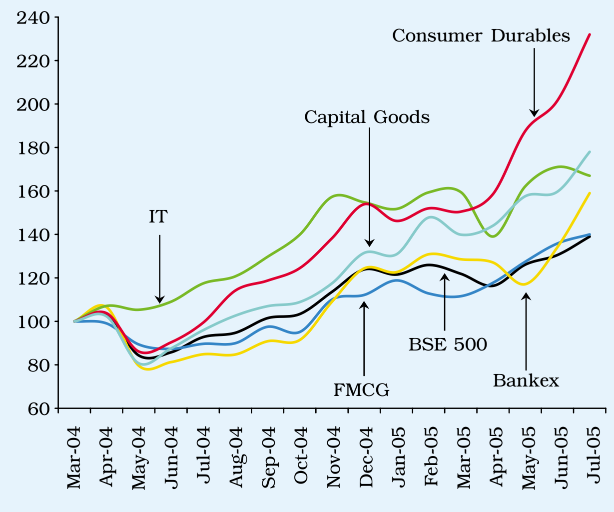


Table 1.62: Indian Equity Markets – Key Indicators

Indicator	BSE		NSE	
	2004-05	2003-04	2004-05	2003-04
1	2	3	4	5
1. BSE Sensex/ S&P CNX Nifty				
(i) Average	5741	4492	1805	1427
(ii) End of the year	6493	5591	2036	1772
2. Coefficient of Variation (Per cent)	11.2	23.0	11.3	23.3
3. Price-Earning Ratio@	16.6	16.2	14.8	16.1
4. Price-Book Value Ratio@	3.3	2.8	3.3	3.1
5. Yield@ (Per cent per annum)	2.0	2.0	2.2	2.1
6. Number of Listed Companies	4,731	5,528	970	909
7. Turnover (Rs. crore)	5,18,717	5,02,620	11,40,071	10,99,535
8. Market Capitalisation (Rs. crore)#	16,98,428	12,01,207	15,85,585	11,20,976

@ : Annual averages for 30 scrips included in the BSE Sensex and 50 scrips included in the S&P CNX NIfty.
# : As at end-March.
Source : The Stock Exchange, Mumbai and the National Stock Exchange of India Limited.

(Chart I.40 and Appendix Table I.49). Trading in stock futures accounted for a significant portion of turnover in equity derivatives.

I.5.50 During 2004-05, foreign institutional investors (FIIs) continued to invest heavily in the Indian equity

Chart I.40: Turnover in Cash and Derivative Segments -NSE

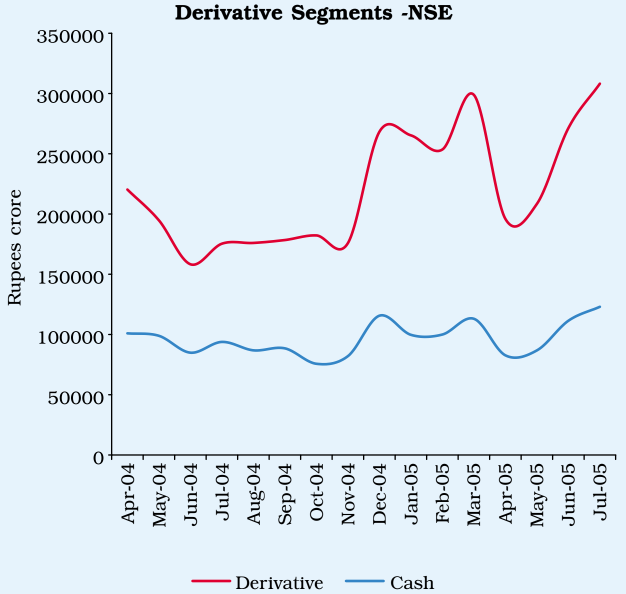


Table 1.63: Trends in Institutional Investments

(Rupees crore)

Year	FIIs		Mutual Funds	
	Net Investment in Equity	Net Investment in Debt	Net Investment in Equity	Net Investment in Debt
1	2	3	4	5
2002-03	2,527	60	-2,067	12,604
2003-04	39,959	5,805	1,308	22,701
2004-05	44,123	1,759	448	16,987

Source: Securities and Exchange Board of India.

market. As net buyers in equities during each month, barring May 2004, net equity investments by the FIIs in the Indian equity market increased by 10.4 per cent during 2004-05. FII investment in debt instruments was, however, lower in 2004-05 than in the previous year (Table 1.63). Mutual funds continued to remain net buyers in equities during 2004-05. Their investments in debt were lower in line with a fall in resource mobilisation under debt schemes. During 2005-06 (up to August 11, 2005), FIIs made net investments of Rs.15,451 crore in equity as compared with Rs.6,249 crore in the corresponding period of the previous year. Mutual funds made net investments of Rs.4,087 crore in equity during 2005-06 (up to August 11, 2005) as compared with net sales of Rs.190 crore in the corresponding period of the previous year.

Developments in Wholesale Debt Market Segment of NSE

I.5.51 In the Wholesale Debt Market (WDM) segment of NSE, 3,097 securities were available for trading as on March 31, 2005 as compared with 2,621 securities as on March 31, 2004. The turnover in WDM, however, declined by 32.6 per cent to Rs.8,87,294 crore in 2004-05. Transactions in dated securities accounted for the bulk of trading - 95.7 per cent of the total traded value during 2004-05. Transactions in corporate debt securities accounted for only 2.0 per cent of total traded volume in the WDM segment. Total market capitalisation of the securities available for trading on the WDM segment worked out to Rs.14,61,734 crore as on March 31, 2005.

I.5.52 To conclude, during 2004-05, domestic financial markets remained stable, even as interest rates in various segments edged up. In the foreign exchange market, the rupee appreciated *vis-à-vis* the US dollar, reflecting excess supply conditions. The stock markets exhibited buoyant conditions reflecting a robust macroeconomic outlook.

VI. EXTERNAL SECTOR

I.6.1 Several significant developments underscored the strength and vibrancy in India's external sector in 2004-05. First, merchandise export growth exceeded 24 per cent in US dollar terms, extending a phase of high growth that began in 2002-03. Second, there was a massive increase in merchandise imports, driven up by the upsurge in international crude oil prices and a strong resumption of domestic investment demand. As a consequence, the trade deficit increased substantially during 2004-05. Third, notwithstanding strong growth in net invisible receipts – mainly backed by services exports and remittances from Indians employed abroad – the current account slipped into a modest deficit after a continuous span of three years of surpluses. Fourth, private capital, led by portfolio flows in stock exchanges, endorsed the attractiveness of the Indian economy relative to other emerging market economies (EMEs) as an investment destination on account of its strong macroeconomic performance. Fifth, the intermittent surges in portfolio flows were accompanied by sizeable expansion in recourse to debt flows in the form of trade credit – both short and long-term. The favourable sentiment for India in international financial markets was buoyed up by upgrades of the sovereign rating in 2004-05 by Standard & Poor's Rating Services. Sixth, by March 2005, India had accumulated the fifth largest stock of international reserves in the world, sufficient to finance about 14 months of imports. As a result, India's international investment position showed a marked improvement. The robust external sector performance facilitated further liberalisation of the exchange and payments system.

INTERNATIONAL DEVELOPMENTS

I.6.2 Global GDP expanded by 5.1 per cent during 2004 - the highest rate of growth since 1976. In advanced economies, growth accelerated to 3.4 per cent in 2004 from 2.0 per cent in 2003, led by the US; in emerging market and developing economies, it accelerated to 7.2 per cent from 6.4 per cent. With GDP growing by 9.5 per cent, driven by strong fixed investment demand and exports, China emerged as the world's fastest growing economy, underpinning the strength of global growth. The acceleration in global economic activity was accompanied by a doubling of the growth of world trade volumes from 4.9 per cent in 2003 to 9.9 per cent in 2004.

I.6.3 Private capital flows to emerging market and developing countries increased to near 1997 (pre-Asian crisis) levels during 2004, mainly in the form of foreign direct investment (FDI) flows (Table 1.64). Asia continued to be a major recipient, led by China. The western Hemisphere also received a significant increase, particularly, Mexico and Brazil, boosted by increased cross-border merger and acquisition activity in the banking and manufacturing sectors.

Table 1.64: Net Capital Flows to Emerging Markets and Developing Countries

(US $ billion)

Item	2004	2003	2002
1	2	3	4
Private Capital Flows	**196.6**	**149.5**	**75.8**
Private Direct Investment	186.4	151.9	144.4
Private Portfolio Investment	28.8	-9.9	-90.0
Other Private Capital Flows	-18.6	7.5	21.4
Official Flows	**-58.0**	**-58.1**	**8.5**

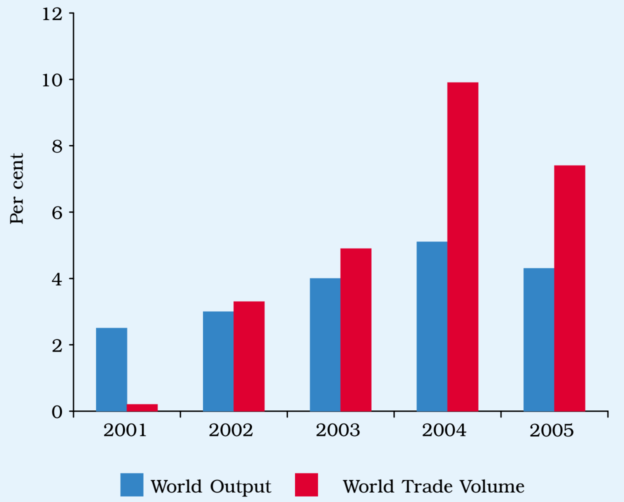
Source: World Economic Outlook, IMF, April 2005.

I.6.4 Abundant liquidity characterised global financial markets in 2004. Monetary authorities in the US, the UK, Canada and New Zealand gradually tightened the key policy rates. Nonetheless, the longer-term government bond yields fell in a number of advanced economies, resulting in a flattening of the yield curve. Financial conditions thus remained accommodative, attributable to the decline of longer-term treasury yields, corporate credit spreads and mortgage rates.

I.6.5 Looking forward, rising interest rates, high oil prices and large global macroeconomic imbalances combined with the waning of the fiscal stimulus that has supported growth in the recent past carry downside risks for world growth in 2005. According to the IMF, a permanent US $ 5 per barrel increase in oil prices is estimated to lower global GDP growth by up to 0.3 percentage points. Macroeconomic imbalances widened further with the US current account deficit estimated at 5.7 per cent of GDP in 2004, matched by current account surpluses in emerging Asia, Japan and the oil producing Middle-East countries. US deficits were financed significantly by Asian central banks, contrary to the traditional predominance of foreign investors in funding the gap. There is a widespread view that an orderly adjustment of global imbalances calls for fiscal consolidation and greater exchange rate flexibility supported by continuing financial sector reforms in Asia and intensified structural reforms to boost growth and domestic demand in the Euro area.

I.6.6 Against this backdrop, global economic growth is projected by the IMF to decelerate to 4.3 per cent in 2005 (Chart I.41). Amongst major economies, growth in the US is expected to be supported by higher investment and consumer demand. In the Euro area,

Chart I.41: Growth in World Output and Trade



Note: Data for 2005 are IMF projections.
Source: World Economic Outlook, IMF, April 2005.

however, business sentiment remains fragile and consumer demand sluggish, mainly on account of faltering exports and weak domestic demand. In Japan, cautious optimism is gaining ground about revival of consumer demand. Despite the losses suffered by *Tsunami*-affected countries towards the end of 2004, growth rates in Asian EMEs are likely to remain strong, led by China and India, and aided by various factors including strong domestic demand and liberalisation of textile trade.

BALANCE OF PAYMENTS

I.6.7 After three years beginning in 2001-02, India's balance of payments recorded the return of a current account deficit in 2004-05. The turnaround was driven by the merchandise trade deficit reaching 5.5 per cent of GDP, but underpinned by an intrinsic link between import intensity and export performance (Table 1.65). Invisible receipts rose by 46.3 per cent, supported by buoyant services exports and

Table 1.65: Balance of Payments – Key Indicators

(US $ million)

Item/Indicator	2004-05 (P)	2003-04	2002-03	2001-02	2000-01	1990-91
1	2	3	4	5	6	7
i) Trade Balance	-38,130	-15,454	-10,690	-11,574	-12,460	-9,437
ii) Invisibles, net	31,699	26,015	17,035	14,974	9,794	-243
iii) Current Account Balance	-6,431	10,561	6,345	3,400	-2,666	-9,680
iv) Capital Account	32,175	20,542	10,840	8,551	8,840	7,056
v) Overall Balance #	26,159	31,421	16,985	11,757	5,868	-2,492
vi) Foreign Exchange Reserves* [Increase(-)/Decrease(+)]	-26,159	-31,421	-16,985	-11,757	-5,842	1,278
Indicators (in per cent)						
1. Trade						
i) Exports/GDP	11.7	10.8	10.6	9.4	9.9	5.8
ii) Imports/GDP	17.2	13.3	12.7	11.8	12.7	8.8
iii) Export Volume Growth	n.a.	6.0	21.7	3.9	23.9	11.0
2. Invisibles						
i) Invisible Receipts/GDP	11.2	8.8	8.2	7.7	7.1	2.4
ii) Invisible Payments/GDP	6.6	4.5	4.9	4.6	4.9	2.4
iii) Invisibles (Net)/GDP	4.6	4.3	3.3	3.1	2.2	-0.1
3. Current Account						
i) Current Receipts@/GDP	22.8	19.5	18.7	17.0	17.0	8.0
ii) Current Receipts Growth@	34.6	23.0	17.6	4.5	14.8	6.6
iii) Current Receipts@/Current Payments	95.7	109.3	106.6	103.8	96.4	71.5
iv) Current Account Balance/GDP	-0.9	1.7	1.2	0.7	-0.6	-3.1
4. Capital Account						
i) Foreign Investment/GDP	2.1	2.7	1.2	1.7	1.5	0.0
ii) Foreign Investment/Exports	17.9	24.8	11.2	18.2	14.9	0.6
5. Others						
i) Debt - GDP Ratio	17.4	17.8	20.3	21.2	22.6	28.7
ii) Debt Service Ratio	6.2	16.3	16.4	13.4	16.6	35.3
iii) Liability Service Ratio	7.1	17.1	16.1	14.9	18.4	35.6
iv) Import Cover of Reserves (in months)	14.3	16.9	14.2	11.5	8.8	2.5

P : Preliminary. # : Includes errors and omissions. @ : Excluding official transfers.
* : Excluding valuation changes. n.a. : Not available.

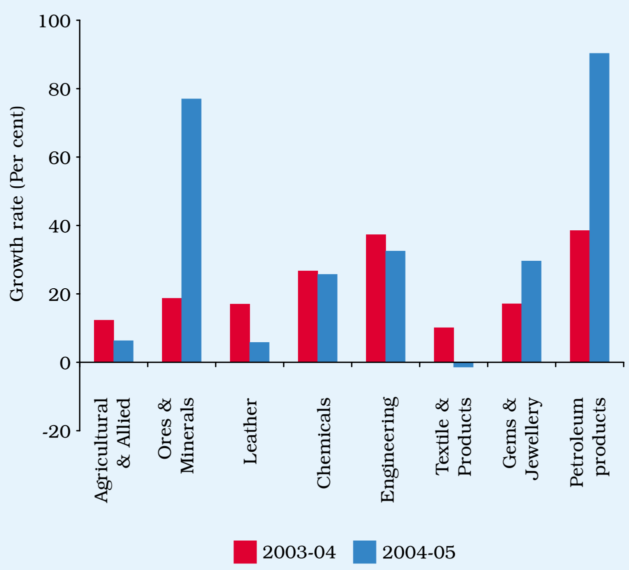
sustained remittances from Indians working overseas. The innate vigour of invisible earnings can be gauged from the fact that, despite a surge in invisible payments of the order of 69.8 per cent, the massive merchandise trade deficit was financed to the extent of 83.1 per cent by the net surplus in the invisible account at US $ 31.7 billion. In the capital account, the surge in imports was manifested in a large recourse to overseas borrowings by Indian banks, trade credits and external commercial borrowings. According to the World Economic Outlook (April 2005), portfolio flows to India accounted for 30.6 per cent of global flows to EMEs and developing countries in 2004. Inflows of FDI also picked up strongly during the year. The cumulative impact of liberalisation in the policy regime was reflected in a noteworthy rise in India's outward FDI and aid flows, coincident with the jump in invisible payments in the current account. The accretion to reserves, excluding valuation effects, was of the order of US $ 26.2 billion, somewhat lower than in 2003-04.

Merchandise Trade

I.6.8 Both exports and imports recorded sharp growth during 2004-05, reflecting the onset of international competitiveness of the manufacturing sector in an environment of expanding trade integration, a supportive domestic policy framework, sustained recovery in global demand and an increase in international commodity prices. Exports at US $ 79.3 billion during 2004-05 registered a growth of 24.1 per cent, the highest recorded in the last three decades and substantially higher than the annual target of 16 per cent set by the Ministry of Commerce and Industry. Export growth was broad-based across major product groups (Chart I.42). Exports of agricultural and allied products remained subdued, reflecting domestic supply conditions; on the other hand, exports of ores and minerals recorded a substantial jump during 2004-05, mainly on account of iron ore exports to China.

I.6.9 Exports of manufactured products maintained growth momentum (20.0 per cent in 2004-05 as compared with 20.5 per cent recorded in 2003-04) (Appendix Table I.53). Among the key drivers, exports of engineering goods were buoyed up by technology-intensive items like metal, machinery and instruments, transport equipment, electronic goods and iron and steel due to demand picking up in East Asia, China and non-traditional markets like Latin America and Africa. Exports of gems and jewellery continued to record a sharp increase, reflecting the benefits of various promotional measures as well as recovery in

Chart I.42: Export of Major Commodities



major markets like the US. Exports of petroleum products surged by 90.3 per cent, reflecting the expansion in domestic refining capacity and higher international prices of refined products. India emerged among the top five petroleum refining countries in the world. In the textile segment, exports of domestic raw materials (cotton yarn, fabrics, made-ups) and readymade garments declined while those using synthetic/imported raw materials (manmade yarn, fabrics, made-ups, *etc.*) recorded a significant increase. World trade in textiles and clothing is geared for a more competitive environment due to the elimination of quota restrictions under the Multi-Fibre Arrangement with effect from January 2005.

I.6.10 In terms of destination, exports were well-diversified with Singapore, China and Belgium being the fastest growing markets during 2004-05, driven by several initiatives under bilateral trade negotiations (Chart I.43). Exports to East Asian countries including Hong Kong, South Korea, Singapore, Malaysia and Thailand also recorded a pick-up in growth. Exports to the OECD countries increased significantly as demand conditions improved.

I.6.11 Imports at US $ 107.1 billion grew by 37.0 per cent in 2004-05 - the highest since 1980-81 - on top of 27.3 per cent in 2003-04 (Appendix Table I.52). Oil imports at US $ 29.8 billion shot up by 45.1 per cent in 2004-05, mainly on account of the surge in international crude oil prices as in volume terms, the growth rate of oil imports slowed to 5.5 per cent in 2004-05 from 10.6 per cent in 2003-04.

Chart I.43: Export Destinations

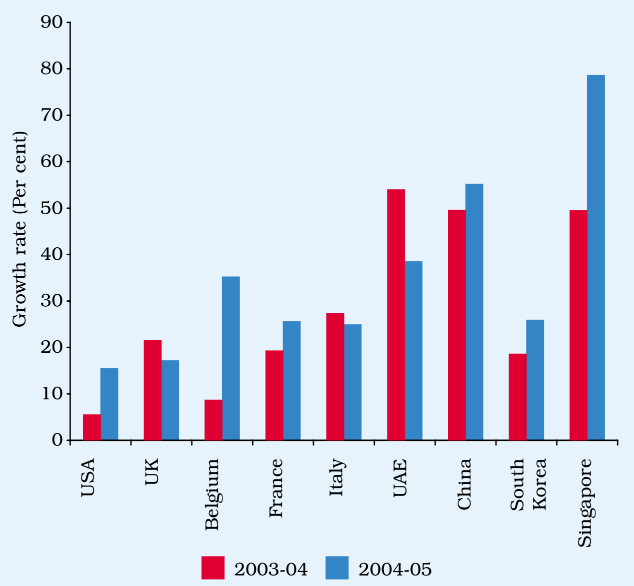
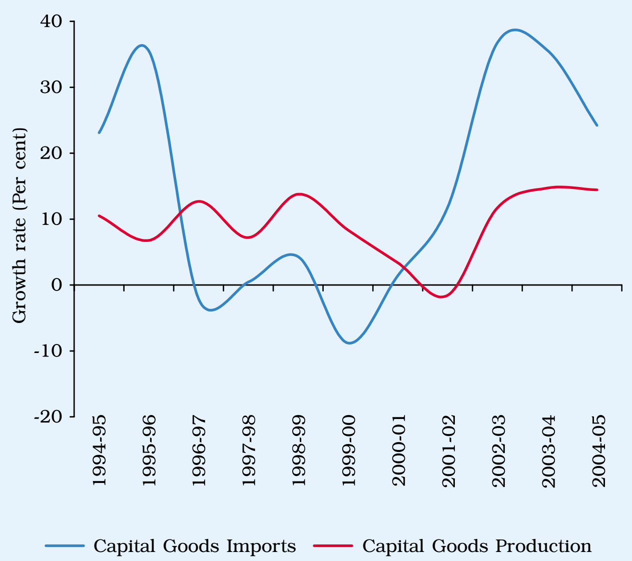


Chart I.44: Capital Goods - Imports and Production



I.6.12 Non-oil imports maintained the momentum of growth recorded in the previous year, in tandem with the pick-up in domestic manufacturing activity. Non-oil imports, excluding gold and silver, increased by 30.9 per cent during 2004-05. Imports of mainly industrial inputs (non-oil imports net of gold and silver, bulk consumption, manufactured fertilisers and professional instruments) grew by 32.8 per cent during 2004-05 as compared with 29.1 per cent during 2003-04. Imports of capital goods (mainly comprising metals, machine tools, machinery and electronic goods), in particular, posted a significant growth of 23.5 per cent during 2004-05 on the top of 35.4 per cent growth during 2003-04 (Chart I.44). During 2004-05, imports of gold and silver at US $ 10.8 billion posted a high growth of 57.9 per cent, similar to the increase during 2003-04 (Appendix Table I.54). India has traditionally been a leading destination for global gold trade. The sharp rebound in household demand in an environment of high economic growth and softening of gold prices contributed to growth of gold imports. More recently, the new Foreign Trade Policy 2004-09 has provided various incentives pertaining to duty free import of gold and jewelleries for exporters.

I.6.13 During 2004-05, there was a well-distributed increase in imports across major regions. The sourcing pattern of imports showed a distinct tilt in favour of the Asian countries. China turned out to be the largest source of India's imports, surpassing the US.

I.6.14 The merchandise trade deficit at US $ 27.8 billion during 2004-05 touched a historic peak with the increase in non-oil imports (US $ 29.8 billion) being the major contributing factor (Appendix Table I.52). The non-oil trade balance, which remained in surplus during 2000-01 to 2003-04, turned into a deficit of US $ 4.8 billion during 2004-05.

I.6.15 The pace of expansion of merchandise trade has enlarged the degree of India's openness. The ratio of merchandise trade to GDP increased to 28.8 per cent in 2004-05 from 14.6 per cent in 1990-91. India's share in world exports increased to 0.84 per cent during 2004 from 0.52 per cent in 1990. The changing structure of India's exports across commodity groups and destinations provides evidence of the underlying shifts in the production structure and rising levels of competitiveness and productivity. The export basket is well-diversified, ranging from products from the low-value addition chain to items with high technology content. The diversification of the export basket has improved since the 1990s. According to the United Nations Conference on Trade and Development (UNCTAD), India is among the top ten exporters in as many as 32 commodities out of 70 leading export items from developing economies. The share of these commodities in aggregate world exports is about 22 per cent. These 32 commodities account for about 60 per cent of India's total exports.

I.6.16 During 2005-06 (April-July), the underlying pace of merchandise export growth in US dollar terms (21.3 per cent) remained firm, although there was some loss of momentum from a year ago (31.2 per cent). Besides the high base of the previous year, seasonal demand patterns associated with various commodity sectors and the evolving configurations in global demand impacted on export performance in 2005-06 (April-July). Preliminary information indicates that engineering goods led by transport equipments, metals and manufactures, machinery and parts and chemicals were the key drivers of export growth. Among other products, rice, iron ore, marine products, plastic and linoleum, readymade garments and petroleum products showed strong growth. Imports surged in an environment of buoyant economic activity. Imports during April-July 2005 increased by 36.4 per cent (35.2 per cent a year ago), driven by both oil and non-oil imports. The rise in oil imports (32.3 per cent) was propelled by a sharp increase in international crude oil prices as well as a pick-up in volume growth. Non-oil imports (38.1 per cent) maintained high growth during April-July 2005 (28.0 per cent a year ago) in tune with acceleration in industrial activity. Non-oil imports excluding gold and silver witnessed substantial increase at 61.1 per cent during April-May 2005 (17.2 per cent a year ago), led by imports of mainly industrial inputs (bulk consumption goods, manufactured fertilisers and professional instruments). Within industrial inputs, capital goods were the key driver posting a growth of 34.3 per cent in April-May 2005 (22.7 per cent a year ago). The robust expansion of imports of capital goods, accompanied by a strong growth of domestic production of capital goods, reflects the substantial build-up in capacity of the industrial sector. The trade deficit surged 82 per cent to US $ 14.0 billion during April-July 2005 from US $ 7.7 billion during April-July 2004. Increase in non-oil imports was the major factor underlying the expansion in the trade deficit. During April-May 2005, the non-oil trade balance showed a deficit of US $ 2.7 billion as against a marginal surplus of US $ 0.1 billion a year ago.

Invisibles

I.6.17 A sustained rise in net invisible surpluses has moderated the impact of growing trade deficits since the 1990s, eventually driving the current account into surplus during 2001-02 to 2003-04 (Chart I.45).

I.6.18 During 2004-05, the net invisible surplus at 4.6 per cent of GDP was able to finance 83.1 per cent of the trade deficit. Service exports and remittances from Indians working abroad were the key drivers. Gross earnings from invisibles constituted 49.1 per cent of external current receipts in 2004-05, significantly above 29.3 per cent in 1990-91 (Chart I.46).

Services

I.6.19 According to the IMF's *Balance of Payments Statistics Yearbook 2004,* India emerged as the 18th largest service exporter in the world in 2003, expanding its market share to 1.3 per cent from 0.6 per cent in 1990. Services exports were led by rapid rise in business and professional services, travel and software services (Table 1.66). The compositional shift in favour of software and business services became even more pronounced in 2004-05.

Chart I.45: India's Current Account

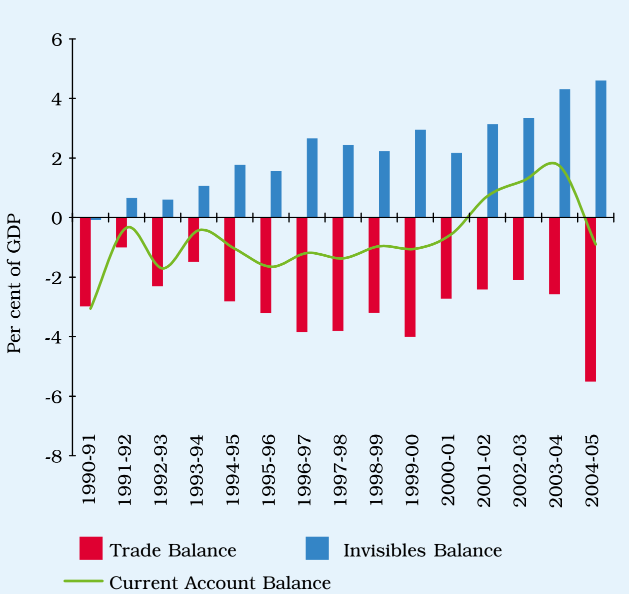


Chart I.46: India's Invisible Receipts

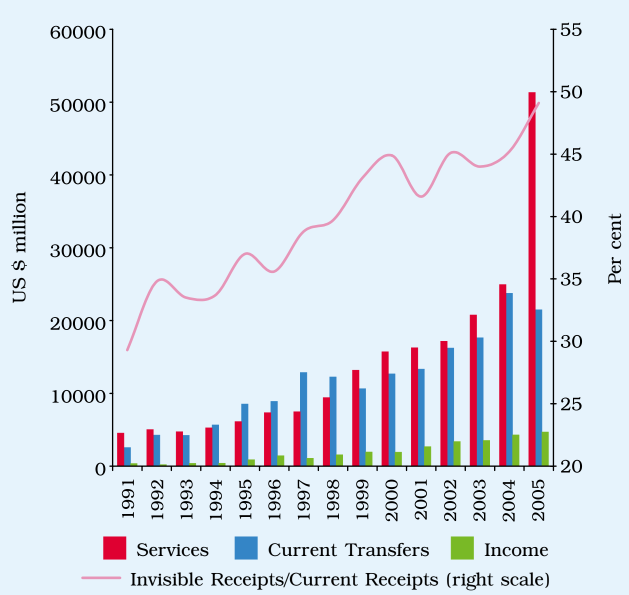


Table 1.66: Structure of India's Services Exports

Year	Amount (US $ million)	Percentage Share in Total Services Exports					
		Travel	Transportation	Insurance	G.N.I.E.	Software	Miscellaneous*
1	2	3	4	5	6	7	8
1970-71	292	16.8	49.7	5.5	13.7	0.0	14.4
1980-81	2,804	43.5	16.3	2.3	4.0	0.0	33.9
1990-91	4,551	32.0	21.6	2.4	0.3	0.0	43.7
2000-01	16,268	21.5	12.6	1.7	4.0	39.0	21.3
2003-04	24,949	16.5	13.1	1.7	1.1	48.9	18.7
2004-05	51,326	9.8	9.9	2.0	0.8	33.7	43.9

*: Excluding software services. G.N.I.E. : Government not included elsewhere.

I.6.20 Travel receipts acquired a distinct buoyancy during 2004-05 (Table 1.67). The recent revival in tourist interest in India has resulted in a marginal improvement in India's share in world tourist earnings to 0.74 per cent in 2003 (ranking 27th in world tourist earnings) from an average of 0.68 per cent in the late 1990s. Travel payments grew sharply, reflecting the impact of a liberalised exchange and payments regime and expanding business travel. In line with sustained growth in outbound tourist traffic, travel payments increased from US $ 3.5 billion in 2003-04 to US $ 5.5 billion in 2004-05, exceeding travel receipts. During 2004-05, while business travel continued to account for a major share of travel payments (about 60 per cent), there was a rebound in the share of tourist/leisure travel by Indians (21 per cent).

I.6.21 Business and professional services include a host of services such as communication, construction, financial services, software, news agency, royalties, license fee and management services. During 2004-05, the rapid growth in these services was contributed by communication and business services, besides software services. The category 'business services' emerged as an important driver of service exports. In recognition of their growing importance, new reporting arrangements were put in place in 2004-05 wherein a number of new purpose codes were introduced with a view to collect data separately for these services. During 2004-05, two-thirds of total service payments by India were contributed by imports of business and professional services. They included payments for construction, financial, communication and managerial services besides a host of other business services, reflecting the ongoing technological transformation of the economy and modernisation of Indian industry with a focus on technological upgradation.

Table 1.67: Foreign Tourist Arrivals in India and Outbound Tourist Traffic

Year	Arrivals (millions)	Growth Rate (%)	Departure (millions)	Growth Rate (%)
1	2	3	4	5
1992	1.9	11.3	2.2	15.8
2001	2.5	-4.2	4.6	4.5
2002	2.4	-4.0	4.9	6.5
2003	2.8	16.7	5.4	10.2
2004 (P)	3.4	21.4	6.2	14.8

P : Provisional.
Source: Ministry of Tourism, Government of India.

Software Services and ITES-BPO

I.6.22 Exports of software and IT-Enabled Services recorded a strong growth of 34.4 per cent to reach US $ 17.2 billion in 2004-05 (Table 1.68). Notwithstanding increasing competitive pressures, India remains an attractive source of software exports because of low cost of operations, high quality and skilled manpower. Additionally, a favourable time zone difference helps organisations to run internal operations and render customer service round the clock. India's software industry has progressively enhanced its market share in global IT spending from 1.5 per cent in 2000-01 to an estimated 2.2 per cent in 2004-05.

Table 1.68: Software and Services Exports of India

(US $ million)

Year	IT Services	ITES-BPO	Total Software
1	2	3	4 (2+3)
1995-96	754	–	754
2000-01	5,287	930	6,217
2003-04	9,200	3,600	12,800
2004-05	12,000	5,200	17,200

ITES : IT Enabled Services. BPO : Business Process Outsourcing.
Source: NASSCOM.

Globally, India ranks second only to Ireland in exports of computer and IT services.

I.6.23 Within the software sector exports, the ITES-BPO industry recorded an even higher growth of 44.4 per cent in 2004-05, driven by increased offshoring by firms in America and Europe. The global market for software and services (including BPO) is projected to grow by 8.6 per cent per annum over 2004-08. With the industry structure undergoing transformation, established software service companies have entered into the ITES-BPO segment encouraged by cross-selling opportunities, critical mass, strong balance sheets and end-to-end service offerings. The structure of software service (including ITES-BPO) exports reveals that financial services including banks, insurance companies and securities firms account for the largest share of Indian software services (37 per cent). This is followed by manufacturing and the telecom sector (13 per cent each). Within the ITES, service lines, customer care and finance have been the fastest growing segments.

Private Transfers

I.6.24 Remittances remained buoyant during 2004-05 on the back of robust global growth, particularly in the US and oil exporting countries, and some improvement in remittance receiving infrastructure domestically. Remittances by Indians working abroad include repatriation of funds for family maintenance and local withdrawals from the non-resident Indian (NRI) deposits. The surge in remittances, particularly since the information technology revolution in the 1990s, has placed India as the highest remittance receiving country in the world (Table 1.69).

I.6.25 Remittances to India have emerged as a stable source of inflows with their share hovering around three per cent of GDP since the latter half of the 1990s. Private transfers have exhibited the lowest volatility, after merchandise exports, amongst components of current receipts. This stability reflects the increasing use of formal channels for remittance transfers backed by factors such as the institution of a market-determined exchange rate, current account convertibility and increasing availability of speedier and cost effective money transfer arrangements through the banking channels and post offices. While banking channels account for bulk of the inward remittances to India, two schemes, *viz.,* Money Transfer Service Scheme (MTSS) and Rupee Drawing Arrangements (RDA) that provide benefits of easier and speedier operations have assumed significance in expanding the outreach of remittance services to remote locations in the country. During 2004 (January-December), remittances received under RDA and MTSS amounted to US $ 6.1 billion and US $ 1.2 billion, respectively (US $ 5.3 billion and US $ 0.9 billion, respectively, in 2003).

Investment Income

I.6.26 Investment income receipts continued to rise during 2004-05, reflecting mainly the income earned on foreign exchange reserves, a trend that set in since the late 1990s with the build up of foreign exchange reserves. A shift in the level of investment income payments since 2000-01 towards profits and dividends has been primarily on account of inclusion of reinvested earnings of FDI enterprises as per the revised definition of recording FDI in India.

Table 1.69: Workers' Remittances: Top Ten Remittance Receiving Countries

(US $ million)

Country	2003	Country	1996	Country	1991
1	2	3	4	5	6
India	**21,579**	**India**	**8,453**	Portugal	4,517
Mexico	13,266	Mexico	4,224	Egypt	4,054
Spain	4,715	Portugal	3,575	**India**	**3,275**
Pakistan	3,963	Turkey	3,542	Turkey	2,819
Morocco	3,614	Egypt	3,107	Mexico	2,414
China	3,343	Greece	2,894	Greece	2,115
Bangladesh	3,180	Spain	2,749	Morocco	1,990
Colombia	3,060	Morocco	2,165	Spain	1,792
Egypt	2,961	Brazil	1,866	Pakistan	1,541
Portugal	2,824	China	1,672	Brazil	1,057

Source: Balance of Payments Statistics Yearbook, IMF.

Current Account

I.6.27 Reflecting the sharp rise in the merchandise trade deficit, the current account turned into a deficit from the second quarter of 2004-05 onwards and for the year as a whole, it was 0.9 per cent of GDP. In a national accounting perspective, the re-emergence of a current account deficit in 2004-05 represents a cessation of a brief period of export of domestic saving and the resumption of the supplemental role of foreign saving in financing higher investment and growth in the economy. This augurs well for the higher growth trajectory envisaged for the Indian economy over the medium-term. Many other EMEs such as China, Malaysia, the Philippines, Thailand, Korea, Indonesia, Argentina and Brazil, however, continued to record significant current account surpluses reflecting the counterpart to the massive current account deficit of the US.

Capital Account

I.6.28 Capital account developments continued to dominate the balance of payments outcome in 2004-05. In the first half of 2004-05, there was a considerable slowdown in foreign investment inflows while NRI deposits recorded outflows. Foreign investment inflows picked up sharply in the second half mainly on account of a revival of FII interest in Indian equities. External commercial borrowings and trade credit rose sharply during the second half of the year.

Foreign Investment

I.6.29 Foreign investment flows moderated during May-July 2004, but bounced back in the second half of the year (Table 1.70). The slowdown in the first half was on account of global uncertainties caused by hardening of crude oil prices and the upturn in the interest rate cycle. The resumption in the net FII inflows to India from August 2004 continued till the end of 2004-05.

I.6.30 FDI into India, including equity capital of unincorporated entities, reinvested earnings and inter-corporate debt transactions between the related entities, was higher in 2004-05 (Chart I.47). The improvement in FDI flows reflected the impact of recent initiatives aimed at creating an enabling environment for FDI and for encouraging infusion of new technologies and management practices. The decision to hike sectoral caps on FDI in telecom from 49 per cent to 74 per cent and in air transport services (domestic airlines) from 40 per cent to 49 per cent buoyed investors' interest in these sectors.

Table 1.70: Foreign Investment Flows to India

(US $ million)

Item	2004-05 (P)	2003-04	2002-03
1	2	3	4
A. Direct Investment (I+II+III)	**5,536**	**4,673**	**5,035**
I. Equity (a+b+c+d+e)	**3,363**	**2,387**	**2,764**
a) Government (SIA/FIPB)	1,062	928	919
b) RBI	1,259	534	739
c) NRI	–	–	–
d) Acquisition of shares*	930	735	916
e) Equity capital of unincorporated bodies	112	190	190
II. Re-invested earnings	**1,816**	**1,798**	**1,833**
III. Other capital #	**357**	**488**	**438**
B. Portfolio Investment (a+b+c)	**8,909**	**11,377**	**979**
a) GDRs/ADRs	613	459	600
b) FIIs @	8,280	10,918	377
c) Off-shore funds and others	16	–	2
C. Total (A+B)	**14,445**	**16,050**	**6,014**

P : Provisional – : Nil/Negligible.
* : Relates to acquisition of shares of Indian companies by non-residents under Section 6 of FEMA 1999.
# : Data pertain to inter-company debt transactions of FDI entities.
@ : Data represent net inflow of funds by FIIs.
Note: 1. Data on reinvested earnings for 2003-04 and 2004-05 are estimates.
2. Data on foreign investment presented in this table represent inflows into the country and may not tally with the data presented in other tables. They may also differ from data relating to net investment in stock exchanges by FIIs.

Chart I.47: FDI Flows in India *vis-a-vis* Developing Countries

I.6.31 Country-wise details of FDI flows reveal the continued predominance of Mauritius, the US and the Netherlands as major investors in India (Table 1.71). FDI flows from Germany and Japan increased sharply during 2004-05. Sector-wise, FDI flows into India were attracted by the increasing competitiveness of select manufacturing industries and services, particularly business and computer services. At the global level, services have been the key attraction for foreign direct investors, a structural shift indicative of offshoring. In India, the services sector attracted the largest FDI flows - US $ 1.2 billion in 2004-05 (US $ 0.9 billion in 2003-04). FDI flows into the manufacturing sector more than doubled in 2004-05. India has steadily improved its rank in terms of Outward FDI Performance Index (UNCTAD, World Investment Report 2004) and FDI Confidence Index (AT Kearney) over the years, indicating improved investment climate and better growth prospects (Chart I.48).

I.6.32 FII inflows in the Indian equity markets remained buoyant during August-March 2004-05. Between mid-August 2004 and March 2005, the price-earning (P/E) ratio of Indian equity stocks moved up to 13.5 from 11.5 (Table 1.72). As a result, the return on equity declined to 1.8 per cent for Indian stocks from 1.7-3.8 per cent in other major East Asian countries.

I.6.33 FII flows to India broadly follow the trends in developing economies (Chart I.49).

India's Direct Investment Abroad

I.6.34 An important development in India's balance of payments since the late 1990s has been the rising prominence of Indian investment abroad through joint ventures and wholly owned subsidiaries. Cumulative

Table 1.71: Foreign Direct Investment to India: Country-wise and Industry-wise*

(US $ million)

Source/Industry	2004-05 (P)	2003-04	2002-03
1	2	3	4
Total FDI	**2,320**	**1,462**	**1,658**
Country-wise Inflows			
Mauritius	820	381	534
USA	469	297	268
UK	84	157	224
Germany	143	69	103
Netherlands	196	197	94
Japan	122	67	66
France	44	34	53
Singapore	64	15	39
Switzerland	64	5	35
South Korea	14	22	15
Others	300	218	227
Industry-wise Inflows			
Fisheries	10	2	9
Mining	11	18	9
Manufacturing	924	426	480
Food and Dairy Products	183	64	39
Electricity	14	90	48
Construction	209	172	237
Trade, Hotels & Restaurants	22	67	39
Transport	70	20	12
Financing, Insurance, Real Estate & Business Services	363	206	223
Computer Services	372	166	297
Educational Services	2	0	1
Research & Scientific Services	5	1	0
Health & Medical Services	25	15	28
Other Services	10	2	18
Others	100	213	218

* : Data in this table exclude FDI inflows by way of acquisition of shares by non-residents under section 6 of FEMA, 1999.

P : Provisional.

Chart I.48: Ranking of India in FDI Performance and Confidence Index

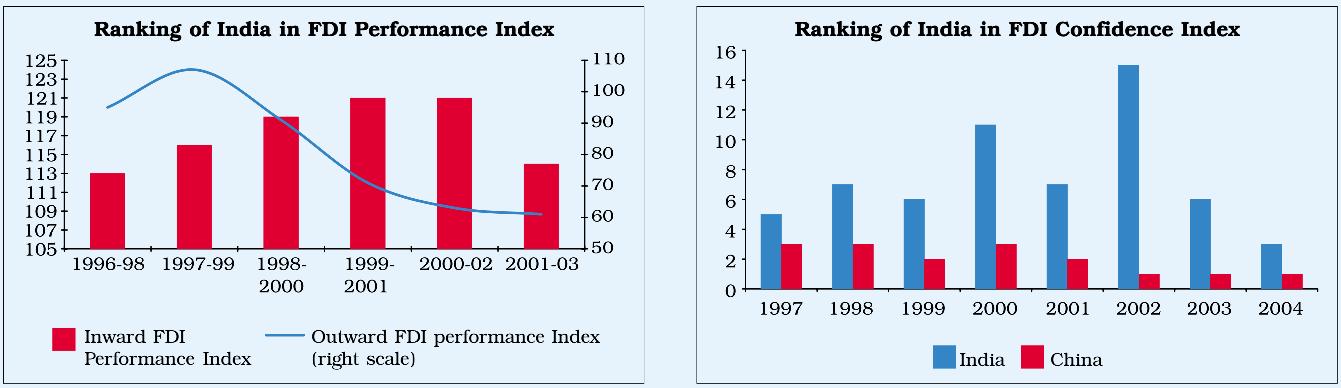


Table 1.72: Foreign Portfolio Investment Flows

Country	Portfolio Inflows (US $ billion)			Price-Earnings Ratio (Per cent)
	2004	2003	2002	March 2005
1	2	3	4	5
Chile	1.1	2.1	1.0	16.6
Hong Kong	4.6	1.4	-1.1	14.4
India	8.8	8.2	1.1	13.5
Philippines	1.9	0.9	1.6	18.5
South Korea	19.0	22.7	5.4	14.0
Thailand	0.2	0.3	-0.7	9.8

Note : 1. Data for the Philippines for calendar year 2004 are up to September.
2. Price-earnings ratio for India pertains to average for 100 scrips included in BSE-100.

Source : International Financial Statistics, IMF; and The Stock Exchange, Mumbai.

outward FDI flows crossed US $ 7 billion in 2004-05. Total (equity and loans) investment abroad by Indian companies in 2004-05 stood at US $ 1.5 billion, most of which went to the manufacturing sector. Outward FDI has begun to grow rapidly, particularly through mergers and acquisitions (M&As) (Table 1.73 and Box I.13).

I.6.35 In terms of the outward FDI stock, India is placed 20th among developing economies. India's rank had improved to 61 in 2003 (close to China at 58) from 107 in 1999 in the Outward FDI Performance Index computed by UNCTAD.

I.6.36 In recent years, following the convergence towards international best practices, there has been a remarkable improvement in dissemination of FDI statistics. The Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI) adopted jointly by the IMF and the OECD is a step in improving the quality of FDI data (Box I.14).

Chart I.49: FII Flows in India *vis-a-vis* Developing Countries

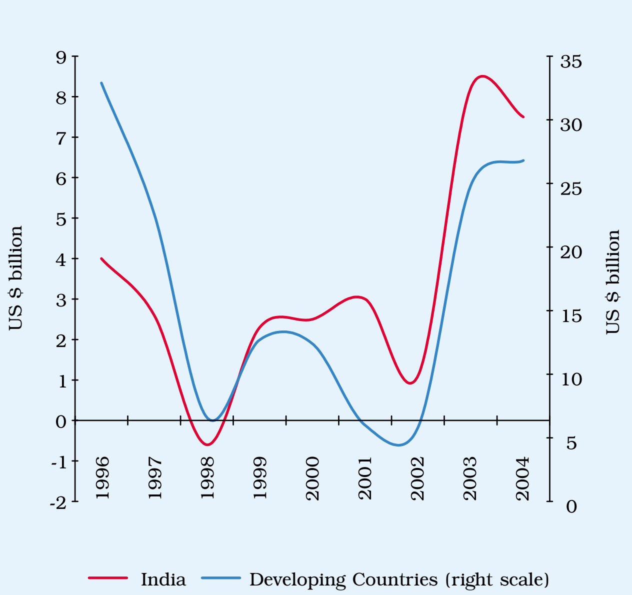


Table 1.73: Cross-Border Mergers and Acquisitions - India

(US $ million)

Year	Sales	Purchases
1	2	3
1997	1,520	1,287
1998	361	11
1999	1,044	126
2000	1,219	910
2001	1,037	2,195
2002	1,698	270
2003	949	1,362

Source : World Investment Report 2004, UNCTAD.

Debt Flows

I.6.37 External assistance flows, net of principal repayments, turned positive in 2004-05 as against a net outflow (on account of pre-payments) in 2003-04. Net resource transfers under external assistance which had remained negative during 1995-2004 also turned positive in 2004-05.

I.6.38 Corporates' recourse to ECBs was substantially higher in 2004-05, reflecting strong investment demand domestically as well as favourable financing conditions overseas. The narrowing down of spreads on emerging market bonds to historic lows in early 2005 was engendered by excess global liquidity and search for returns. Accordingly, the global investors, particularly pension funds and insurance companies showed a clear preference for investment in EME bonds. Indian corporates raised ECBs mainly for financing import of capital goods, local sourcing of capital goods, investment in new projects, modernisation/expansion of existing units and overseas investment in JVs/WOS (Table 1.74). The weighted average maturity period of ECBs during 2004-05 worked out to seven years.

I.6.39 NRI deposits recorded outflows of US $ 1.3 billion during the first half of 2004-05 reflecting the alignment of interest rates on NRE deposits to global interest rates. These outflows were partly offset in the period from November 2004 onwards following the revision in interest rates on NRE deposits to LIBOR/SWAP rates of US dollar *plus* 50 basis points on October 26, 2004 (Table 1.75).

Box I.13
India's Direct Investment Abroad

The regime for Indian investments overseas has been substantially liberalised in order to provide Indian industry access to new markets and technologies, including research and development, with a view to increasing competitiveness globally and strengthening exports. The acquisition of foreign companies which started off in the IT and related services sector has now spread to other areas (Table A).

Table A: India's Direct Investment Abroad by Sectors

(US $ million)

Industry	2004-05	2003-04	2002-03	2001-02	2000-01
1	2	3	4	5	6
Financial Services	6.9	1.4	3.0	4.3	6.3
Manufacturing	1057.8	893.5	1270.8	527.6	169.1
Non-financial Services	230.1	456.4	403.8	349.8	470.0
Trading	175.5	112.8	82.5	79.3	51.6
Others	76.8	31.5	37.8	20.0	11.3
Total	**1547.1**	**1495.6**	**1797.9**	**981.0**	**708.3**

Many large Indian companies in basic industry such as steel, viscose fibre and copper have acquired upstream companies in resource-rich countries such as Canada and Australia with the objective of backward integration. Information technology and pharmaceutical companies have also come forward for investing abroad. While some of them are trying to develop stand-alone local operations, most work as market and market intelligence arms for the parent companies in India. Some domestic telecom companies have bought underground telephone cable networks from foreign companies for integrating their domestic telephone networks in the international network. Public sector oil companies are acquiring equities in exploration, retailing and refinery.

Destination-wise, the United States has attracted the highest level of FDI from India, followed by Russia and Mauritius (Table B). While most of the investment to Russia and Sudan went towards oil exploration, investments to the US have mostly gone into IT and pharmaceuticals. Indian firms have about 440 investments/joint ventures in the UK, mostly technology-oriented. There are more than 1,400 Indian companies operating in Singapore. Of these more than 450 are technology enterprises. More and more Indian companies are getting listed on New York Stock Exchange (NYSE), London Stock Exchange (LSE) and NASDAQ. Increase in FDI outflows has enabled Indian companies to expand and diversify their operations across a wider spectrum of countries for diffusion of technical innovations and managerial expertise.

Table B: Country-wise Approvals Issued between April 1995 and March 2005

(US $ million)

Country	No. of approvals	Equity	Loan	Guarantee	Total
1	2	3	4	5	6
USA	2268	1,762	163	234	2,159
Russia	32	1,757	5	1	1,763
Mauritius	388	682	182	174	1,038
Sudan	5	964	–	–	964
British Virgin Islands	87	769	19	136	924
UK	633	584	101	92	777
Bermuda	34	503	5	181	689
Hong Kong	126	102	98	345	544

I.6.40 Trade credits rose strongly during the year to accommodate the higher financing requirements arising on account of oil and non-oil imports. The availability of suppliers' credit for financing of gold imports for a period of one year also contributed to a sharp rise in access to trade credits in the beginning of 2004-05. Although trade credit can be availed of for financing import of capital goods up to three years,

Box I.14
Survey of Implementation of Methodological Standards for Direct Investment

The increasing importance of foreign direct investment (FDI) and its geographic and sectoral diversity has stimulated interest among policy makers, analysts and statisticians. In response, the first Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI) was conducted in 1997 by the IMF and the OECD. A total of 114 countries responded and in 2001, the results were updated for 61 countries (30 OECD member countries and 31 selected non-OECD countries). The Survey was once again undertaken for the year 2003, encompassing a comprehensive study of data sources, collection methods, and dissemination and methodological practices for FDI statistics.

India participated in all the rounds of SIMSDI. India is among the first group of countries who could finalise the metadata for the SIMSDI 2003 within the given time frame and whose metadata has been posted on the IMF's external website along with 43 other countries. The metadata for India for SIMSDI 2003 has been made available to the public in order to enable a better understanding of the Indian situation and to provide feedback to benchmark national compilation procedures to international best practices.

Table 1.74: ECB* Approvals during 2004-05

(US $ million)

Purpose	Amount
1	2
Import of Capital Goods	3,059
Import of Non-capital Goods	1
Local Sourcing of Capital Goods	1,765
Working Capital	134
On-lending or Sub-lending	1,401
New Projects	2,273
Modernisation/Expansion of Existing Units	2,057
Overseas Investment in JV/WOS	265
Textile/Steel Re-structuring Package	100
Others	435
Total	**11,490**

* : Includes FCCBs.

the share of the maturity bucket of one to three years is relatively insignificant. A reduction of the time period of trade credit for direct import of gold to 90 days in July 2004 had a moderating impact on gold imports.

I.6.41 Net inflows under banking capital were lower during 2004-05 than in the preceding year, attributable to outflows under NRI deposits. Overseas borrowings of banks remained volatile during the first half but were sizeable during October-December, 2004. Interest rate movements induced utilisation of *nostro* balances held by banks.

Table 1.75: Balances under NRI Deposit Schemes

(US $ million)

Scheme	Outstanding (end-March)		Net Inflows@	
	2005P	2004	2004-05P	2003-04
1	2	3	4	5
1. FCNR(B)	11,490	10,961	530	762
2. NR(E)RA	21,109	20,559	-99	4,695
3. NR(NR)RD	271	1,746	-1,500	-1,816
Total	**32,870**	**33,266**	**-1,069**	**3,641**

P : Provisional.

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

Note : Net inflows in respect of NR(E)RA and NR(NR)RD deposits in columns 4 and 5 may not match with the differences between the outstanding stocks on account of exchange rate fluctuations during the year.

External Assistance Extended by India

I.6.42 India is emerging as an important donor to developing countries. External assistance provided by India rose to US $ 437 million in 2004-05 from US $ 247 million in 2000-01 (Table 1.76). India provides aid mainly in the form of technical cooperation and training. Grants continued to dominate the external aid with a share of about 70 per cent. The major beneficiaries of the assistance during 2004-05 were Bhutan, Sri Lanka, Myanmar, Nepal and the African countries.

Table 1.76: India's Grants and Loans to Foreign Governments

(US $ million)

Item	2004-05			2000-01		
	Grant	Loan	Total	Grant	Loan	Total
1	2	3	4	5	6	7
A. Plan (External Affairs)	**101**	**62**	**164**	**76**	**44**	**120**
B. Non-Plan (i+ii+iii)	**208**	**65**	**273**	**88**	**38**	**127**
i. *External Affairs*	194	4	198	81	16	97
Bangladesh	1	4	5	2	16	18
Bhutan	70	0	70	44	0	44
Nepal	15	0	15	14	0	14
Africa	24	0	24	1	0	1
Myanmar	1	0	1	4	0	4
Sri Lanka	3	0	3	2	0	2
Other Developing Countries	80	0	80	14	0	14
ii. *Finance*	14	61	75	7	22	29
Contribution to U.N.D.P.	5	0	5	5	0	5
Mauritius	0	8	8	0	2	2
Myanmar	0	18	18	0	4	4
Sri Lanka	0	22	22	0	3	3
Surinam	0	9	9	0	0	0
Other Countries	3	4	7	2	13	15
Development Assistance	6	0	6	0	0	0
iii. *Shipping*	0	0	0	1	0	1
Bangladesh	0	0	0	1	0	1
C. Grand Total (A+B)	**310**	**127**	**437**	**165**	**82**	**247**

Source: Union Budgets, Government of India.

EXTERNAL DEBT

I.6.43 India's external debt stock increased by US $ 11.6 billion (10.4 per cent during 2004-05) to US $ 123.3 billion at end-March 2005. All components of external debt, except bilateral aid and rupee debt, recorded an increase (Table 1.77). Commercial borrowings increased sharply during the year as access of the corporates to international capital markets improved during the year. Short-term debt, particularly trade credits, also surged on account of financing requirements of the higher import growth. The US dollar continues to dominate the currency composition of India's external debt stock.

I.6.44 Indicators of external debt sustainability further strengthened during the year. The ratio of external debt to GDP showed a steady improvement, dropping to 17.4 per cent at end-March 2005 from 30.8 per cent at end-March 1995 (Table 1.78). The foreign currency assets of the Reserve Bank provided a cover of around 110 per cent of total external debt outstanding on March 31, 2005. India was the eighth largest debtor country in 2003; however, among the top 20 debtor countries, India had the lowest debt-GDP ratio, next only to China. The ratio of the short-term debt to total external debt was also among the lowest for India and was placed at 6.1 per cent at end-March 2005 as against an average of 15.7 per cent for the developing countries as a group.

Table 1.77: India's External Debt

(US $ million)

Item	End-March 2005	End-March 2004	Variation during 2004-05	
			Absolute	Per cent
1	2	3	4	5
1. Multilateral	31,763	29,288	2,475	8.5
2. Bilateral	17,222	17,278	-56	-0.3
3. Trade Credit	4,960	4,680	280	6.0
4. External Commercial Borrowings	26,942	22,101	4,841	21.9
5. NRI Deposits	32,599	31,216	1383	4.4
6. Rupee Debt	2,300	2,721	-421	-15.5
7. Short Term	7,524	4,431	3,093	69.8
8. Total	**1,23,310**	**1,11,715**	**11,595**	**10.4**

FOREIGN EXCHANGE RESERVES

I.6.45 India's foreign exchange reserves comprising foreign currency assets, gold, SDRs and the reserve position with the IMF increased by as much as US $ 28.6 billion during 2004-05 and stood at US $ 141.5

Table 1.78: External Debt Service Payments

(US $ million)

Item	2004-05	2003-04
1	2	3
1. External Assistance@	2,723	6,895
2. External Commercial Borrowings*	5,238	10,389
3. IMF #	0	0
4. NRI Deposits (Interest Payments)	1,353	1,492
5. Rupee Debt Service	417	376
6. Total Debt Servicing	9,731	19,152
7. Total Current Receipts **	1,57,710	1,17,142
8. External Debt to GDP Ratio (%)	17.4	17.8
9. Short Term Debt to Total Debt Ratio (%)	6.1	4.0
10. Short Term Debt to Foreign Exchange Reserves Ratio (%)	5.3	3.9
11. Foreign Exchange Reserves to External Debt Ratio (%)	114.8	101.1
12. Debt Service Ratio (6/7) (%)	6.2	16.3
13. Interest Payments to Current Receipts Ratio (%)	2.3	3.9
14. Debt to Current Receipts Ratio (%)	78.2	95.4
15. Liability Service Ratio (%)	7.1	17.1

@ : Inclusive of non-Government loans.
* : Inclusive of interest component of trade credits.
# : Excluding charges on net cumulative allocation.
** : Excluding official transfers.

Note: 1. Debt Service payments in this table follow accrual method of accounting consistent with balance of payments compilation and may, therefore, vary from those recorded on cash basis.
2. Liability service ratio represents debt service payments and remittances of profits and dividends taken together as a ratio of total current receipts.

billion as on March 31, 2005 (Table 1.79). India turned a creditor to the IMF under the Financial Transactions Plan (FTP) in 2003. During 2004-05, US $ 93.5 million (SDR 61 million) was made available under the FTP to countries like Uruguay, Haiti, Dominican Republic and Sri Lanka.

I.6.46 At end-March 2005, India held the fourth largest stock of international reserve assets among EMEs. In terms of trade-related reserve adequacy indicators, India's foreign exchange reserves at 14.3 months of imports are higher than other EMEs in Asia. India's ratio of reserves to short-term debt comfortably satisfies the adequacy criterion *vis-à-vis* comparator countries. In terms of overall external debt and total external liabilities, India's reserves are broadly adequate. In view of the steady improvement in the external sector and growth prospects, Standard & Poor's Rating Services raised its long-

Table 1.79: Foreign Exchange Reserves

(US $ million)

As at end of March	Gold	SDR	Foreign Currency Assets	Reserve Position in the IMF	Total (2+3+4+5)	Use of IMF Credit
1	2	3	4	5	6	7
1993	3,380	18	6,434	296	10,128	4,799
1994	4,078	108	15,068	299	19,553	5,040
1995	4,370	7	20,809	331	25,517	4,300
1996	4,561	82	17,044	310	21,997	2,374
1997	4,054	2	22,367	291	26,714	1,313
1998	3,391	1	25,975	283	29,650	664
1999	2,960	8	29,522	663	33,153	287
2000	2,974	4	35,058	658	38,694	26
2001	2,725	2	39,554	616	42,897	0
2002	3,047	10	51,049	610	54,716	0
2003	3,534	4	71,890	672	76,100	0
2004	4,198	2	1,07,448	1,311	1,12,959	0
2005	4,500	5	1,35,571	1,438	1,41,514	0

term foreign currency rating on India by one notch to 'BB+' (still one notch below the investment grade) and affirmed its 'BB+' long-term local currency and short-term ratings on February 2, 2005.

I.6.47 The objectives of reserve management in India are preservation of the long-term value of the reserves in terms of purchasing power and the need to minimise risk and volatility in returns. Foreign assets are held in major convertible currencies. Investments comprise deposits with other central banks, the Bank for International Settlements (BIS), top-rated foreign commercial banks, securities representing debt of sovereigns and supranational institutions with residual maturity not exceeding 10 years and any other instruments or institutions as approved by the Central Board of the Reserve Bank. Accordingly, the foreign currency assets are invested in multi-currency and multi-market portfolios (Table 1.80).

Table 1.80: Deployment Pattern of Foreign Currency Assets

(US $ million)

Item	As on March 31, 2005	As on March 31, 2004
1	2	3
Foreign Currency Assets	**1,35,571**	**1,07,448**
(a) Securities	36,819	35,024
(b) Deposits with other Central Banks and BIS	65,127	45,877
(c) Deposits with Foreign Commercial banks	33,625	26,547

I.6.48 Decisions involving the pattern of investments are driven by the broad parameters of portfolio management with a strong bias for capital preservation and liquidity. The counterparties with whom deals are conducted are subject to a rigorous selection process, taking into account their international reputation and track record, apart from factors such as size, capital, rating, financial position and efficiency of operations. Counter-parties could be banks, subsidiaries of banks or security houses.

I.6.49 The Reserve Bank has two broad portfolios with independent risk parameters, *viz.,* the money market portfolio and the bonds portfolio. The money market portfolio, predominantly guided by transaction and intervention needs, comprises instruments with maturity of less than one year and lower duration and runs a lower market risk in relation to interest rate movements. In contrast, the bonds portfolio consists of long-term holdings of AAA-rated instruments issued by sovereigns and supra-nationals.

INTERNATIONAL INVESTMENT POSITION

I.6.50 India's net international investment position, *i.e.,* the stock of external assets net of the stock of external liabilities, improved significantly (Table 1.81). Net external liabilities declined to US $ 48.6 billion by end-March 2004 from US $ 60.6 billion at end-March 2003. International assets grew much faster than international liabilities, attributable to the marked rise in reserve assets. The ratio of India's

Table 1.81: Cross-Country IIP: Select Indicators (end-December 2003)

(Per cent)

Country	As a ratio of GDP		Reserve Assets as a ratio of Total International Assets	As a ratio of Total International Liabilities		
	Foreign Assets	Foreign Liabilities		Direct Investment	Portfolio Investment	Other Investment
1	2	3	4	5	6	7
India	21.4	29.1	83.1	21.0	23.8	55.3
Hong Kong	756.9	505.2	10.0	48.2	15.8	33.5
Indonesia	26.9	78.0	64.8	6.4	14.3	79.3
Japan	83.8	46.3	18.7	4.5	43.7	51.5
Korea	42.4	56.6	60.5	19.3	49.1	31.4
Philippines	40.3	92.8	52.8	16.6	28.2	55.2
Singapore	492.7	409.5	21.3	45.6	16.1	38.3
Thailand	44.6	82.9	66.1	40.1	24.6	34.7
US	71.5	95.6	2.3	23.2	49.5	27.4

Note : Data for India relate to end-March 2004.

reserve assets to total international assets compares favourably with many EMEs (Table 1.82). Reflecting these positive developments, the ratio of net foreign liabilities to GDP for India recorded a steady improvement from 21.0 per cent at end-March 1997 to 7.7 per cent at end-March 2004.

Table 1.82: International Investment Position of India

(US $ million)

Item	End-March		
	2004 P	2003 PR	1997 PR
1	2	3	4
A. Assets			
1. Direct Investment Abroad	6,592	5,054	617
2. Portfolio Investment	731	709	282
2.1 Equity securities	396	374	172
2.2 Debt securities	335	335	110
3. Other Investments	15,697	12,878	10,097
3.1 Trade credits	1,251	1,097	973
3.2 Loans	1,758	1,412	548
3.3 Currency and deposits	9,548	7,517	5,287
3.4 Other assets	3,139	2,853	3,288
4. Reserve Assets	112,959	76,100	26,714
Total Foreign Assets	**135,979**	**94,741**	**37,710**
of which: Banks	11,442	9,158	7,271
B. Liabilities			
1. Direct Investment in India	38,676	30,827	10,630
2. Portfolio Investment	43,856	32,410	18,744
2.1 Equity securities	33,954	20,089	13,631
2.2 Debt securities	9,902	12,321	5,113
3. Other Investments	102,044	92,146	89,388
3.1 Trade credits	6,497	4,761	5,698
3.2 Loans	62,622	61,103	67,743
3.3 Currency and deposits	32,136	25,569	15,300
3.4 Other liabilities	789	714	646
Total Foreign Liabilities	**184,576**	**155,383**	**118,762**
of which: Banks	39,109	36,864	18,383
C. Net Foreign Liabilities (B-A)	**48,597**	**60,642**	**81,052**
of which: Banks	27,667	27,706	11,112
D. Net Foreign Liabilities to GDP (per cent)	**7.7**	**11.7**	**21.0**

P: Provisional. PR: Partially Revised.

I.6.51 Non-debt liabilities, comprising primarily direct and portfolio investment (equity component), have risen sharply in terms of their share in total international liabilities (Table 1.83).

I.6.52 Growth in net international liabilities of the Indian banking sector decelerated to 15.1 per cent in 2004-05 from 19.8 per cent in 2003-04 (Table 1.84). Country-wise, the US accounted for nearly one-fourth of total international liabilities and assets of Indian banks. While the assets denominated in foreign currency formed 98.1 per cent of total international assets, the proportion of foreign currency denominated liabilities in total international liabilities was lower at 57.9 per cent at end-March 2005.

Table 1.83: Composition of India's International Liabilities

(Per cent)

Year (end-March)	Debt Liabilities	Non-debt Liabilities
1	2	3
1997	79.0	21.0
1998	76.7	23.3
1999	77.1	23.0
2000	74.5	25.6
2001	72.5	27.5
2002	69.2	30.8
2003	67.2	32.8
2004	60.7	39.3

Table 1.84: International Liabilities and Assets of Banks in India

(US $ million)

Category/Item	Amount outstanding at end of		
	March 2005*	March 2004	March 2003
1	2	3	4
Total International Liabilities	**58,161**	**50,871**	**42,209**
of which:			
FCNR(B) Deposits	11,654	10,460	9,261
NRE Rupee Deposits	19,494	17,501	11,184
Foreign Currency Borrowings	10,368	7,743	3,876
Bonds (including RIBs and IMDs)	6,128	6,389	9,281
NR(NR) Rupee Deposits	192	1,690	3,201
ADRs and GDRs	2,819	1,474	807
EEFC Accounts	1,296	1,045	1,028
Total International Assets	**30,306**	**26,680**	**22,015**
of which:			
Foreign Currency Loans to Residents	13,337	10,159	7,760
Outstanding Export Bills	5,834	4,750	4,051
NOSTRO Balances	8,016	9,053	7,728

* : Provisional.

RIBs : Resurgent India Bonds. IMDs : India Millennium Deposits. ADRs : American Depository Receipts.

GDRs : Global Depository Receipts. EEFC : Exchange Earners' Foreign Currency.

Note: All figures are inclusive of accrued interest.

I.6.53 To conclude, there was a sharp turnaround in the current account balance during the year - from a surplus of 1.7 per cent of GDP in 2003-04 to a deficit of 0.9 per cent in 2004-05 - mainly due to a substantial increase in imports, even as export growth and invisibles surplus remained robust. As capital flows were considerably in excess of the current account deficit, the overall balance of payments remained comfortable and the foreign exchange reserves (excluding valuation effects) increased by a substantial US $ 26.2 billion during 2004-05.

II ASSESSMENT AND PROSPECTS

ASSESSMENT OF 2004-05

II.1 Against the backdrop of the growth peak in 2003-04, India's macroeconomic performance in 2004-05 was heartening in the face of threats to growth from an unsatisfactory monsoon and upside risks to stability from high and volatile international crude oil prices. The improvement in *rabi* production helped in shoring up *kharif* output losses and imparting resilience to Indian agriculture. A distinct dynamism exhibited by the manufacturing sector underpinned a strong and well-distributed industrial recovery that contributed to acceleration in overall economic activity, infusing business confidence, export competitiveness and a pick-up in investment intentions. In conjunction with the sustained buoyancy of the services sector, these impulses of growth mitigated, to a large extent, the setback to agriculture. Accordingly, the Indian economy remained among the growth drivers of the global economy, which exhibited high overall growth despite various uncertainties and risks. Coordinated and carefully calibrated monetary and fiscal policies, deployed to address the spike in inflation during May-August, 2004 were successful in containing inflation to its desired trajectory in the last quarter of the year. Nevertheless, pressures from international crude prices as well as from the burgeoning domestic demand spilled over into the balance of payments, leading to strong import growth and a widening trade deficit signalling, to some extent, better absorption as well as resilience in the economy. Understandably, after recording surpluses for three years, the current account exhibited a deficit. Net capital flows were higher than those recorded in the previous year, partly reflecting global trends and partly drawn by the underlying strength of the macroeconomic fundamentals and outlook, the robust performance of the corporate sector and the attractive valuations of Indian financial markets. At the end of 2004-05, India's foreign exchange reserves were the sixth largest in the world, surpassing the level of India's external debt.

II.2 The manufacturing sector's upsurge was the highlight of India's macroeconomic performance during 2004-05, consolidating a phase of industrial recovery that began in 2002-03. Despite subdued activity in infrastructure, industries such as machinery and equipment other than transport equipment, chemicals and chemical products, cotton textiles and textile products contributed to the resurgence of the manufacturing sector. Capital goods and consumer goods sectors recorded double-digit growth, supported by a broad-based expansion in demand, both domestic and external. The coincident expansion of exports with the renewed growth of the manufacturing sector is indicative of the acquisition of the cutting edge of competitiveness and a greater penetration of overseas markets by Indian industry than before. Furthermore, the experience of 2004-05 also shows that a significant amount of innate resilience has been built up, especially in the context of exogenous shocks such as the deficient monsoon, the *tsunami* and soaring international oil prices.

II.3 The services sector consolidated and extended gains in activity during 2004-05. Within the services sector, trade, hotels, transport and communication has achieved an average growth of 9.8 per cent during the last five years. The trade and transport sectors benefited from factors such as the building of new highways, the cut in customs duty on the inputs of auto components which boosted the production of tractors and commercial vehicles, increase in cargo handled at major ports and increase in freight and passenger traffic of railways. Growth of the hotel industry was facilitated by a record increase in tourist inflows into the country. Lower tariffs in the cellular segment due to intense competition among the operators and higher penetration into the rural areas maintained the growth momentum in the telecommunication sector. The services sector continued to benefit from exports of software services, especially ITES-BPO, reflecting the ability of the Indian firms to execute larger and more complex projects as well as high value added services. Thus, buoyancy in the information technology sector, significant growth of the telecommunications and transport sectors, and strong foreign tourist arrivals contributed to maintaining the momentum in the services sector growth.

II.4 Despite a sharp rise in oil imports on the back of high international crude oil prices as well as a surge in non-oil imports reflecting growing domestic industrial demand, India's balance of payments position remained comfortable with foreign exchange reserves increasing by US $ 28.6 billion during 2004-05.

There are significant shifts within the balance of payments that suggest that the economy may be approaching a turning point. First, the import-GDP ratio increased to 17.2 per cent in 2004-05, after hovering around 13 per cent during the previous five years. Second, export growth was robust, increasing by more than 20 per cent per annum for the third consecutive year in US dollar terms. Third, the merchandise trade deficit reached 5.5 per cent of GDP. The non-oil trade balance turned into deficit after a gap of four years. Fourth, overall earnings from net invisibles were buoyant, benefiting from steady growth in software and business services exports as well as remittances from expatriate Indians. However, net travel receipts were negative, because of the rapid expansion in outbound tourist from India, despite the jump in tourist arrivals. Furthermore, there was a sharp expansion in payments for business services in consonance with the modernisation of Indian industry. As in the past, the investment income account recorded net outflows on account of interest payments on external debt and profits and dividend payments. Nonetheless, more than four-fifth of the trade deficit was financed by the net invisible surplus. Fifth, there was a turnaround of US $ 17 billion in the current account balance during 2004-05 – a modest deficit of 0.9 per cent of GDP in 2004-05 from a surplus of 1.7 per cent of GDP in the previous year, 1.2 per cent in 2002-03 and 0.7 per cent in 2001-02. Sixth, the sharp increase in merchandise imports and the expanded external financing requirements led to a step-up in recourse to debt flows - trade credit and external commercial borrowings (ECBs) - alongside large investment flows pulled in by sustained investor optimism about India. Finally, positive aspects of these developments and the strength of the reserves created a congenial environment for expanding India's foreign investment overseas reflecting India's managerial, technological and entrepreneurial capabilities.

II.5 Given the growing integration of the Indian economy with the rest of the world, the external sector outcome during the year reflected global developments, particularly the movements in international oil prices and the uncertainties surrounding global macroeconomic imbalances and currency movements. The global oil economy continued to be characterised by elevated prices and considerable volatility, accentuated by speculative activities. Progressive withdrawal of the accommodative stance of monetary policy in the US alongside a weakening of economic activity in the euro area was yet another source of uncertainty for financial markets.

II.6 Public finances exhibited some consolidation in 2004-05, demonstrating a renewed commitment by the Government towards rule-based fiscal policy at the Centre and in a number of States. Notably, the revenue deficit in the Centre's provisional accounts for 2004-05 declined by one percentage point of GDP over 2003-04, achieving twice the minimum stipulated annual reduction set under the Fiscal Responsibility and Budget Management (FRBM) Act/Rules. The reduction in the gross fiscal deficit, relative to GDP, was also higher than the FRBM target. Some headway in tax reforms was made by introducing new taxes, expanding the tax base and sprucing up tax administration while retaining stability in the tax rates. Expenditure management was geared towards reducing low priority expenditures and reorienting expenditures towards achieving physical targets. Nevertheless, low and shrinking capital outlays constraining the expansion of infrastructure and realisation of the full potential of the economy, emerged as a key concern. Furthermore, the Government's attempt to moderate the impact of spurting international oil prices by allowing only their partial pass-through to consumers has affected the performance of domestic oil companies.

II.7 A noteworthy aspect of macroeconomic management during 2004-05 was the success in restraining inflation and inflationary expectations in an environment of severe supply shocks emanating from a sharp rise in international crude oil prices and the setback to agricultural production caused by a deficient monsoon. Inflation, measured by movements in wholesale prices, reached its intra-year peak of 8.7 per cent by end-August 2004 before moderating to 5.1 per cent by end-March 2005 in response to calibrated policy measures. The policy response included fiscal measures in the form of cuts in excise and customs duties and monetary measures to withdraw excess liquidity from the financial markets.

II.8 While persevering with its objective of provision of liquidity to meet credit growth and support investment and export demand in the economy, monetary policy assigned relatively greater weight to price stability by switching from 'a very close watch on the movements in the price level' in the Annual Policy Statement (May 2004) to 'equal emphasis on price stability' in its Mid-term Review (October 2004). This was supported by a 50 basis points increase in the cash reserve ratio (CRR) in September-October 2004 and a 25 basis points hike in the reverse repo rate in October 2004. With a view to managing liquidity pressures emanating from large and persistent capital flows, sterilisation operations were undertaken through the liquidity adjustment facility (LAF) and open market operations, supported by the Market Stabilisation Scheme (MSS). These operations were successful in keeping monetary conditions stable and well within their indicative trajectories set out in the Annual Policy Statement for 2004-05.

II.9 Financial markets in India remained broadly stable during 2004-05, notwithstanding the uncertainty associated with the upturn in the global interest rate cycle and growing global macroeconomic imbalances. The introduction of the MSS, effective April 2004, provided the Reserve Bank with greater flexibility to absorb liquidity of a relatively durable nature and to modulate liquidity conditions in the financial markets, consistent with monetary and financial stability objectives. Comfortable liquidity kept money market segments aligned with the reverse repo rate during the greater part of the year. The foreign exchange market remained orderly, despite upward pressures on the rupee. Yields in the Government securities market hardened, mainly reflecting increase in the inflation rate due to higher crude oil prices and increase in the reverse repo rate. In the credit market, commercial credit offtake remained exceptionally strong and broad-based. The equity market staged unusually strong rallies from intra-year lows in May 2004.

II.10 The conduct of financial regulation and supervision in 2004-05 continued to be guided by the objective of maintaining confidence in the financial system by enhancing its soundness and efficiency. In addition to fine-tuning the prudential guidelines, the Reserve Bank focused on encouraging market discipline and ensuring good governance with an emphasis on “fit and proper” owners and diversified ownership. Steps to implement Basel II norms were carried forward through the Capital Adequacy Assessment Process. In respect of urban cooperative banks, the policy endeavour during the year aimed at developing them into a sound, well managed network of financial institutions providing quality banking services to the widest sections of society. Finally, the Reserve Bank stressed financial inclusion by emphasising the facilitation of transactions by the common person and strengthening of the credit delivery systems as a response to the pressing needs of society and the economy.

II.11 The Reserve Bank continued with its efforts to develop a sound and efficient payment and settlement system. During 2004-05, the thrust of the Reserve Bank’s policy initiatives was on widening the range of electronic payment products and building a sound institutional framework for regulation and supervision. The establishment of the National Financial Switch and the stabilisation of the real time gross settlement (RTGS) system were noteworthy developments during the year.

OUTLOOK FOR 2005-06

II.12 Leading indicators and available information for 2005-06 suggest that the Indian economy is poised to build upon the gains in macroeconomic performance secured in 2004-05. The revival of the South-West monsoon, robust strengthening of manufacturing activity, high corporate profitability, buoyant equity markets, robust merchandise exports and imports, sustained demand for non-food credit and lead indicators of services sector activity all point to a brightening of the near term prospects of the Indian economy.

II.13 According to the India Meteorological Department (IMD), the rainfall during the South-West monsoon season 2005 for the country as a whole is expected to be 98 per cent of the long period average with a model error of +/- 4 per cent. The monsoon, which was delayed by a week, recorded a deficiency of as much as 49 per cent till June 22, 2005. In the subsequent weeks, however, there was conspicuous improvement in rainfall activity. The cumulative rainfall during the period June 1 to August 17, 2005 was two per cent below normal as against seven per cent below normal during the corresponding period of the previous year. Of the 36 meteorological sub-divisions, cumulative rainfall was excess/normal in 29 sub-divisions (28 sub-divisions during last year). Although the delayed arrival had an adverse impact on sowing of *kharif* crops, the sowing has started picking up. The Ministry of Agriculture is closely monitoring the situation and has issued advisories relating to sowing with specific suggestions to farmers on the likely agricultural operations they may undertake in the context of expected weather conditions. However, excess rainfall in some areas in the country during the last week of July 2005 not only impacted the economy of the industrial/commercial capital (Mumbai) but has also introduced some uncertainty regarding the eventual *kharif* outcome.

II.14 Industrial production gathered strength in April-June 2005 with growth accelerating to double digit. On a year-on-year basis, the growth of the manufacturing sector in June 2005 was the highest since June 1996. The electricity sector recorded a strong pick-up in May-June 2005 and the cumulative growth during April-June 2005 was higher than a year ago. Amongst other infrastructure industries, finished steel and cement recorded a robust turnaround in June 2005 from absolute declines a year ago while crude oil and petroleum refinery products remained lacklustre. According to the use-based classification, the capital goods sector maintained strong growth, reflecting increase in both investment and export demand. Growth of consumer durables accelerated, driven by demand for white goods and facilitated by ease in availability of financing. Consumer non-durables also recorded a substantial growth, partly reflecting the low base and high growth of food products. Basic goods accelerated during May-June 2005 and the cumulative growth during April-June was higher than a year ago. Intermediate goods, however, recorded deceleration, mainly due to a decline in the production of petroleum refinery products.

II.15 Various surveys of business confidence suggest considerable optimism about future prospects of industry. Corporate profits and new investment intentions are also at a record level. The optimistic investment climate, broadly stable bank lending rates, corporate profitability and the buoyancy in the stock markets suggest that the industrial sector outlook is likely to remain buoyant in 2005-06.

II.16 Lead indicators of services sector growth such as tourist arrivals, railways freight traffic earnings, cargo handled at major ports, cell phone connections, civil aviation and trends in bank deposits/credit indicate that the services sector is likely to maintain its growth momentum during 2005-06 as well.

II.17 Assuming a normal monsoon, and on the expectations that the industry and the services sectors would maintain their current growth momentum while absorbing the impact of oil prices, the Reserve Bank in its Annual Policy Statement for 2005-06 (April 2005) indicated that real GDP growth for 2005-06 could be placed around 7.0 per cent for the purpose of monetary policy formulation. This was reaffirmed in the First Quarter Review of the Annual Statement on Monetary Policy (July 2005).

II.18 Developments in merchandise trade during the first four months of 2005-06 show that both exports and imports have posted high growth. Non-oil import growth (38.1 per cent) mirrored the step-up in the pace of industrial activity while oil import growth (32.3 per cent) was largely the outcome of a continued rise in international crude oil prices. With growth in imports outpacing export growth - which was 21.3 per cent in US dollar terms - the merchandise trade deficit increased by 82 per cent during April-July 2005. Capital flows were steady during the first quarter. FDI inflows increased substantially while FII inflows recorded a sharp pick-up in June-July 2005. Data on approvals for the ECBs indicate continued demand for external finance for investments by corporates. As a result of these developments, the burgeoning trade deficit was accommodated by the invisibles surplus and net capital flows. The foreign exchange reserves increased by US $ 1.7 billion during 2005-06 (up to August 19, 2005).

II.19 The resurgence in service exports noticed in 2004-05 may be expected to continue as exports of business and professional services join software exports as key foreign exchange earners. The shift in the strategy of ITES-BPO industry segment of the software sector towards higher value activities and areas of competitive strength would yield rich dividends if supported by preparedness to meet data security requirements and to fulfil regulatory compliance requirements in the banking and financial services sector. Workers' remittances seem to have acquired a permanent character and hence should continue to be an important source of inflows with an ongoing transition to higher skill categories in overseas markets. Thus, there are grounds to hold that the buoyancy in net invisible earnings will be maintained and even built upon, despite rising invisible payments. On the other hand, despite the sustained strength of export performance, the merchandise trade deficit is expected to be somewhat higher in 2005-06 than the previous year mainly on account of substantially higher oil and non-oil imports. For the year as a whole, while invisibles surplus may finance a large part of the enlarged trade deficit, the current account deficit is expected to widen during 2005-06 but to remain within acceptable limits that can be financed by normal capital flows.

II.20 Continuing and emerging global uncertainties embedded in the pace of the tightening of interest rates in the US, asset price movements and the manner of unwinding of global macroeconomic imbalances would have a bearing on capital flows to emerging market economies (EMEs). However, the underlying strength of the Indian economy and the prudent policy approach should enable containment of excess volatility in capital flows to India. Backed by progressive liberalisation of the investment environment, Indian companies are also expanding and diversifying their operations across a wider spectrum of countries, leveraging advantages in terms of diffusion of technical innovation and managerial expertise. The notable optimism in India's growth prospects has increased interest in investment in India.

II.21 Although headline inflation edged up during April 2005 driven up by prices of fruits and vegetables and some freely-priced items in the fuel group, it eased in the subsequent months despite hikes in the prices of electricity and petrol and diesel. Annual WPI inflation rate was 3.4 per cent as on August 6, 2005, down from 5.1 per cent at end-March 2005. More than one-half of the annual inflation was on account of the fuel group, even as the pass-through from high international crude oil prices has remained incomplete. Excluding the fuel group, annual inflation was 1.8 per cent as on August 6, 2005, significantly lower than headline inflation. During 2005-06 so far, oil prices in the international markets continue to remain high and volatile. The average price for a basket of major international crude varieties (Brent, WTI and Dubai Fateh) at around US $ 52.2 per barrel during April-July 2005 was 13.1 per cent higher than in January-March 2005 and 44.1 per cent over the corresponding period of last year. With the latest hike in prices effective June 20, 2005, the average domestic price of petrol and diesel (in four metros) has increased by 6.2 per cent over the end-March 2005 level and 22.4 per cent over the level a year ago. The pass-through of crude prices continues to remain the most critical factor influencing domestic inflation. Annual inflation, as measured by variations in the consumer price index (CPI) for industrial workers, on a point-to-point basis, was 3.3 per cent in June 2005 as compared with 3.0 per cent a year ago.

II.22 The Reserve Bank sought to moderate inflationary expectations by a demonstrable commitment to price stability through successive increases of 25 basis points each in the reverse repo rate in October 2004 and April 2005. On balance, underlying inflationary pressures appear to have been contained during 2005-06 so far and the inflation outcome, under normal circumstances, as noted in the First Quarter Review of the Annual Statement on Monetary Policy (July 2005), is expected to be consistent with the Annual Policy Statement's projection for annual point-to-point inflation for 2005-06 in the range of 5.0-5.5 per cent.

II.23 The performance of Central Government finances during 2005-06 has so far been in line with the budget estimates. The Central Government's finances during April-June 2005 were characterised by substantially higher revenue receipts mainly on account of tax revenue, with non-tax revenue registering a marginal growth. The growth in tax revenue was supported by buoyant collections of corporation tax and customs duties. The growth in aggregate expenditure decelerated mainly on account of lower capital expenditure, particularly defence, and deceleration in revenue expenditure. On the whole, the revenue deficit registered a marginal growth of 2.0 per cent during April-June 2005 over its level in the corresponding period of the previous year. The gross fiscal deficit (GFD) increased by 30.8 per cent as compared with an increase of 8.0 per cent during April-June 2004 reflecting the impact of the discontinuance of the debt swap scheme from 2005-06. The GFD, however, showed a decline during April-June 2005 over its level during April- June 2004, when adjusted for debt swap proceeds.

II.24 Gross market borrowings during 2005-06 (net of the MSS) of the Centre were budgeted at Rs.1,65,467 crore, while net market borrowings were placed at Rs.1,03,791 crore. During 2005-06 (up to August 19, 2005), 50.9 per cent of the gross market borrowing programme has been completed as compared with 51.7 per cent during the corresponding period of 2004-05. The weighted average yield on fresh government borrowings through dated securities increased from 6.11 per cent in 2004-05 to 7.28 per cent during the current year so far (up to August 19, 2005) while the weighted average maturity fell from 14.13 years to 14.04 years over the same period. In addition to normal market borrowings, the Central Government raised Rs.6,104 crore (face value) under MSS for sterilisation purposes during 2005-06 so far (up to August 19). Overall, the net resources raised through Government securities (Centre, States and MSS) amounted to Rs.59,359 crore (face value) during 2005-06 so far as compared with Rs.70,307 crore in the corresponding period of the previous year.

II.25 As the demand for non-food credit remained strong, scheduled commercial banks financed the credit demand from the commercial sector by restricting their incremental investments in Government and other approved securities to Rs.27,942 crore up to August 5, 2005 as against an increase of Rs.55,152 crore in the corresponding period of the previous year. The effective statutory liquidity ratio (SLR) of the commercial banks declined to 37.4 per cent of net demand and time liabilities (NDTL) as on August 5, 2005 from 41.7 per cent a year ago but continues to remain above the statutory minimum of 25 per cent.

II.26 Despite the strong surge in demand for bank credit, monetary conditions have remained easy during 2005-06 so far (up to August 19, 2005) reflecting liquidity management operations by the Reserve Bank. Responding to a widening of the trade deficit, a marked increase in the demand for bank credit from the commercial sector and the onset of the Government borrowing programme, the Reserve Bank injected primary liquidity into the system. The absorption of liquidity through increase in balances under the MSS, till July 22, 2005, was more than offset by liquidity released through the unwinding of LAF. In the first week of August 2005, the balances under LAF reverse repos increased sharply reflecting larger foreign exchange inflows as well as reduction in the Central Government's surplus cash balances. Reserve money expanded at a higher rate than a year ago. Nonetheless, the year-on-year broad money (M_3) growth at 14.5 per cent as on August 5, 2005 was consistent with the indicative trajectory of 14.5 per cent set out in the Annual Policy Statement for 2005-06. The commercial sector's demand for bank credit remained strong, with year-on-year non-food credit growth of scheduled commercial banks reaching 30.2 per cent as on August 5, 2005 on top of 24.4 per cent a year ago. Disaggregated data available for the first two months show that credit demand is fairly broad-based. In particular, credit to industry, housing and real estate continued to record strong growth. More recent information on industrial credit up to June 2005 indicates significant increase in credit to metals and metal products, engineering, power and roads and ports. However, the continued upswing in credit demand for housing and real estate suggests a greater focus on credit quality. Accordingly, the Reserve Bank increased risk weights on exposures of banks to commercial estate and capital markets from 100 per cent to 125 per cent on July 26, 2005.

II.27 Financial markets were largely stable during the first four months of 2005-06, even as interest rates edged up. Money market rates were generally aligned with the reverse repo rate. Yields on 10-year Government securities edged up by 43 basis points between end-March 2005 and August 19, 2005 reflecting concerns over the continued rise in international crude oil prices as well as liquidity pressures due to sustained credit demand. With a relatively higher increase in long-term interest rates, there was a steepening of the yield curve. The Indian rupee appreciated *vis-à-vis* the US dollar by 0.4 per cent between end-March 2005 and August 19, 2005, partly due to expected revaluation of the Chinese currency, which crystallised on July 21, 2005.

II.28 The outlook for the Indian economy has to reckon global economic activity which is expected to decelerate to 4.3 per cent in 2005 from a three-decade peak of 5.1 per cent recorded in 2004. There are already signs of a slackening of momentum in the first half of 2005 in some areas of the industrialised world. Among developed countries, growth has been strong in the US, *albeit* lower than a year ago. The Euro zone has exhibited low growth. Among the EMEs, growth has remained strong in China and India, whereas in other Asian and Latin American countries there has been some loss of pace. During the second quarter of 2005, consumer price inflation decreased in the US, but remained stable in the Euro zone, Japan and other advanced economies. Inflation in other major emerging markets and developing countries has also shown some decline during this quarter. The rise in oil prices has not yet triggered generalised inflationary pressures in contrast to the experience of earlier oil shocks.

II.29 As regards international crude oil prices, the outlook remains highly uncertain with limited scope for enhanced supplies in the near future, taking account of inventories, unutilised capacities and gestation periods for new investments. The geopolitical factors seem to continue to be critical. While the global economy is coping with these uncertainties in a demonstrably better manner than in earlier episodes, the associated problems are getting complex for oil-exporting countries in terms of managing the surpluses and difficult for oil-importing countries like India in terms of effect on prices, output, competitiveness and indeed, disposable incomes. Risks to global growth also arise from the imbalances in the current account of the BoP, the fiscal imbalances, hedge fund activity, elevated asset prices and the excessive leveraging in some advanced economies. The current macro-policy framework of most emerging economies has imparted noteworthy resilience, but heightened global uncertainties do demand close attention to elements of the recently accentuated disequilibria.

II.30 In this context, a recent development with important consequences for the global economy is the decision by the Chinese authorities to move away from the peg to the US dollar to a managed floating exchange rate regime linked to a basket of currencies, with an initial appreciation of the renminbi (RMB) by 2.1 per cent against the US dollar. In the subsequent period up to August 19, 2005, the yuan has moved in a narrow range of 8.0976-8.1127 RMB per US dollar. The nature, extent and intensity of management of the exchange rate is yet to be revealed and the associated administrative measures by the authorities would have to be watched to determine the impact of these changes on the global economy. Of particular significance would be the ongoing responses of the domestic financial as well as real sectors in China to the new foreign exchange policy. As per current indications, the impact on India is assessed to be marginally positive on trade account, neutral on current account, and somewhat uncertain on capital flows but is unlikely to be negative for India, though the capital flows could be potentially volatile on the global front.

II.31 The domestic factors, which are more relevant for India, continue to be positive. The performance of the industrial sector is strengthening and the indicators of growth in services are positive. The business expectation surveys also point to continued optimism. While the onset of monsoon was delayed, it has progressed well subsequently, but uncertainties remain on its progress during the season and consequently its impact on agricultural output. During the current year so far, the underlying inflationary pressures appear to have been contained and inflationary expectations maintained, as anticipated. On balance, though uncertainties and supply constraints remain, the domestic growth impulses appear to have been reinforced in the first quarter.

II.32 Given the volatility in the inflation rate during 2004-05, there is a need to consolidate the gains obtained in recent years from reining in inflationary expectations. While sustained efforts over time have helped to build confidence in price stability, inflationary expectations can turn adverse in a relatively short time if noticeable adverse movements in prices take place. Credible commitment of policy to fight inflation is critical to stop translation of higher oil prices into wage-price spirals. In addition, the international prices of non-oil primary commodities may continue to remain firm. On the domestic front, the manoeuvrability on oil prices is getting limited and corporates have a higher probability of gaining their pricing power with a better industrial outlook. The pricing pressure, if it were to occur from the supply side, could get complicated by continuing overhang of excess domestic liquidity. While the economy has the resilience to withstand supply shocks, the upside risks do exist. As such, the inflationary situation needs to be watched closely to persevere in maintaining inflation expectations and any complacency on this count could have adverse consequences for both stability and growth.

II.33 In brief, although there are several global uncertainties, domestic factors indicate a confidently growing economy in a stable environment. While global factors are getting to be increasingly significant for India, the domestic factors still dominate and the latter point to favouring stability to maintain the growth momentum at this juncture while watching inflationary situation closely to persevere in maintaining inflation expectations. It is in this context that key medium-term issues which will entrench the conditions for high growth with stability merit attention.

REAL SECTOR

Agriculture

II.34 The experience of 2004-05 brings to the fore, yet again, the rain dependence of Indian agriculture. In this context, imparting stability to farm incomes assumes critical significance. Globalisation, rising incomes and urbanisation have brought into focus the need for increasing diversification and value addition in Indian agriculture. The new demand patterns as well as the shifts in consumption warrant a shift of land and other resources to crops with higher potential for value addition. India has considerable export potential in areas such as dairying, sericulture, floriculture and horticulture. This segment, besides enhancing nutritional and livelihood standards, sustains a large number of agro-industries which hold rich potential for non-farm employment.

II.35 In this context, it needs to be recognised that agriculture had a limited or no direct role to play in providing additional employment opportunities in the recent decade. Employment in agriculture remained virtually unchanged at about 190 million people during the 1990s. Concomitantly, the employment growth for the economy, as a whole, decelerated from above two per cent during the 1980s to only 1.1 per cent in the latter half of the 1990s. With the growth rate of working age population exceeding the overall population growth rate, the unemployment rate could worsen further if the economic growth envisaged does not give rise to new activities that are appropriately labour intensive.

II.36 There is a need to evolve and put in place appropriate agricultural technologies and agro-management practices to respond to food and nutritional security, poverty alleviation, diversifying market demand, export opportunities and environmental concerns. It is expected that future agricultural growth would largely accrue from improvements in productivity of diversified farming systems with regional specialisation and sustainable management of natural resources, especially land and water. Effective linkages of production systems with marketing, agro-processing and other value added activities would play an increasingly important role in diversification of agriculture.

II.37 Strengthening the marketing and infrastructure network as also amendment of State Agricultural Produce Marketing Committee (APMC) Acts in line with the Model Act (2003) in all the States would go a long way in enhancing market efficiency and promoting exports and processing industry. The Act would, *inter alia*, facilitate direct sale, promotion of public-private partnership in the management and development of agricultural markets, promotion of contract farming, pledge financing, trading, export, forward/future trading and introduction of a negotiable warehousing receipt system in respect of agricultural commodities.

II.38 A welcome development in the past few years is the strong increase in bank credit to the agricultural sector. Credit to the agricultural sector increased by 35.2 per cent during 2004-05 on top of an increase of 23.2 per cent during the previous year. It is important that this trend should continue. In this context, the changing demand pattern for food involves a reordering of priorities in organising appropriate supply responses. Supporting policy changes and investment are required to facilitate agricultural diversification and value-addition. In the new growth areas of agriculture, the importance of post harvest activities such as storage, transportation, processing and marketing of non-cereal products increases which leads to greater links between agricultural diversification and rural industrialisation. Heavy investments need to be made in establishing cold chains across the country such as cold storage, transport facilities and the like. In fact, credit requirements would go up due to purchased-input intensive and heterogeneous production cycles of the new areas of agriculture. This would also call for designing innovative schemes and products which recognise the differing nature of agri-business and supply chains for different products. Newer forms of credit assessment and risk management systems may also have to be put in place, besides upgrading skills, and ushering in changes in attitudes and mind-sets. Information technology has to be used to facilitate transformation in various processes of rural credit. It is heartening to note that several banks have adopted policies to direct increased credit to agriculture, but greater attention to structural, institutional and procedural systems may be needed to ensure not only a sustained growth in credit to agriculture and related activities but also provision of a range of financial services. These steps towards diversification of agriculture in favour of value added services such as those related to the food processing and livestock sectors would also provide stable additional avenues of employment generation in the rural sector and enable these sectors to emerge as the main source of growth and employment in rural areas.

II.39 Rural infrastructure - irrigation structures, agriculture research and extension, transport infrastructure, electricity, storage structures - not only enhances the productivity of physical resources but also helps in supply chain management and value addition in agriculture. Promotion of micro-irrigation technology (comprising drip and sprinkler irrigation) on a large scale deserves priority, particularly in view of the fact that water use efficiency in Indian agriculture is one of the lowest in the world. The approach to the development of the rural infrastructure would need to stress the importance of water management, the criticality of assured power supply, high quality of inputs and risk mitigation strategies including cushioning the possible adverse impact of tariff rationalisation under the WTO.

Industry

II.40 The recovery in the industrial sector which set in during 2002-03 has steadily become entrenched and diffused. The overall investment climate during 2004-05 was buoyant. A significant investment revival is suggested by the very substantial increase in investment intentions registered in 2003-04 and further doubling in 2004-05. Robust export growth reflects the growing competitiveness of Indian industry. Strong corporate profitability in the past few quarters, even in an environment of heightened competitiveness, suggests that the efforts by the Indian industry to restructure itself are paying off. Continuing strong growth in non-food credit and in imports of capital goods and buoyant capital markets indicate that industry is likely to remain buoyant in 2005-06. The congenial policy regime in regard to mergers and acquisitions including the liberalisation of policies in regard to direct investment abroad has encouraged consolidation of Indian industry and enabled the reaping of the benefits of economies of scale. This has imparted a high degree of competitiveness to Indian industry. In view of the enhanced external as well as internal competition, further consolidation through scale economies is likely to remain an important driver of industrial growth in the future. It is, therefore, critical that the current upsurge in the industry is nurtured in order for India to realise its growth potential.

II.41 In this context, there are a host of infrastructural bottlenecks which could impinge upon competitiveness and the supply elasticities to meet the emerging global and domestic demand. The subdued performance of the infrastructure sector, especially that of crude petroleum and petroleum refinery products, is an issue of concern, given the sector's strong forward and backward linkages in the economy. The increasing demand-supply gap in the availability of power is becoming the most critical issue in the future of India's economic development. Inadequate power generation capacity, lack of optimum utilisation of the existing generation capacity, insufficient inter-regional transmission links, inadequate and ageing sub-transmission and distribution network, slow pace of rural electrification and inefficient use of electricity by the end consumer have exacerbated the absolute shortages. In the recent period, shortage of coal and gas has emerged as a serious constraint on power generation with the supply of both fuels falling far short of demand. A number of thermal plants are reported to be running with critical coal stocks of less than a week, with adverse impact on the plant load factor. Shortages of gas were reflected in long hours of load shedding in Maharashtra in May 2005. Imports of coal and gas are hampered by the sharp surge in international prices of these commodities. Continuing problems in the power sector pricing policy suggest an urgent need of reforms to ensure payment security. The untapped hydro electricity sources have to be explored to generate inexpensive electricity. Besides, there is a need to consider generation through nuclear energy also to meet the expected surge in demand for energy accompanying the anticipated growth in the medium-term. In any case, having recognised the fact that the Indian economy is among the more inefficient users of energy, highest and urgent priority needs to be given for energy-saving measures, which could include appropriate pricing policies and incentives to invest. In this context, there is a need for a greater degree of pass-through of higher international crude oil prices to domestic prices. This will also enable more efficient use of oil in the economy, especially in view of the fact that the rise in international oil prices appears to have a large permanent component.

II.42 With growing urbanisation, issues related to urban infrastructure have come to the forefront. Urban infrastructure consists of drinking water, sanitation, sewage systems, electricity and gas distribution, urban transport and primary health services. At present, investment in urban infrastructure is hampered by the fact that local governments are not yet creditworthy and urban infrastructure projects are, therefore, not found to be commercially viable. Strengthened planning and better coordination between various agencies entrusted with maintenance of urban infrastructure would have a positive impact on the overall productivity of economic activity in cities. Limitations of urban infrastructure were evident during the recent heavy rains in Mumbai and rest of Maharashtra during the last week of July 2005. Given the fact that there is a heavy concentration of economic activity in large cities, weak infrastructural facilities impede the growth of large cities. It is, therefore, of utmost importance that the quality of urban infrastructure in the large cities is improved significantly so as to maintain and accelerate the momentum of economic growth and productivity enhancement. For urbanising economies like India to replicate the experience of developed countries in the provision of urban infrastructure, it is essential that all aspects of city management, including the fostering of a professional workforce, are strengthened. This, in turn, would increase the creditworthiness of city governments and help attract the investment necessary for vital urban infrastructure projects.

II.43 Small and Medium Enterprises (SMEs) are an important segment in the industrial spectrum of the country owing to their contributions to employment generation, value addition and exports. The process of de-reservation has been carried forward during 2005-06 with a further de-reservation of 108 items from exclusive production by SSI units in order to permit the sector to reap the economies of scale and to enhance competitiveness. The proposed debt restructuring mechanism for the SME sector would improve their financial health and also protect them from the incidence of sickness. In this context, a noteworthy development is the passing of the Credit Information Companies (Regulation) Act, 2005 by the Parliament. This Act is expected to encourage setting up of credit information companies and, thereby improve exchange of information on credit histories of the borrowers and, with appropriate risk assessment techniques in place, should lower transaction costs of the banks. In turn, this is likely to lead to an increase in bank lending to SMEs while, at the same time, it is expected that the risk premium embedded in interest rates charged to SMEs will be reduced.

II.44 The delay in implementation of several central sector projects needs careful monitoring. While the cost overrun for delayed projects as a percentage of original cost declined from 51.8 per cent in March 2004 to 45.2 per cent in March 2005, the number of delayed projects increased from 112 to 125. Procedural bottlenecks and other problems relating to allocation of funds and acquisition of land continue to deter the implementation of majority of the projects, particularly in the railway sector. A reduction of 10 per cent in the cost overrun of delayed projects would yield substantial savings of around Rs.2,500 crore.

Services

II.45 The services sector remains the growth driver of the economy, with a contribution of more than 57 per cent of GDP. India ranked 18th among the world's leading exporters of services with a share of 1.3 per cent in world exports. The services sector is expected to benefit from the ongoing liberalisation of the foreign investment regime into the sector. Software and the ITES-BPO sectors have recorded an exponential growth in recent years. The continued buoyancy in this sector is sustainable in the medium term in view of enabling policy developments, encouraging investment climate, improvement in business expectations, affordable labour force, talented technological manpower, time zone advantages, improved telecommunication facilities and above all, a low cost destination for outsourcing. India's strengths in legal and contractual obligations, apart from a large scientific and technological talent pool, need to be effectively explored. The ITES sector is labour intensive and holds promises of higher employment. To improve international confidence and realise the full potential of the software and services sector, added emphasis may be warranted in regard to infrastructure as well as in the implementation of strong security solutions.

FISCAL POLICY

II.46 Consolidation of Central Government finances so as to achieve the targets set under the FRBM by 2008-09 is the goal of fiscal policy, notwithstanding the 'pause' that has been set during 2005-06. Since 2002-03, Central Government finances have recorded a progressive reduction in key deficit indicators. This has been, *inter alia*, enabled by attempts to increase the tax base which is reflected in a sustained increase in tax/GDP ratio from 8.8 per cent in 2002-03 to 9.9 per cent in 2004-05 and an expected 10.6 per cent in 2005-06. Moreover, the recovery in economic activity, especially in the industrial sector, has also enabled an improvement in the tax/GDP ratio and Central Government finances. Against this backdrop, with the GFD/GDP ratio at 4.1 per cent in 2004-05 (provisional accounts), the FRBM target of 3.0 per cent by 2008-09 appears to be within striking distance. However, with the revenue deficit at 2.6 per cent in 2004-05, the elimination of the revenue deficit by 2008-09 will prove to be more difficult. Achieving this target requires continued focused action on containing expenditures, increase in tax revenues and reduction in tax exemptions. Revenue augmentation would critically depend upon improvement in tax/GDP ratio as non-tax revenue is set to decline in the coming years. With the acceleration in overall economic growth that is being observed currently, renewed efforts on tax compliance should yield beneficial results. This assumes further urgency in the context of the higher devolution of tax revenues by the Centre to the State Governments as recommended by the Twelfth Finance Commission (TFC). Non-debt capital receipts are also slated to decline under the TFC's scheme of debt write-off to be awarded to States on the basis of reduction of their revenue deficits. Discontinuance of the practice of treating disinvestment proceeds as budgetary receipts will also reduce non-debt capital receipts. Overall, despite the recent improvements in the fiscal position of the Central Government, the effort in achieving fiscal consolidation will have to continue.

II.47 Achievement of the FRBM target of revenue deficit at zero per cent of GDP will free up resources for public investment which will crowd-in private investment. Hence, in addition to efforts to improve revenues, expenditure management centres around the enhancement of the effectiveness of the delivery mechanism for public services. The phasing out of the Centre from intermediation of States' borrowings, as recommended by the TFC, would provide some space for the Central Government to undertake larger capital outlay. Further, the Government's proposal to announce an 'outcome budget' which evaluates projects in terms of outcomes rather than outlays will enable an improvement in the quality of investment.

II.48 The fiscal scenario is also conditioned by the prevailing global uncertainties in respect of crude oil prices and capital flows. Spikes in crude oil prices could result in increased fiscal burden in terms of duty concessions, larger petroleum subsidies or lower dividends from oil PSEs. Furthermore, holding back the pass-through of international prices to domestic prices involves quasi-fiscal costs which could eventually turn into a binding constraint for the fiscal authority.

II.49 The fiscal position of the States during 2005-06 would, to a large extent, be shaped by the recommendations of the TFC and the implementation of Value Added Tax (VAT). Another important development relates to enactment of Fiscal Responsibility Legislation (FRL) by several States and proposals to enact legislation by some others. The Union Government has accepted the major recommendations of the TFC and has incorporated them in the Union Budget, 2005-06. An analysis of budget documents of the State Governments reveals that many of them have not factored in the TFC's recommendations pertaining to resource devolution. Most of the States have switched over to a VAT regime on the basis of recommendations of the Empowered Committee of State Finance Ministers (Chairman: Dr. Asim Kumar Dasgupta). The VAT system would eliminate the problems of cascading tax burden due to double taxation of commodities as well as multiplicity of taxes through provision of input tax credit and abolition of other related indirect taxes. It is also expected to enhance transparency, promote compliance and lead to higher revenue mobilisation. While the implications of introduction of VAT on States' resource generation are yet to emerge, the experience of Haryana - the first State to introduce VAT in April 2003 - has been encouraging from the point of view of revenue generation. In this context, there may be a merit in extending the VAT principles to tax the consumption of almost all goods and services in the economy.

II.50 The fiscal position of State Governments for 2005-06 would continue to undergo correction in terms of key deficit indicators through containment of non-interest revenue expenditure. Accordingly, fiscal empowerment to augment resource mobilisation from non-tax revenues through appropriate user charges, cost recovery from social and economic services and restructuring of State PSUs assumes importance. Improvement in State finances will enable the States to step up their expenditures on education and health with a beneficial impact on the quality of life and the country's ranking in terms of the Human Development Index. In the recent years, exports of services such as software and ITES-BPO services have recorded strong growth. For this growth momentum to be maintained, it is necessary that public expenditure on education should reverse its declining trend: total expenditure by the State Governments on education is budgeted to decline from 2.5 per cent of GDP in 2003-04 to 2.3 per cent in 2005-06. Moreover, given the demographic profile, the demand for education is slated to increase further. Accordingly, the improvement in State finances will enable the States to increase their expenditure on education and other social services and thereby improve the quality of overall social infrastructure so that India can realise its potential.

II.51 The health of public finances will benefit vastly from improvements in cost recovery of various public services and rationalisation of subsidies. At present, user charges are inadequate for two reasons. First, it is perceived that the services are provided by the Government and, therefore, do not have to be paid for. Second, with the quality of the service being poor, the public is loath to pay higher charges. The attainment of higher efficiency in the provision of services can progressively lead to lower charges. Better cost recoveries will not only improve public finances but will also create enabling grounds for financial sector development so that each activity becomes financially viable.

EXTERNAL SECTOR

II.52 Various reforms in the trade policy regime have unlocked entrepreneurial energies, stepped up productivity gains and improved competitiveness and access to overseas markets. India's merchandise exports have been rising at a rate of over 20 per cent per annum, in US dollar terms, during 2002-05. As a result, the secular decline in India's share in world exports from two per cent in 1950 to 0.5 per cent in the 1980s has been reversed. This share began rising in the 1990s and is currently at 0.8 per cent. These positive developments in the external sector provide the environment of pursuing a further rationalisation of tariffs with a view towards moving to a single, uniform rate on imports, say 10 per cent, and simplifying all customs procedures strictly in line with best global practices. This should help to improve competition, exports and domestic consumers. The current external environment, including the level of the foreign exchange reserves, enables such a move to be made with little or no downside risks.

II.53 While the recent trend in imports may continue to persist in the face of high and volatile crude oil prices and the large increase in domestic demand, an intrinsic link between merchandise imports and exports has emerged and become entrenched. The large expansion in imports is also spurring vigorous export growth. Given the recent experience, especially the fact that remittances from Indians employed abroad seem to have acquired a permanent character, the current level of the trade deficit appears to be manageable at this stage and appears to be consistent with India's growth aspirations.

II.54 In regard to capital flows, India has adopted a policy of active management of the capital account. The compositional shifts in the capital account towards non-debt flows since the early 1990s have been consistent with the policy framework, imparting stability to the balance of payments. The substitution of debt by non-debt flows also gives room for manoeuvre since debt levels, particularly external commercial borrowings, have been moderate. There is also the cushion available from the foreign exchange reserves. Since non-debt creating flows are dominating, the emphasis is on encouraging inflows through foreign direct investment and enhancing the quality of portfolio flows by strict adherence to what may be described as 'Know Your Investor' principle. Prudential regulations over financial intermediaries, especially over banks, in respect of their foreign exchange exposures and transactions are a dynamic component of management of the capital account as well as financial supervision.

II.55 India has made significant progress in financial liberalisation since the institution of financial sector reforms in 1992 and this has been recognised internationally. India has chosen to proceed cautiously and in a gradual manner, calibrating the pace of capital account liberalisation with underlying macroeconomic developments, the state of readiness of the domestic financial system and the dynamics of international financial markets. Unlike in the case of trade integration, where benefits to all countries are demonstrable, in the case of financial integration, a "threshold" in terms of preparedness and resilience of the economy is important for a country to get full benefits. A judgmental view needs to be taken whether and when a country has reached the threshold and the financial integration should be approached cautiously, preferably within the framework of a plausible roadmap that is drawn up by embodying the country-specific context and institutional features. The experience so far has shown that the Indian approach to financial integration has stood the test of time.

II.56 The optimism generated by the recent gains in macroeconomic performance warrants a balanced consideration of further financial liberalisation. At this stage, the optimism generated by impressive macroeconomic performance accompanied with stability has given rise to pressures for significantly accelerating the pace of external financial liberalisation. It is essential to take into account the risks associated with it while resetting an accelerated pace of a gradualist approach. The recent experience in many countries shows that periods of impressive macroeconomic performance generate pressures for speedier financial liberalisation since everyone appears to be a gainer from further liberalisation, but the costs of instability that may be generated in the process are borne by the country, the government and the poorer sections. Avoiding crises is ultimately a national responsibility. The approach to managing the external sector, the choice of instruments and the timing and sequencing of policies are matters of informed judgment, given the imponderables.

II.57 The overall approach to the management of India's foreign exchange reserves in recent years reflects the changing composition of the balance of payments and the 'liquidity risks' associated with different types of flows and other requirements. The policy for reserve management is thus judiciously built upon a host of identifiable factors and other contingencies. Taking these factors into account, India's foreign exchange reserves continue to be at a comfortable level and consistent with the rate of growth, the share of the external sector in the economy and the size of risk-adjusted capital flows.

FINANCIAL SECTOR

II.58 With increasing financial sector liberalisation and emergence of financial conglomerates, financial sector stability has emerged as a key objective of the Reserve Bank. In this context, the recent emphasis in the regulatory framework in India on ensuring good governance through "fit and proper" owners, directors and senior managers of the banks infuses a qualitative dimension to the conventional discharge of financial regulation through prescribing prudential norms and encouraging market discipline. In totality, however, these measures interact to produce a positive impact on the overall efficiency and stability of the banking system in India. There has been a marked improvement in capital adequacy, asset quality and the profitability of the banking system. Commercial banks in India will start implementing Basel II with effect from March 31, 2007. They will adopt the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk, initially. After adequate skills are developed, both at the banks and also at supervisory levels, some banks may be allowed to migrate to the Internal Rating Based Approach. Banks have also been advised to formulate and operationalise the Capital Adequacy Assessment Process as required under Pillar II of the New Framework.

II.59 Implementation of Basel II will initially require more capital for banks in India in view of the fact that operational risk is not captured under Basel I, and the capital charge for market risk was not prescribed until recently. Consequently, banks are exploring all avenues for meeting the capital requirements under Basel II.

II.60 Above all, capacity building, both in banks and the regulatory bodies is a serious challenge, especially with regard to adoption of the advanced approaches. The Reserve Bank has accordingly initiated supervisory capacity-building measures to identify the gaps and to assess as well as quantify the extent of additional capital which may be required to be maintained by such banks.

II.61 Compared to other developing countries, the extent of rating penetration in India has been increasing every year and a large number of capital issues of companies have been rated. However, since rating is of issues and not of issuers, it is likely to result, in effect, in application of only Basel I standards for credit risks in respect of non-retail exposures. While Basel II provides some scope to extend the rating of issues to issuers, this would only be an approximation and it would be necessary for the system to move to rating of issuers. Encouraging rating of issuers would be essential in this regard. In this context, current non-availability of acceptable and qualitative historical data relevant to ratings, along with the related costs involved in building up and maintaining the requisite database, does influence the pace of migration to the advanced approaches available under Basel II.

II.62 In the current scenario, banks are constantly pushing the frontiers of risk management. Compulsions arising out of increasing competition, as well as agency problems between management, owners and other stakeholders are inducing banks to look at newer avenues to augment revenues, while trimming costs. Consolidation, competition and risk management are no doubt critical to the future of banking but governance and financial inclusion are also likely to emerge as the key issues for a country like India, at this stage of socio-economic development.

MONETARY POLICY

II.63 The recent trends in credit demand are encouraging although there is a recognition of a greater need to ensure credit quality. It is important that the sharp increase in credit flow to the rural sector witnessed during the past two years is maintained while reducing intermediation cost so that borrowing costs also come down. The thrust of the current strategy adopted by the Reserve Bank to increase the flow of rural credit is on enhancing credit delivery in a regime of reasonable credit prices within the existing legal and institutional constraints. It is noteworthy that the share of small and marginal farmers in credit disbursed by public sector banks under the Special Agricultural Credit Plans has increased from 26.7 per cent during 2002-03 to 31.9 per cent during 2004-05. In order to further strengthen these efforts, there is, first, a need for legal and institutional changes relating to governance, regulation and functioning of rural cooperative structure and Regional Rural Banks (RRBs) which would have to be, as originally envisaged, critical instruments for rural credit. The changes warranted in cooperatives as well as RRBs involve deep commitment of State Governments and have a significant bearing on the political economy. Second, the overhang problems of non-performing loans and erosion of deposits in both cooperatives and RRBs have an inevitable fiscal impact of any scheme of recapitalisation. The current acceleration in credit delivery can be sustained in the medium term, if such fiscal support from States and Centre is firmly put in place while reviving or reorganising rural cooperative structure and RRBs, provided sound legal and policy frameworks are firmly put in place as a pre-condition. In the meantime, there is need to consider initiatives, as mutually agreed between the Reserve Bank and select States, to strengthen or revive, as appropriate, rural credit institutions while adhering to basic prudential requirements. Third, there is a need to foster credit culture to make enhanced rural credit a lasting phenomenon. Fourth, on the critical issue of risk mitigation, it is held that experiments with crop or credit insurance in India have not been very satisfactory so far. If some elements of insurance are *ab initio* not viable, extending credit becomes risky and hence constrained. Finally, there is merit in considering a comprehensive public policy on risk management in agriculture, not only as a means of relief for distressed farmers but as an ingredient for more efficient commercialised agriculture.

II.64 The programme of linking self-help groups with the banking system has emerged as the major micro-finance programme in the country. It is in this context that the Reserve Bank has been developing a congenial environment for non-governmental organisations engaged in micro-finance activities. Banks are being encouraged to adopt the agency model by using the infrastructure of civil society organisations, rural kiosks and village knowledge centres for providing credit support to rural and farm sectors and appointment of micro-finance institutions as banking correspondents.

II.65 The small scale industries sector plays a very important role in the development of the economy. The Reserve Bank is reviewing all its existing guidelines on financing small scale sector, debt restructuring, and nursing of sick units with a view to rationalising, consolidating and liberalising them. In view of the fast changing market conditions and increasing competitiveness, there is an urgent need to upgrade the technology of small scale industries and facilitate their graduation to the medium enterprise sector. A simplified debt restructuring and rehabilitation mechanism is being considered for the sector.

II.66 Although there has been expansion, greater competition and diversification of ownership of banks leading to both enhanced efficiency and systemic resilience in the banking sector, there are legitimate concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in the unorganised sector. Against this background, the Reserve Bank will implement policies to encourage banks which provide extensive services while disincentivising those which are not responsive to the banking needs of the community, including the underprivileged. The nature, scope and cost of services will be monitored to assess whether there is any denial, implicit or explicit, of basic banking services to the common person.

II.67 Liberalisation and enhanced competition accord immense benefits, but experience has shown that consumers' interests are not necessarily accorded full protection and their grievances are not properly attended to. Several representations are being received in regard to recent trends of levying unreasonably high service/user charges and enhancement of user charges without proper and prior intimation. These issues have to be addressed keeping in view the merits of transparency, the need for avoidance of excessive charges and infirmities in contracts between vastly unequal parties.

II.68 In recent years, there has been some convergence in the conduct of monetary policy worldwide. Currently, there are striking similarities in the tools that monetary authorities employ to assess macroeconomic developments and the formation of expectations. The institutional architectures have begun to display several commonalities. The communication strategies and, thereby, public accountability are in the forefront in all central banks with progressively increasing globalisation of financial markets and emphasis on central bank autonomy. There is also greater universal recognition of the trade-offs confronting monetary policy decisions. At the same time, the challenges facing monetary authorities have become sharper. The heightened uncertainty surrounding the conduct of monetary policy has made interpretation of macroeconomic and financial data difficult. Uncertainty is more easily transmitted across the world than before through the 'confidence' channel, forcing the monetary authorities to contend with the contagion from shocks. Since the 1990s, considerations of financial stability have, therefore, assumed an increasing importance in monetary policy across the globe.

II.69 Notwithstanding these tendencies towards globalisation, the conduct of monetary policy continues to depend on country-specific factors such as the macroeconomic structure of the economy and its institutional setting, the degree of openness of the economy, the stage of development of financial markets, payment and settlement systems and the technological infrastructure. In India, although there is no explicit mandate for price stability, the conduct of monetary policy has evolved around the objectives of maintaining price stability and ensuring adequate flow of credit to the productive sectors of the economy for sustaining overall economic growth. The relative emphasis between price stability and growth has varied depending upon the underlying macroeconomic conditions. In essence, monetary policy in India strives for a judicious balance between price stability and growth. The democratic processes in India work in favour of price stability which, in some ways, amounts to an informal mandate to the central bank for maintaining an acceptable level of inflation. This framework has also been successful in ensuring financial stability in India through a decade and a half when frequent visits of financial crises led to debilitating losses in growth and welfare in large parts of the emerging market economies.

II.70 The conduct of monetary policy is getting increasingly sophisticated and forward looking, warranting a continuous upgradation of monitoring scan and technical skills. Flexibility and timeliness in policy response coupled with transparency and accountability hold the key to further enhancing credibility. Above all, the monetary authority has to address dilemmas which exert conflicting pulls at every stage. These issues have come to the fore in the conduct of monetary policy by the Reserve Bank in recent years. The Reserve Bank will continue to take necessary measures in response to the evolving situation to meet its price stability objective while maintaining financial stability and ensuring appropriate liquidity to meet credit growth and support investment and export demand in the economy.

II.71 With a view to further strengthening the consultative process in monetary policy, the Reserve Bank, in July 2005, set up a Technical Advisory Committee on Monetary Policy with external experts in the areas of monetary economics, central banking, financial markets and public finance. The Committee, which would meet at least once in a quarter, will review macroeconomic and monetary developments and advise the Reserve Bank on the stance of monetary policy. The views of the Advisory Committee would be discussed in the following meeting of the Committee of the Central Board (CCB) of the Reserve Bank. Concomitantly, the Reserve Bank decided that in addition to a Mid-term Review of the Annual Policy Statement in October, there will be a First Quarter Review of Part I of the Statement in July and a Third Quarter Review in January. The proposed quarterly reviews of monetary policy provide the opportunity for structured communication with markets on a more frequent basis while retaining the flexibility to take specific measures as the evolving circumstances warrant. The First Quarter Review – the first in the series – was released on July 26, 2005.

II.72 In sum, it is clear that prospects for economic growth are strong, while inflation has been contained so far. Maintaining macroeconomic and financial stability in an environment of sustained high growth of the economy in the future would, however, depend critically on policies relating to oil prices, diversification of agriculture, improvement in urban infrastructure, determined measures for fiscal consolidation and, above all, on the continuation of the positive investment climate in the country.

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

III MONETARY AND CREDIT POLICY OPERATIONS

III.1 Monetary management had to contend with testing challenges on several fronts during 2004-05. First, an increase in domestic prices in the first half of the year, driven largely by a sustained increase in international commodity prices including fuel, and an unsatisfactory and uneven South-West monsoon posed serious concerns about price stability. Second, the situation was complicated by a large overhang of domestic liquidity generated by capital inflows. Third, financial markets had to be sensitised to the expected upturn in the interest rate cycle. The Reserve Bank had to, therefore, strike a fine balance between reining in inflationary expectations, encouraging the impulses of growth and ensuring financial stability. This called for a calibrated strategy of liquidity management in conjunction with fiscal measures to cushion the impact of international commodity prices on domestic inflation. The Market Stabilisation Scheme (MSS) was introduced in April 2004 to provide the monetary authority an additional instrument of liquidity management and sterilisation. Several measures were also initiated to maintain asset quality of the banking system at a time of rapid credit growth. Initiatives to improve the credit delivery system, especially in respect of agriculture and small and medium enterprises, gathered further momentum during the year.

III.2 Based on an assessment of the macroeconomic prospects and financial conditions, and assuming no unexpected exogenous shocks or adverse inflationary developments, the overall stance of monetary policy for 2004-05 in the Annual Policy Statement (in May 2004) was stated to be:

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

III.3 The policy stance was tested in the second quarter of 2004-05 when a surge in inflation imposed conflicting pulls. As inflation was essentially supply induced, monetary policy action could have turned out to be premature, especially as industry was coming out of a prolonged sluggish phase. On the other hand, a deterioration in inflation expectations in the absence of policy measures could have become self-perpetrating against the backdrop of a large liquidity overhang, strong credit growth and pass-through effect of the oil price shock, and would have ultimately endangered the growth process itself.

III.4 It is against this backdrop of uncertainties that the Reserve Bank undertook a number of steps in a measured and calibrated manner to maintain the momentum of growth while reining in inflation. These, *inter alia*, included an increase in the MSS ceiling, hike in the cash reserve ratio (CRR), de-linking of the remuneration on the eligible CRR balances from the Bank Rate and hikes in the reverse repo rate[1] by 25 basis points each in October 2004 and April 2005.

III.5 In view of the developments during the first half of the year, particularly the inflation experience, the overall stance of monetary policy for the second half of 2004-05 was altered in the Mid-term Review (in October 2004) of the Annual Policy Statement as:

- Provision of appropriate liquidity to meet credit growth and support investment and export demand in the economy while placing equal emphasis on price stability.

[1] With effect from October 29, 2004, the nomenclature of repo and reverse repo has been interchanged as per international usage. Prior to that date, repo indicated absorption of liquidity while reverse repo meant injection of liquidity. The nomenclature in this Report is based on the new use of terms even for the period prior to October 29, 2004, *i.e.,* reverse repo indicates absorption of liquidity while repo indicates injection of liquidity in exchange for Government securities on a repurchase basis .

- Consistent with the above, to pursue an interest rate environment that is conducive to macroeconomic and price stability, and maintaining the momentum of growth.
- To consider measures in a calibrated manner, in response to evolving circumstances with a view to stabilising inflationary expectations.

III.6 This Section presents the Reserve Bank's monetary and credit policy operations during 2004-05. A review of monetary operations highlights the response of the Reserve Bank to the various challenges faced during the year. This is followed by an assessment of interest rate policy which focuses on various initiatives undertaken to impart flexibility to the interest rate structure. The Section also profiles the policy measures initiated by the Reserve Bank during the year with a view to strengthening the credit delivery system.

MONETARY POLICY OPERATIONS

Monetary Measures

Bank Rate

III.7 The Bank Rate signals the medium-term stance of monetary policy. Given the short-term character of the supply-induced inflationary pressures during 2004-05, the Bank Rate was retained at the existing level of 6.0 per cent. It was reduced to its present level – the lowest level since May 1973 – effective April 29, 2003.

Repo Rates

III.8 The repo/reverse repo rates signal the Reserve Bank's monetary policy stance in the short term. The fixed reverse repo rate, the price at which the Reserve Bank absorbs liquidity under the LAF, was increased by 25 basis points to 4.75 per cent, effective October 27, 2004 and by a further 25 basis points to 5.00 per cent, effective April 29, 2005 (Table 3.1). The repo rate, the price at which the Reserve Bank injects liquidity under the LAF, remained unchanged at 6.0 per cent during the year. The spread between the repo rate and the reverse repo rate was thus reduced by 25 basis points each on two occasions (to 125 basis points with effect from October 27, 2004 and 100 basis points with effect from April 29, 2005).

Cash Reserve Ratio

III.9 The cash reserve ratio (CRR) was increased to 5.0 per cent in two stages of 25 basis points each with effect from September 18, 2004 and October 2, 2004, partly to absorb liquidity from the system but

Table 3.1: Movement in LAF Rates

(Per cent)

Month	2005-06		2004-05		2003-04		2002-03	
	Reverse Repo	Repo	Reverse Repo	Repo	Reverse Repo	Repo	Reverse Repo	Repo
1	2	3	4	5	6	7	8	9
April	5.00 (April 29)	6.00	4.50	6.00	5.00	7.00	6.00	–
May	5.00	6.00	4.50	6.00	5.00	7.00	6.00	8.00
June	5.00	6.00	4.50	6.00	5.00	7.00	5.75 (June 27)	–
July	5.00	6.00	4.50	6.00	5.00	7.00	5.75	–
August			4.50	6.00	4.50 (August 25)	6.50 (August 25)	5.75	–
September			4.50	6.00	4.50	6.50	5.75	–
October			4.75 (October 27)	6.00	4.50	6.50	5.50 (October 30)	–
November			4.75	6.00	4.50	6.50	5.50	7.50
December			4.75	6.00	4.50	6.50	5.50	–
January			4.75	6.00	4.50	6.50	5.50	7.50
February			4.75	6.00	4.50	6.50	5.50	7.50
March			4.75	6.00	4.50	6.00 (March 29)	5.00 (March 3)	7.00

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

Table 3.2: Cash Reserve Ratio

(Rupees crore)

Month	2005-06		2004-05		2003-04		2002-03	
	CRR (Per cent)	Amount*	CRR (Per cent)	Amount*	CRR (Per cent)	Amount*	CRR (Per cent)	Amount*
1	2	3	4	5	6	7	8	9
April	5.0		4.5		4.75		5.5	
May	5.0		4.5		4.75		5.5	
June	5.0		4.5		4.5	3,500	5.0	6,500
July	5.0		4.5		4.5		5.0	
August			4.5		4.5		5.0	
September			4.75	-4,500	4.5		5.0	
October			5.0	-4,500	4.5		5.0	
November			5.0		4.5		4.75	3,500
December			5.0		4.5		4.75	
January			5.0		4.5		4.75	
February			5.0		4.5		4.75	
March			5.0		4.5		4.75	

* : Amount stands for first round release (+)/ impounding (-) of resources through changes in the cash reserve ratio.

more importantly, to curb inflationary expectations (Table 3.2). The Reserve Bank continues to pursue its medium-term objective of reducing the CRR to the statutory minimum level of 3.0 per cent. At the same time, it retains the option to use the CRR flexibly in both directions for liquidity management, in addition to other instruments.

III.10 A survey of the cross-country experience demonstrates that the level of the CRR in the Indian case is comparable with other emerging market economies (EMEs). Moreover, several EMEs do not pay interest on balances with the central bank/monetary authority (Table 3.3).

III.11 The Reserve Bank of India Act, 1934 provides for payment of interest on the required reserves beyond the statutory minimum at a rate determined by the Reserve Bank from time to time. Payment of interest on eligible cash balances partially mitigates the impact of a high CRR on the cost of funds of banks. The degree of implicit taxation has, however, lessened in recent years with the substantial scaling down of the CRR, coupled with a marked decline in the overall interest rate structure in the economy. It is in this context that the Reserve Bank's Internal Group on Liquidity Adjustment Facility recommended that the remuneration of eligible cash balances at the Bank Rate (6.0 per cent per annum) was no longer justifiable. The interest rate paid on CRR balances was accordingly lowered to 3.5 per cent per annum with effect from the fortnight beginning September 18, 2004.

III.12 Section 42(1) of the Reserve Bank of India Act, 1934 empowers the Reserve Bank to levy a cash reserve ratio between 3-20 per cent of the total of the demand and time liabilities of banks to be maintained on an average daily basis. The Union

Table 3.3: Required Reserves in Emerging Market Economies

Country	Required Ratio (per cent)	Interest Paid on Reserves (per cent)	Eligible Assets other than Cash Balances with Central Bank
1	2	3	4
China	6	1.9	Cash with banks
Czech Republic	2	Repo rate	None
India $	**5**	**3.5** @	
Indonesia	5	None	
Korea	1-5	None	Vault Cash (up to 35 per cent)
Malaysia	4	None	
Mexico	Zero	None	
Poland	4.5	None	Vault Cash (limited)
Russia	7-10	None	Vault Cash
South Africa	2.5	None	25 per cent of cash with banks
Thailand	6	None	Vault Cash (up to 2.5 percentage points)

$: as on August 18, 2005.
@ : Paid on required reserves above the statutory minimum requirement of three per cent.
Source : Hawkins, J. (2005): Globalisation and Monetary Operations in Emerging Economies. *BIS Papers No. 23,* Bank for International Settlements.

Box III.1
Monetary Policy Signalling

Signalling assumes key importance in conveying the stance of monetary policy. This is especially because the transmission of monetary policy impulses works through financial markets, which are characterised by asymmetric information. It is in this context that monetary authorities now emphasise the need to clearly communicate their policy intentions to the markets in order to bridge information asymmetries.

In the Indian context, indirect instruments for transmitting policy signals were activated beginning with the Bank Rate in April 1997. With the sharp decline in recourse to central bank refinance (at rates linked to the Bank Rate) under easy liquidity conditions, there has been a shift in emphasis on managing short-term liquidity. The Liquidity Adjustment Facility (LAF) has become the principal operating instrument of monetary policy. In this regard, the reverse repo/repo rates have become potent tools for signalling the stance of monetary policy and defining an informal corridor of short-term interest rates. Moreover, the scale of absorption/injection of liquidity through reverse repos/repos itself also has a bearing on short-term liquidity conditions. In addition, the CRR continues to be used for augmenting/absorbing liquidity and influencing interest rates. An empirical investigation carried out in the Indian context suggests that CRR, Bank Rate and reverse repo rate (Granger) cause changes in the call rate, Government securities yields and forward premia, but have a negligible impact on the BSE Sensex.

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Budget, 2005-06 proposes to introduce legislation to amend the Reserve Bank of India Act, 1934 to remove the limits of the CRR in order to facilitate a more flexible conduct of monetary policy.

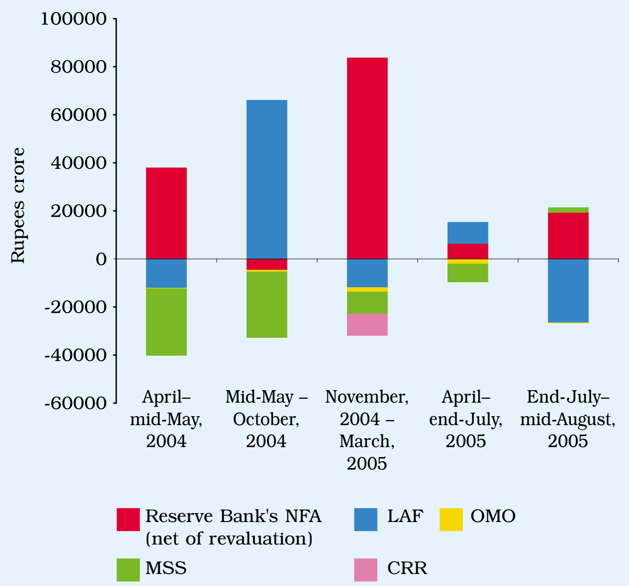
Liquidity Management

III.13 The Reserve Bank continued to manage the liquidity in the system through a mix of open market operations (OMOs), the LAF, Central Government Treasury Bills and dated securities issued under the MSS, changes in the CRR and interest rate signals (Box III.1).

III.14 The instruments used for sterilisation operations in India underwent changes during 2004-05. It was recognised that the finite stock of Government paper with the Reserve Bank could potentially circumscribe the scope of outright OMOs for sterilising capital flows. Outright OMOs for sterilisation purpose were last carried out in January 2004 (Chart III.1). Accordingly, LAF, essentially an instrument of day-to-day liquidity management, had to be relied upon for sterilisation as well during 2004-05.

III.15 The sterilisation operations were also constrained by several other factors. First, under the Reserve Bank of India Act, 1934 the Reserve Bank is not allowed to borrow beyond its paid-up capital of Rs.5 crore without collateral. Second, in the past, the Reserve Bank had augmented its ability to carry out OMOs by converting non-marketable special securities funded from Treasury Bills into marketable paper. With the full conversion of the entire stock of such paper in September 2003, the Reserve Bank was unable to resort to such operations. Third, the Reserve Bank cannot issue its own paper under the extant provisions of the Reserve Bank of India Act, 1934 and such an option has generally not been favoured in India. Central bank bills/bonds would impose the entire cost of sterilisation on the Reserve Bank's balance sheet. Besides, the existence of two sets of risk-free paper

Chart III.1: Sterilisation of Capital Inflows



Box III.2

Central Bank Reserves as an Instrument of Monetary Policy Credibility

The need to maintain sufficient net worth in the form of central bank reserves has acquired a renewed urgency with the increasing market orientation of monetary policy. There is now an emerging consensus that well-capitalised central banks are relatively more credible because they can bear larger quasi-fiscal costs of market stabilisation, especially in case of economies with large fiscal deficits. Most central banks prefer to build up reserves by transfer from annual profits rather than by raising capital. While monetary authorities have the first statutory charge on their income, the fisc typically appropriates the dominant share (often up to 90 per cent), although this is often counter-balanced by parallel restrictions on deficit financing.

The US Federal Reserve usually transfers its profits to the surplus fund after distributing 6 per cent of capital to member central banks with only occasional transfers to the Treasury. The Bank of England, on the other hand, passes the entire profits of the Issue department to the Treasury. The Bank of Japan transfers its surplus to the Government after transferring 5 per cent to its reserve fund and a maximum of 5 per cent to other shareholders. In the EMEs, some central banks transfer the bulk of their profits to the Government after retaining a share (illustratively, two per cent for the National Bank of Poland and 10 per cent for the South African Reserve Bank) towards their reserves. The Bank of Mexico transfers its surplus to the fisc after ensuring that its reserves are maintained at a real value in line with the gross domestic product. The median size of central bank capital, as a proportion to total assets, at 8.8 per cent in EMEs, lags that of advanced economies at 15.3 per cent at end-May 2003.

The Reserve Bank of India Act, 1934 requires the Government to maintain reserves of the equivalent of the paid-up capital of Rs.5 crore. Besides, the Reserve Bank created a number of reserves under the enabling provisions of Section 47. The Reserve Bank maintains a Contingency Reserve (CR) to enable it to absorb unexpected and unforeseen contingencies. In order to meet the internal capital expenditure and make investments in its subsidiaries and associate institutions, the Reserve Bank had created a separate Asset Development Reserve (ADR) in 1997-98, with the aim of reaching one per cent of the Reserve Bank's total assets within the overall indicative target of 12 per cent set for CR. The size of the Reserve Bank's CR and ADR together constituted 10.1 per cent of total assets of the Reserve Bank at end-June 2005. The balance in CR is sufficient to meet contingent liabilities.

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– gilts and central bank securities – tends to fragment the market. Fourth, as the Government cannot statutorily receive interest on surplus balances with the Reserve Bank, its surpluses are 'invested' in its own securities held by the Reserve Bank to avoid costs for the Government in terms of idle funds. This arrangement, however, diminishes the availability of the stock of Government securities for sterilisation operations and overall liquidity management.

III.16 Strong capital inflows increasingly pose a challenge to monetary policy in a number of EMEs. The cross-country experience suggests that most EMEs are deploying a policy matrix of sterilisation, liberalisation of the capital account in respect of residents, some degree of controls on capital inflows and greater flexibility in the exchange rate to manage capital inflows. Given the difficulties in distinguishing the 'permanent' and 'transitory' components of capital flows, most EMEs have also sought to build up large foreign exchange reserves as an insurance against quick reversal of capital inflows. It is also important that the central bank has the sufficient wherewithal in terms of internal reserves to sustain the costs of its market operations in its balance sheet (Box III.2).

III.17 The constraints on sterilisation operations induced a four-fold change in the strategy of sterilisation during 2004-05. First, the MSS was introduced in April 2004 to provide the Reserve Bank with an additional instrument of liquidity management and to relieve the LAF from the burden of sterilisation operations (Box III.3). The total outstanding amount absorbed under the MSS at end-March 2005 amounted to Rs.64,211 crore (Table 3.4). The papers issued under the MSS comprised dated Government securities (Rs.25,000 crore), 91-day Treasury Bills (Rs.19,248 crore) and 364-day Treasury Bills (Rs.19,963 crore). Concomitantly, the balances

Box III.3

Liquidity Management and Market Stabilisation Scheme

Pursuant to the recommendations of the Working Group on Instruments on Sterilisation (Chairperson: Smt Usha Thorat), a Market Stabilisation Scheme (MSS) was introduced on April 1, 2004 following a Memorandum of Understanding signed between the Government and the Reserve Bank on March 25, 2004. The ceiling on the outstanding amount under the MSS, fixed by mutual consultation, was raised from the initial Rs.60,000 crore to Rs.80,000 crore on October 14, 2004.

The MSS is designed to absorb liquidity of an enduring nature by way of sterilisation. Used in conjunction with the LAF, it allows the absorption of surplus liquidity built up into various maturity buckets ranging from overnight (under the reverse repo window) to the short-term (91-day, 182-day and 364-day Treasury Bills under the MSS) and the medium-term (dated Government securities with residual maturity upto 2.5 years). Under the MSS, the Government issues Treasury Bills and dated Government securities (with the same features as existing paper) to mop up rupee liquidity and parks the proceeds in a separate identifiable cash account maintained and operated by the Reserve Bank. These funds can be appropriated only for the purpose of redemption and/or buyback of paper issued under the MSS. The resultant decline in net Reserve Bank credit to the Government nullifies the expansionary impact of an accretion to the Reserve Bank's net foreign assets resulting from capital flows. The impact on the revenue/ fiscal accounts of the Government is limited to the discount on Treasury Bills and coupons on dated securities (net of premium/discount and accrued interest) issued under the MSS. Interest payments under the MSS were placed at Rs.2,969 crore during 2004-05.

under LAF reverse repos fell over the course of the year. Second, the Reserve Bank hiked reserve requirements for the first time after consistently reducing them for three years. Third, the reverse repo rate was hiked after three years of reduction to signal the Reserve Bank's monetary policy stance. Finally, the Union Budget for 2005-06 has proposed to introduce legislation to amend the Reserve Bank of India Act, 1934 to enable the Reserve Bank to lend or borrow securities by way of repo, reverse repo or otherwise.

Table 3.4: Liquidity Absorbed through LAF and MSS

(Rupees crore)

Outstanding at Month end	LAF	MSS	Total (2+3)
1	2	3	4
2004			
April	73,075	22,851	95,926
May	72,845	30,701	1,03,546
June	61,365	37,812	99,177
July	53,280	46,206	99,486
August	40,640	51,635	92,275
September	19,245	52,255	71,500
October	7,455	55,087	62,542
November	5,825	51,872	57,697
December	2,420	53,481	55,901
2005			
January	14,760	54,499	69,259
February	26,575	60,835	87,410
March	19,330	64,211	83,541
April	27,650	67,087	94,737
May	33,120	69,016	1,02,136
June	9,670	71,681	81,351
July	18,895	68,765	87,660

Course of Liquidity Management

III.18 The Reserve Bank's liquidity management operations during the year could be analytically divided into three phases, essentially reflecting the switches in capital flows: the first phase lasting till mid-May 2004; the second phase covering mid-May-October 2004; and the third phase spanning the remaining part of the year (Table 3.5).

III.19 In the first phase, the liquidity overhang of about Rs.81,000 crore was further augmented by a surge in capital inflows in April 2004, a draw down of the Centre's surplus balances with the Reserve Bank and a truncation of the Government's borrowing programme (Table 3.6). Securities issued under the MSS supplemented LAF reverse repo operations to mop up the surplus liquidity resulting from the accretion of about Rs.38,000 crore in the Reserve Bank's foreign currency assets (adjusted for revaluation). Reflecting easy liquidity conditions, the average daily call money borrowing rates softened to a little below reverse repo rate levels. The liquidity absorbed through LAF and MSS increased to over Rs.1,00,000 crore (five per cent of M_3) by end-May 2004. In view of the finite stock of Government securities available with it, the Reserve Bank had to temporarily discontinue the practice of investing the Government's surplus balances in its own securities held by the Reserve Bank.

III.20 In the second phase (mid-May-October, 2004), capital outflows, rising import demand, escalation of international crude prices and a build-

Table 3.5: Phases of Liquidity Management Operations

(Rupees crore)

Item	2005-06		2004-05		
	July 23-August 12, 2005	April 1-July 22, 2005	October 30, 2004-March 31, 2005	May 15-October 29, 2004	March 27-May 14, 2004
1	2	3	4	5	6
A. Drivers of Liquidity (1+2+3)	35,118	-4,890	43,734	-24,471	37,170
1. RBI's Foreign Currency Assets (adjusted for revaluation)	19,348	6,412	83,662	-4,614	37,919
2. Currency with the Public	-1,307	-14,802	-25,896	6,639	-20,021
3. Others (residual)	17,077	3,500	-14,032	-26,496	19,272
3.1 Surplus cash balances of the Centre with the Reserve Bank	5,972	6,053	-7,721	-18,481	15,355
B. Management of Liquidity (4+5+6+7)	-24,633	-740	-31,852	37,960	-40,148
4. Liquidity impact of LAF Repos	-26,565	8,845	-11,875	66,040	-12095
5. Liquidity impact of OMO (net)	-66	-2,069	-1,853	-769	-277
6. Liquidity impact of MSS	1,998	-7,516	-9,124	-27,311	-27,776
7. First round liquidity impact due to CRR change	0	0	-9,000	0	0
C. Bank Reserves (A+B)#	10,485	-5,630	11,882	13,489	-2,978

\+ : Indicates injection of liquidity into the banking system.

\- : Indicates absorption/ leakage of liquidity from the banking system.

\# : Includes vault cash with banks and adjusted for first round liquidity impact due to CRR change.

up of the Centre's surpluses with the Reserve Bank following primary auctions of Government securities drove down the surplus liquidity to about Rs.60,000 crore by end-October 2004. Recourse to the LAF window began to ease by June with seasonal currency demand, acceleration in the Government's borrowing programme and higher absorption of liquidity under the MSS. Temporary mismatches in the money markets arising from short covering by some banks, primary auctions and redemption

Table 3.6: Monthly Primary Liquidity Flows and Open Market Operations

(Rupees crore)

Month	RBI's Net Foreign Currency Assets #			Net Reverse Repos under the LAF			RBI's Initial Subscription			Net OMO Sales			Market Stabilisation Scheme (MSS)	
	2005-06	2004-05	2003-04	2005-06	2004-05	2003-04	2005-06	2004-05	2003-04	2005-06	2004-05	2003-04	2005-06	2004-05
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
April	1,432	32,608	3,817	8,320	38,430	19,990	0	0	0	263	253	7	2,876	22,851
May	1,970	202	15,626	5,470	-230	-1,240	0	0	5,000	325	116	5,569	1,929	7,850
June	1,632	350	4,500	-23,450	-11,480	380	0	0	0	954	60	44	2,665	7,111
July	1,378	946	13,865	815	-3,290	19,025	0	0	0	526	218	57	-2,916	8,394
August		-5,360	11,550		-24,350	-4,840		217	0		78	11,526		3,235
September		1,001	6,417		-6565	-9,730		630	0		131	5,089		2,815
October		1,635	13,124		-19,705	-9,065		0	0		189	14,024		2,831
November		15,039	10,775		-1,630	-10,215		0	0		342	69		-3,215
December		13,184	13,661		-6265	2,430		0	0		339	132		737
January		1,537	11,723		15,795	-5515		0	9,500		703	5,178		945
February		14,392	14,610		10,610	-28,005		0	7,000		37	85		5,800
March		39,510	21,760		-6,635	-17,335		350	0		431	69		4,857

\# : Adjusted for revaluation.

Note : 1. Data pertain to the last day for March and last reporting Friday for all other months.

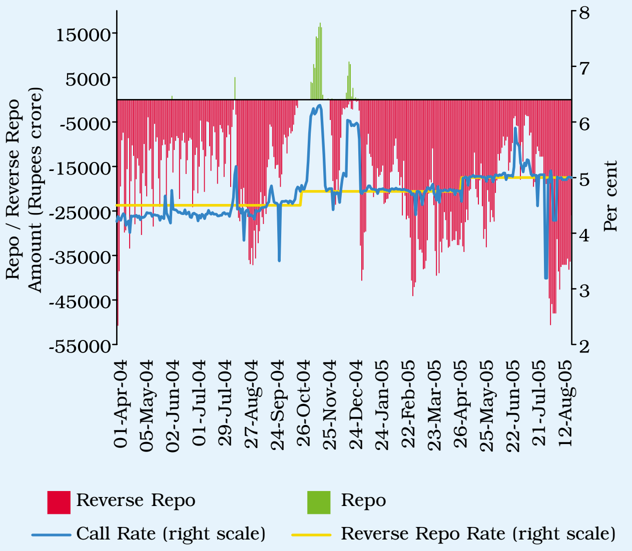
2. MSS was introduced effective April 2004.

pressure on mutual funds kept call rates firm until the first half of August 2004. In order to ease liquidity conditions, the Reserve Bank had to inject liquidity through repos of Rs.5,000 crore on August 12, 2004. Call rates firmed up again in the second half of September 2004 as the outflows on account of advance tax payments coincided with the first hike in CRR of 25 basis point effective September 18, 2004. Pressures from higher credit offtake and the second phase of the CRR hike again pushed the call rates above the reverse repo rate in the second half of October 2004. A 25 basis point hike in the reverse repo rate effective October 27, 2004 also raised the lower bound of the money market.

III.21 The scenario began to change in the third phase as capital flows resumed by end-October 2004. Festival cash demand and scheduled Government securities auctions initially drove up call rates beyond the reverse repo rate to a peak of 6.30 per cent on November 18, 2004. The Reserve Bank injected liquidity, averaging over Rs.10,000 crore on a daily basis, during November 5-22, 2004. The Reserve Bank also modulated MSS operations by cancelling some scheduled auctions of Treasury Bills and/or accepting partial amounts against the amounts notified for the auctions. Call rates softened to reverse repo rate levels by early December 2004 as the liquidity situation improved with the ebbing of festival cash demand and revival of interest of Foreign Institutional Investors (FII) in the Indian market. The Reserve Bank's foreign currency assets registered an increase of Rs.21,000 crore (net of revaluation) between mid-November and mid-December 2004. Call rates firmed up again in the second half of December 2004 as a result of pressures from advance tax payments and strong credit off-take (Chart III.2). Liquidity conditions eased in January 2005 with the return of the advance tax flows into the system, pulling the call rates back to the reverse repo rate levels. Average reverse repo balances under the LAF correspondingly increased by Rs.16,000 crore in this phase.

III.22 Liquidity conditions eased further in February 2005 with the resumption of FII inflows following a rally in the stock markets, a positive investment outlook and improved third quarter corporate results. Coupon and other inflows in the banking system continued to exceed outflows due to auctions of Central Government securities and tap issuances of State Government securities. Consequently, reverse repo operations had to be supplemented by issuances under the MSS. Notwithstanding the seasonal credit off-take, liquidity conditions eased further in March

Chart III.2: Repo, Reverse Repo Auctions under LAF and Call Rates



2005 as FII inflows continued. The Reserve Bank's operations to balance the foreign exchange market resulted in an accretion of nearly Rs.40,000 crore (net of revaluation) to its net foreign assets. In order to maintain orderly conditions, the Reserve Bank continued its LAF operations, reinforced by MSS issuances. As at end-March 2005, the liquidity absorbed through the MSS and the LAF was about Rs.83,000 crore (about 3.7 per cent of M_3).

III.23 During 2005-06 so far (up to August 19, 2005), liquidity conditions have been comfortable. Large expansion in merchandise trade deficit coupled with stable capital flows eased liquidity pressures emanating from accretions to the foreign currency assets and sterilisation operations, mainly through MSS, were of a lower magnitude. However, from the end of July 2005 capital flows staged a strong revival and the consequent mopping up of liquidity was reflected in an increase in balances under LAF reverse repos.

Liquidity Adjustment Facility

III.24 The LAF is the Reserve Bank's primary instrument for modulating liquidity at the margin and transmitting interest rate signals to the market. All bids under the LAF were accepted during the year (Table 3.7).

III.25 The Reserve Bank introduced a revised LAF scheme on March 29, 2004 based on the recommendations of the Internal Group on the Liquidity Adjustment Facility. Effective April 5, 2004,

Table 3.7: Reverse Repo/Repo Bids under LAF

(Number of days)

Month	Reverse Repo				Repo			
	Bids received	All bids rejected	Full acceptance of bids	Partial acceptance of bids	Bids received	All bids rejected	Full acceptance of bids	Partial acceptance of bids
1	2	3	4	5	6	7	8	9
2004-05								
April	19	0	19	0	0	0	0	0
May	20	0	20	0	0	0	0	0
June	21	0	21	0	0	0	0	0
July	23	0	23	0	0	0	0	0
August	21	0	21	0	1	0	1	0
September	22	0	22	0	0	0	0	0
October	19	0	19	0	0	0	0	0
November	14	0	14	0	12	0	12	0
December	23	0	23	0	10	0	10	0
January	19	0	19	0	0	0	0	0
February	20	0	20	0	0	0	0	0
March	21	0	21	0	0	0	0	0
2005-06								
April	18	0	18	0	0	0	0	0
May	21	0	21	0	0	0	0	0
June	22	0	22	0	2	0	2	0
July	18	0	18	0	0	0	0	0

Note : See note to Table 3.1.

daily repo/reverse repo variable rate auctions were replaced by 7-day fixed rate reverse repo auctions and daily fixed rate repo auctions, with a spread of 150 basis points. In order to restore flexibility in liquidity management so as to stabilise inflation expectations, the Reserve Bank replaced 7-day fixed rate and 14-day variable rate reverse repo auctions with overnight fixed rate reverse repo auctions, effective November 1, 2004. The Reserve Bank, however, retains the discretion to conduct overnight/ longer term repo/ reverse repo auctions at fixed rate or variable rates depending on market conditions and other relevant factors.

Open Market Operations

III.26 Outright sales under OMOs were not conducted during 2004-05 in view of the finite stock of Government securities with the Reserve Bank (Table 3.8). Consequently, the Reserve Bank's OMO sales were limited only to the transactions relating to the sale of securities to State Governments for investments in the Consolidated Sinking Funds (CSFs) and Guarantee Redemption Funds (GRFs) aggregating Rs.2,899 crore during 2004-05. With continuing liquidity surpluses in the system, the need for outright OMO purchases did not arise.

Interest Rate Policy

Interest Rate on Non-resident Deposits

III.27 The ceiling on interest rates on Non-Resident (External) Rupee (NRE) deposits was raised to LIBOR/SWAP rates of US dollar of corresponding maturities *plus* 50 basis points effective November 1, 2004 from the level of US dollar LIBOR/SWAP rates. Based on the suggestions received from banks and with a view to bringing in consistency in the procedure of fixing interest rates, effective November 1, 2004 banks were allowed to fix the ceiling on interest rates on FCNR(B) deposits on a monthly basis for the following month based on rates prevailing as on the last working day of the preceding month. Interest rates for FCNR(B) deposits hitherto used to be fixed on a weekly basis, unlike NRE deposits in respect of which interest rates are fixed on a monthly basis. The ceiling interest rates on FCNR(B) deposits, however, continue to be capped at LIBOR/SWAP *minus* 25 basis points.

Interest Rate on Rupee Export Credit

III.28 The validity of the reduction in the interest rate ceiling to 250 basis points below the benchmark prime lending rate (BPLR) on pre-shipment rupee export

Table 3.8: Reserve Bank's Holdings of Central Government Dated Securities

(Rupees crore)

Year	Devolvement On Reserve Bank	Private Placement taken by Reserve Bank	OMO Purchases by Reserve Bank	Conversion of Special Securities into dated securities	Total addition to Stock of Reserve Bank 's investments (2+3+4+5)	OMO Sales by Reserve Bank	Net Addition to Stock (6-7)	Outstanding Holding by Reserve Bank (end period)*	Memo: Net Reverse Repos Outstanding
1	2	3	4	5	6	7	8	9	10
1996-97	3,698	–	623	–	4,321	11,206	-6,885	6,666	2,300
1997-98	7,028	6,000	467	20,000	33,495	8,081	25,414	31,977	4,202
1998-99	8,205	30,000	–	–	38,205	26,348	11,857	42,212	400
1999-00	–	27,000	1,244	–	28,244	36,614	-8,370	35,190	–
2000-01	13,151	18,000	4,471	–	35,622	23,795	11,827	41,732	1,355
2001-02	679	28,213	5,084	–	33,976	35,419	-1,443	40,927	4,355
2002-03	5,175	31,000	–	40,000	76,175	53,780	22,395	55,438	2,415
2003-04	–	21,500	–	61,818	83,318	41,849	41,469	77,397	34,645
2004-05	847	350	–	–	1,197	2,899	-1,702	80,770	19,330

* : Inclusive of securities sold under the LAF.

credit up to 180 days and post-shipment credit up to 90 days announced on September 24, 2001 was extended up to April 30, 2005. This was later extended further to October 31, 2005.

Reduction of Tenor of Domestic Term Deposits

III.29 Banks were allowed at their discretion to reduce the minimum tenor of retail domestic term deposits (under Rs.15 lakh) from 15 days to 7 days with effect from November 1, 2004. This was done to provide uniformity of tenor between wholesale domestic term deposits (Rs.15 lakh and above) and retail domestic term deposits. Banks continue to have the freedom to offer differential rates of interest on wholesale domestic term deposits of Rs.15 lakh and above.

MONETARY POLICY STANCE FOR 2005-06

III.30 The Reserve Bank's stance of monetary policy in 2005-06 was set out as conditional upon macroeconomic prospects, global developments and the balance of risks. First, the outlook for growth which should be noticeably better than the previous year, may get moderated by developments in the international oil markets which remain tight. Second, while supply factors would continue to dominate the price situation, demand management would invite close attention. Third, adequate credit growth would need to be ensured for productive sectors while closely assessing the implications for demand management and price stability. In these circumstances, liquidity management would become critical. The interest rate outlook would have to take into account these domestic challenges but the increasing integration also warrants some attention to global factors. Fourth, the smooth completion of the significantly higher borrowing programme of the Centre, particularly in a year of strong credit demand, needs to be factored in. Finally, while the external sector is expected to continue to exhibit strength and resilience in 2005-06, globally transmitted unanticipated shocks cannot be ruled out.

III.31 It was assumed that with a normal monsoon, the growth in agriculture could be around three per cent. Further, it was expected that industry and services would maintain their current growth momentum while absorbing the impact of oil prices. The real GDP growth during 2005-06, on the basis of these assumptions, was placed around 7.0 per cent for the purpose of monetary policy formulation.

III.32 It was recognised that several factors blurred a precise assessment of the potential inflationary pressures - the liquidity overhang, renewed volatility in international oil prices, postponed adjustment of domestic prices to international oil prices and the limited scope for fiscal manoeuvrability. On the other hand, credit growth continues to remain buoyant. Finally, increasing productivity in several sectors in the economy could moderate pressures on prices and the level of food stocks and foreign exchange reserves could provide a cushion against some price increases. In view of these considerations, the inflation rate for 2005-06, on a point-to-point basis, was placed in a range of 5.0-5.5 per cent, subject to the growing uncertainties on the oil front both with regard to global prices and their domestic absorption.

III.33 Consistent with the real growth of GDP and inflation, the projected expansion of money supply (M_3) for 2005-06 was placed at 14.5 per cent. In tune with this order of growth in M_3, the increase in aggregate deposits of scheduled commercial banks was set at Rs.2,60,000 crore which is higher by 15.0 per cent over its level in the previous year. Non-food bank credit including non-SLR investments of banks was projected to increase by around 19.0 per cent, which was expected to adequately meet the credit needs of all the productive sectors of the economy.

III.34 Barring the emergence of any adverse and unexpected developments in various sectors of the economy and keeping in view the inflationary situation, the overall stance of monetary policy for the year 2005-06 would continue to be as set out in the Mid-term Review of October 2004, *i.e.,*

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

III.35 The Reserve Bank would continue to pursue the integration of the various segments of the financial market, improve credit delivery, nurture credit culture and enhance the quality of financial services.

Quarterly Review of Monetary Policy

III.36 The Reserve Bank decided to introduce a First Quarter Review of Part I of the Annual Policy Statement in July and a Third Quarter Review in January. The Mid-term Review in October would cover, as in the past, both Part I and Part II (Annual Statement on Developmental and Regulatory Policies). While the Annual Policy Statement and the Mid-term Review will continue to be presented in the meeting with bankers, the quarterly reviews will be released to the Press. Tentatively, for 2005-06, the dates planned for the First Quarter Review, the Mid-term Review and the Third Quarter Review were set as July 26, 2005, October 25, 2005 and January 24, 2006, respectively.

III.37 With a view to further strengthening the consultative process in monetary policy, the Reserve Bank, in July 2005, set up a Technical Advisory Committee on Monetary Policy (TACMP) with external experts in the areas of monetary economics, central banking, financial markets and public finance. The Committee would meet at least once in a quarter and review macroeconomic and monetary developments, and advise the Reserve Bank on the stance of monetary policy. The setting up of the TACMP is in line with international best practices (Box III.4).

III.38 In its First Quarter Review (July 26, 2005), the Reserve Bank noted that the stance of monetary policy would depend on the macroeconomic developments including the global developments and the overall balance of risks. Factors such as increased global uncertainties, high and volatile international prices of oil, incomplete pass-through of oil prices domestically, upward trajectory of the policy rate in the US, overhang of liquidity, high credit growth, sustained industrial growth and possible capacity pressures, enlargement of trade deficit, infrastructural constraints and delayed monsoon could prompt a change in the stance of policy. On the other hand, it needs to be recognised that the oil price hike has been managed well with a combination of monetary and fiscal measures, overhang of liquidity has reduced with the increase in the absorptive capacity of the economy, excess liquidity remains sterilised, visible liquidity under LAF has reduced, money supply growth is within the projected trajectory, credit flow is getting broad-based, industrial growth has revived after a long period of sluggishness, pick up in investment demand is evident, investment climate remains favourable, corporate earnings and profits have been sustained, current level of inflation remains moderate both at the wholesale level and retail level, globally monetary policy continues to be somewhat accommodative and global inflation during 2005 is projected to be moderate despite high oil prices. It is apparent that there are several global uncertainties but there are domestic factors, which indicate a confidently growing economy in a stable environment. While global factors are getting to be increasingly significant for India, the domestic factors still dominate and the latter point to favouring stability to maintain growth momentum at this juncture while being ready to respond to evolving circumstances. Accordingly, the overall stance of monetary policy

Box III.4

Monetary Policy: Decision Making and Communication

Given the forward-looking nature of financial markets and the critical role played by them in the monetary transmission process, it is increasingly felt that the effectiveness of monetary policy depends as much on expectations about future policy as on actual actions that transpire. Accordingly, central banking is increasingly concerned with the management of expectations. Monetary authorities are today much more transparent and articulate in their communication of policy objectives and the rationale behind the decision making process than before.

As regards the decision-making process, greater reliance is being placed on a consultative process involving a collective body - typically called "monetary policy committee" (MPC) - rather than an individual. The preference for the committee system is due to the belief that (a) collective bodies tend to make better decisions than individuals, (b) it is more democratic and enjoys wider public support and (c) it reinforces central bank independence. A survey by the Bank of England found that 79 of the 88 central banks surveyed for the purpose had such a policy making body. In some central banks, an advisory body discusses policy options although the final decision rests with the Governor.

Cross-country experience on MPCs in various central banks shows:

- MPCs are broadly of two types, *viz.*, "collegial" and "individualistic". "Collegial" MPCs, such as the Governing Council of the European Central Bank (ECB), strive for consensus and decisions are based on the collective wisdom of the members. In contrast, members of "individualistic" MPCs - for instance, the Bank of England and the Riksbank (Swedish Central Bank) - develop and advocate their own positions, vote accordingly and even defend their action in public. As a result, decision making in these bodies is based on the majority voting principle.
- In some cases, MPCs are solely responsible for monetary policy while others are involved in the broader management of the central bank.
- In most cases, the constitution of the MPC is backed by law.
- The size of the MPC varies greatly, ranging from three members (Swiss National Bank) to 18 (European Central Bank).
- The frequency of the meetings of the MPC ranges from once every two weeks (Bank of Mexico) to every quarter (Swiss National Bank).
- Most MPCs have external members to get the benefit of outside perspectives.

A key issue of debate relates to the publication of the minutes of the committee meetings, especially the relative merits and demerits of publishing the dissension among members of the MPC. On the one hand, differences of opinion on purely technical matters could be misinterpreted by the public, which could erode the credibility of the central bank. This may be quite relevant for emerging economies, which function under various constraints including, in some cases, on credibility. On the other hand, some central banks, especially in more mature economies, tend to prefer public disclosure of their views in the belief that greater transparency enhances policy credibility as well as individual accountability and assists the markets in correctly interpreting signals.

References:

1. Blinder A. and J. Morgan (2000): "Are Two Heads Better than One? An Experimental Analysis of Group vs Individual Decision Making", *NBER Working Paper* No. 7909.
2. Mahadeva L. and G.Sterne (2000): *Monetary Policy Frameworks in a Global Context*, Routledge, London.

for the remaining part of the year 2005-06 will continue to be as set out in the Annual Policy Statement of April 2005, but the Reserve Bank would respond, promptly and effectively, to the evolving situation depending on the unfolding of risks.

CREDIT DELIVERY

III.39 Credit delivery to small borrowers, particularly to the agriculture and small-scale industries (SSI) sector, is critical to the growth of the economy. The Reserve Bank has been proactively promoting a conducive credit culture by removing bottlenecks in credit delivery and providing adequate and timely finance at reasonable rates without procedural hassles to different sections of the economy. The policies relating to rural credit have been designed to bring about economic and social change in the rural areas, especially for the benefit of poorer sections of the society.

Priority Sector Lending

III.40 The Reserve Bank undertook several measures to improve credit delivery to the priority sector during 2004-05. More categories of advances were brought under the ambit of the priority sector lending: (i) bank loans to storage units, including cold storage units, designed to store agricultural produce/ products, irrespective of their location are to be treated as indirect agricultural finance under priority sector; (ii) investments by banks in securitised assets representing direct (indirect) lending to agriculture are to be treated as their direct (indirect) lending to agriculture under the priority sector, provided the securitised loans are originated by banks and financial institutions; (iii) investments made by banks in mortgage backed securities (MBS) are to be treated as direct lending to housing within the priority sector lending subject to certain conditions; and (iv) investments made by banks in securitised assets representing direct lending to the SSI sector are to be treated as their direct lending to the SSI sector under the priority sector, subject to certain conditions. Banks can advance loans to the distressed urban poor to prepay their debt to non-institutional lenders against appropriate collateral or group security and classify the same under weaker sections within the priority sector. In order to encourage direct lending to priority sector, investments made by banks on or after April 1, 2005 in special bonds issued by certain specified institutions have been made ineligible for classification under priority sector lending. Such investments which have already been made by banks up to March 31, 2005 would cease to be eligible for classification under priority sector lending in a phased manner. Investments made by banks on or after July 1, 2005 in venture capital have been made ineligible for classification under priority sector lending. Such investments which have already been made up to June 30, 2005 would cease to be eligible for classification under priority sector lending with effect from April 1, 2006.

III.41 The limit on advances for dealers in agricultural machinery for being categorised under the priority sector was increased from Rs.20 lakh to Rs.30 lakh and for distribution of inputs for allied activities from Rs.25 lakh to Rs.40 lakh. Besides, banks with the approval of their boards were allowed to extend direct finance to the housing sector up to Rs.15 lakh, irrespective of location, as part of their priority sector lending. Furthermore, the limit on advances granted by banks to farmers through the produce marketing schemes under priority sector lending, against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months was increased from Rs.5 lakh to Rs.10 lakh. The composite loan limit for SSI entrepreneurs was enhanced from Rs.50 lakh to Rs.1 crore.

III.42 The investment limit in plant and machinery for seven items belonging to sports goods, which figure in the list of items reserved for manufacture in the small-scale industries (SSI) sector, was enhanced from Rs.1 crore to Rs.5 crore for the purpose of classification under priority sector advances.

III.43 Since 1994-95, public sector banks have been preparing Special Agricultural Credit Plans (SACPs) on an annual basis in line with the Reserve Bank's instructions. Banks were advised to make efforts to increase their disbursements to small and marginal farmers to 40 per cent of their direct advances under SACPs by March 2007. In view of the Union Finance Minister's announcement in June 2004 for doubling the flow of credit to agriculture in the next three years, private sector banks were advised to fix the SACP target for the year 2005-06 showing a growth rate of 30 per cent over the disbursements during 2004-05, Finally, banks were allowed to waive margin/security requirements for agricultural loans up to Rs.50,000 and in the case of agri-business and agri-clinics for loans up to Rs.5 lakh.

III.44 All bank groups were able to achieve the overall target for priority sector lending as on the last reporting Friday of March 2005 (Table 3.9). However, two out of 27 public sector banks and 12 out of 30 private sector banks fell short of the target of 40 per cent.

Table 3.9: Priority Sector Advances

(Rupees crore)

As on Last Reporting Friday of March	Public Sector Banks	Private Sector Banks	Foreign Banks
1	2	3	4
2000	1,27,478	18,368	9,934
	(40.3)	(38.0)	(35.2)
2001	1,49,116	21,567	11,572
	(43.7)	(36.7)	(33.5)
2002	1,71,484	24,184	9,936
	(43.5)	(38.4)	(34.6)
2003	1,99,786	36,648	14,555
	(41.2)	(44.1)	(33.1)
2004*	2,45,672	52,861	18,276
	(44.0)	(47.3)	(34.8)
2005*	3,10,093	69,384	24,254
	(43.2)	(43.3)	(35.6)

*: Data are provisional.

Note : 1. Figures in brackets are percentages to the net bank credit.

2. The target for aggregate advances to the priority sector is 40 per cent of the net bank credit for domestic banks and 32 per cent of net bank credit for foreign banks.

Credit to Agricultural Sector

III.45 The share of agricultural advances, as a percentage of net bank credit, increased in respect of public sector banks but decreased in respect of private sector banks during 2004-05 (Table 3.10).

III.46 Disbursements to agriculture under the SACPs increased to Rs.65,218 crore during 2004-05 from Rs.42,211 crore during the preceding year. The recovery of direct agricultural advances of public sector banks improved further during 2004-05 (Table 3.11).

Micro Finance

III.47 The Self-Help Group (SHG)-Bank Linkage Programme implemented by commercial banks, RRBs and cooperative banks has emerged as the major microfinance programme in the country. As on March 31, 2005, 1.6 million SHGs have been linked to banks and total flow of credit to these SHGs worked out to over Rs.6,800 crore. The NABARD and banks have set a target of linking additional 0.6 million SHGs by end-March 2007. The Reserve Bank has allowed non-governmental organisations (NGOs) engaged in microfinance activities to access external commercial borrowings (ECBs) up to US$ 5 million during a financial year under the automatic route, subject to certain conditions, as an additional channel for resource mobilisation.

III.48 As announced in the Union Budget, 2005-06 the Micro Finance Development Fund (MFDF), set up in the NABARD, has been re-designated as 'Microfinance Development and Equity Fund'. Its corpus has also been doubled from Rs.100 crore to Rs.200 crore. The fund is to be managed by a board consisting of representatives of NABARD, commercial banks and professionals with domain knowledge.

III.49 An in-house Group (Chairman: Shri H. R. Khan) has been set up within the Reserve Bank in order to examine the issues relating to allowing banks to adopt agency models by using infrastructure of civil society organisations, appointment of 'banking correspondents' to function as intermediaries between the lending banks and the beneficiaries and identification of steps to promote micro-finance institutions (MFIs). The Group submitted its final report on July 19, 2005 after incorporating the comments/ suggestions received from the public.

Table 3.10: Outstanding Agricultural Advances

(Rupees crore)

As at End-March	Public Sector Banks: Amount Out-standing	Public Sector Banks: Percentage of Net Bank Credit	Private Sector Banks: Amount Out-standing	Private Sector Banks: Percentage of Net Bank Credit
1	2	3	4	5
2000	45,296	14.3	4,023	8.3
2001	53,571	15.7	5,634	9.6
2002	58,142	14.8	6,581	8.5
2003	70,501	14.5	9,924	10.9
2004*	86,187	15.4	17,652	12.3
2005*	1,12,475	15.7	21,473	12.1

* : Data are provisional.

Note: The target for advances to agriculture is 18 per cent of net bank credit.

Relief Measures for Persons Affected by the Tsunami

III.50 In view of the loss of life and property caused by the *tsunami* in the States of Andhra Pradesh, Tamil Nadu and Kerala, and the Union Territories (UTs) of Pondicherry and Andaman and Nicobar Islands, the convenor banks of the State Level Bankers' Committees (SLBCs) in these States/UTs were advised to take immediate measures to provide appropriate relief to the affected people in terms of the standing guidelines issued by the Reserve Bank. A Task Force (Chairman: Shri V. Leeladhar) was also set up on December 27, 2004 to monitor the progress of relief and rehabilitation measures through banks and to constantly review the situation. Special meetings of the SLBCs were convened in the three States and two UTs and measures were initiated by banks to provide financial assistance to persons, particularly those engaged in fisheries, in the affected areas. Based on the suggestion received from a few SLBCs, the consumption loan limit was enhanced from Rs.1,000 to Rs.3,000 in the case of persons affected by the *tsunami*.

Table 3.11: Public Sector Banks – Recovery of Direct Agricultural Advances

(Rupees crore)

Year ended June	Demand	Recovery	Overdues	Percentage of Recovery to demand
1	2	3	4	5
2001	22,429	15,540	6,889	69.3
2002	24,561	17,758	6,803	72.3
2003	28,940	21,011	7,930	72.6
2004	33,544	25,002	8,542	74.5

III.51 Instructions were issued to all scheduled commercial banks to receive donations to the Prime Minister's Relief Fund at all branches and to nominate a nodal branch at New Delhi for the purpose of collection. Furthermore, the Government of India exempted, up to March 31, 2005 all associations (other than political parties) having a definite cultural, economic, educational, religious or social programme from the provisions of the Foreign Contributions (Regulation) Act, 1976 enabling them to accept foreign contributions in cash and kind for providing relief to the *tsunami* victims, without obtaining formal approval from the Central Government.

III.52 In addition, the following measures were suggested for immediate implementation by banks:

- To take the help of good NGOs working in the areas to identify borrowers.
- To increase the limit of consumption loan to be provided to the affected persons to Rs.5,000 without any collateral. The limit could be enhanced to Rs.10,000 at the discretion of the branch manager, depending on the repaying capacity of the borrower.
- To allow opening of savings bank accounts with nominal balance (say, Rs.10) without insisting on minimum balance so that victims can receive relief cheques in their accounts. In the case of loss of passbooks/ cheque books, fresh ones should be immediately issued.
- To provide education loans to the affected persons to enable them to purchase books, clothes, *etc.* for children studying in educational institutions.
- To formulate a scheme for financing of defaulting fishermen and other types of borrowers on the lines of the scheme for financing 'farmers in arrears' as announced by the Finance Minister on June 18, 2004 and communicated to banks by the Indian Banks' Association (IBA).
- To identify the victims, on the basis of their experience and in consultation with other agencies operating in the area, who are in need of assistance and to provide them necessary relief without waiting for any list of victims to be formally made available by the Government.

III.53 The Government of India announced a Rajiv Gandhi Rehabilitation Package for the *tsunami*-affected areas under which subsidy would be provided by it for loans advanced to the victims for purchase of boats and for repairs to the boats. The IBA advised its member banks that while the ceilings on loans indicated under the Package are for the limited purpose of extending subsidy, they should provide loans to the extent of full unit costs, after taking into account the eligible subsidy.

Relief Measures in Areas Affected by Rains and Floods in Maharashtra

III.54 Consequent to the unprecedented rains and floods resulting in heavy damage to life and property in the State of Maharashtra, the convenor bank of the State Level Bankers' Committee (SLBC) was advised to assess the situation and take immediate measures to provide appropriate relief to the affected people in terms of the Reserve Bank's standing guidelines on relief measures by banks in areas affected by natural calamities. In particular, attention of banks was drawn to providing financial assistance to artisans, self-employed, traders, tiny and small-scale industrial units affected by the unprecedented calamity. In view of the situation prevailing in the State, banks were also advised to consider increasing the limit of consumption loan to be provided to the affected persons in the State up to Rs. 5,000 without any collateral. This limit may be enhanced to Rs. 10,000 at the discretion of the branch manager, depending on the repaying capacity of the borrower. Banks were also advised to consider provision of financial assistance for the purpose of repairs/ reconstruction of dwelling units and also to small road transport operators including taxis, auto rickshaw operators affected by the calamity, keeping in view the viability of the proposals. Banks were requested to take necessary action to expeditiously restore banking services in the affected areas.

Kisan Credit Cards

III.55 The *Kisan* Credit Card (KCC) Scheme was introduced in 1998-99 to enable the farmers to purchase agricultural inputs and draw cash for their production needs. Public sector banks issued 4.4 million KCCs during 2004-05, taking the total cards issued since inception of the scheme to 17.6 million.

III.56 A National Impact Assessment Survey (NIAS) of the KCC Scheme was commissioned through the National Council of Applied Economic Research (NCAER), New Delhi. On the basis of the salient findings of the survey, guidelines have been issued to banks by the IBA and the NABARD.

III.57 Since allied and non-farm activities were outside the ambit of the KCC Scheme, farmers had to approach the banks separately for their additional requirements every time, entailing additional time and cost. The NABARD has, therefore, revised the Model KCC Scheme providing for adequate and timely credit for the comprehensive credit requirements of farmers under a single window, with flexible and simplified procedures. The Scheme would cover term credit, working capital for agriculture and allied activities and a reasonable component for consumption needs.

Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System

III.58 The Advisory Committee on Flow of Credit to Agriculture and Other Related Activities from the Banking System (Chairman: Prof. V.S. Vyas) submitted its final report to the Reserve Bank in June 2004. Out of 99 recommendations made by the Committee, 32 have been accepted and implemented by the Reserve Bank. These include waiver of margin/security requirements on agricultural loans up to Rs.50,000, and in case of agri-business and agri-clinics for loans up to Rs.5 lakh, revision of non-performing asset (NPA) norms for agricultural finance and dispensing with the Service Area Approach except for Government sponsored schemes. In respect of 32 recommendations, either no action is necessary at this stage or action has already been initiated by the NABARD. Recommendations already implemented by the NABARD include providing skills, technical support and market linkage to SHGs; providing financial and technical support to cooperatives and associating cooperative banks in SHG-bank linkage; and review of refinance products in line with the market expectations. Out of the remaining 35 recommendations, 31 are under examination by the Government of India.

III.59 In order to examine the role of banks in providing loans against warehouse receipts and evolve a framework for participation of banks in the commodity futures market, a Working Group on Warehouse Receipts and Commodity Futures was constituted. The Group submitted its Report in April 2005 (Box III.5).

III.60 During the ten-year period spanning from 1993-94 to 2002-03, the ratio of gross capital formation in agriculture to real GDP originating in agriculture increased by only one percentage point

Box III.5

Report of the Working Group on Warehouse Receipts and Commodity Futures

- Banks may be permitted to deal in agricultural commodities including derivatives.
- Warehouse Receipts should become freely transferable between holders to reduce transaction costs and increase usage.
- Creation of an umbrella structure which may act as a Closed User Group (CUG) for everyone engaged in the agricultural commodities business.
- Proprietary positions in agricultural commodity derivatives could be used by banks to mitigate their risk in lending to farmers with suitable amendment to the Forward Contracts (Regulation) Act, (FCRA) 1952. Forward Markets Commission may evolve a suitable framework for option trading in India.
- Banks may be permitted to have independent proprietary position in commodity futures linked in a macro way to their credit portfolio with suitable risk control measures.
- As purely cash settled contracts are not available in India, banks trading or dealing in commodity contracts would have to be prepared to make or accept delivery of physical goods. Banks may, however, be persuaded to preferably close their positions and cash settle the contracts.
- Banks may offer non-standard contracts to farmers to suit their needs including commodity derivative based products.
- Transferable specific delivery (TSD) contracts, where one of the parties to the contract is a bank authorised by the Reserve Bank, may be exempted from the operation of FCRA, 1952 to encourage OTC contracts.
- Banks may be allowed to become professional clearing members of commodity exchanges, provided they do not assume any exposure risk on account of offering clearing services to their trading clients.
- Banks may reduce/divest their equity holding in commodity exchanges to a maximum permitted level of 5 per cent over a period of time so as to avoid any conflict of interests and attendant regulatory concerns.
- Guidelines on capital adequacy and market risk issued by the UK Financial Services Authority and Australian Prudential Regulation Authority could be suitably modified consistent with the existing guidelines issued by the Reserve Bank.
- A limit may be placed on a bank's total exposure or gross positions, regardless of maturity, in all the commodities in relation to net loans and advances and/or capital or net worth of the bank. Initially, the limit could be put at 5 per cent of the net worth of the bank, which could be increased later in the light of experience gained.

Box III.6

Expert Group on Investment Credit to Agriculture

The Expert Group submitted its Report to the Reserve Bank on June 6, 2005. Some of the major recommendations of the Group are as follows:

- State Governments to make legal provisions/ computerisation of land records, provide legal support for recovery, introduce reforms in agricultural marketing, improve credit absorption capacity by supporting infrastructure, strengthen infrastructure and extension network and develop marketing links.
- NABARD to design appropriate products for financing rural infrastructure.
- Banks to make efforts to reach the 'unreached' areas, integrate short term with term credit, promote supplementary credit delivery channels, outsource monitoring services, provide loan support for diversified agriculture, review HR policies, share the pool of technical expertise and make use of the model bankable projects prepared by NABARD.
- The Reserve Bank and banks may adopt agency models for credit delivery.
- Government of India/State Governments and organisations engaged in agricultural research and development (R&D) to reorient R&D activities.
- NABARD to promote R&D in agriculture.
- To mitigate the risk in financing of agriculture, the Group recommended: development of suitable financial products; commodity exchanges; allowing banks to operate on behalf of farmers and participate in commodity futures; establishment of a risk fund for fragile agriculture; designing of special risk mitigation packages for low asset based borrowers; use of warehousing receipts with price hedging instruments; use of technology for dissemination of market intelligence; sharing of borrower information; and financing value chain by banks through RIDF.

from 6.1 per cent to 7.1 per cent. With a view to evolving a conscious strategy for increasing investment in the agricultural sector and to suggest a road map for banks for increasing investment credit in agriculture, an Expert Group on Investment Credit to Agriculture (Chairman: Shri Y.S.P. Thorat) was set up by the Reserve Bank (Box III.6).

Rural Infrastructure Development Fund

III.61 All domestic scheduled commercial banks are required to deposit in the Rural Infrastructure Development Fund (RIDF) established with the NABARD such amount as may be allocated to them by the Reserve Bank on the basis of their shortfall in respect of priority sector/agricultural lending target. The Fund has completed its tenth year of operation. Pursuant to the announcement made in the Union Budget for 2005-06, RIDF XI has been set up with the NABARD with a corpus of Rs.8,000 crore. The total allocation under the RIDF (I to X) was of the order of Rs.42,000 crore. Cumulative sanctions and disbursements under various tranches of RIDF (I to X) aggregated Rs.42,949 crore and Rs.25,380 crore, respectively, till March 31, 2005. On the basis of representations made by various State Governments and on the recommendations of the NABARD, the lending and deposit rates in respect of the amounts disbursed on or before October 31, 2003 out of RIDF IV to VII have been restructured with effect from April 16, 2005 (Table 3.12).

Table 3.12: Rates of Interest Payable under the RIDF

(Per cent per annum)

RIDF	Deposit rates payable to banks		Lending rates payable by State Governments	
	Existing	Revised	Existing	Revised
1	2	3	4	5
IV	11.5	8.0	12.0	8.5
V	11.5	8.0	12.0	8.5
VI	11.0	8.0	11.5	8.5
VII	7.0-10.0*	7.5	10.5	8.0

* : Linked to shortfall in agricultural lending.

Credit to Women

III.62 Public sector banks (PSBs) were advised to lend at least 5 per cent of their net bank credit to women. The credit extended to women by all PSBs stood at 5.4 per cent of overall net bank credit at end-March 2005.

Credit to Small Scale Industries

III.63 The total credit provided by the PSBs to SSI worked out to Rs.67,634 crore at end-March 2005, constituting 9.4 per cent of net bank credit and 21.8 per cent of the total priority sector advances. Out of these, advances to cottage industries, artisans and tiny industries amounted to Rs.20,390 crore, constituting 30.2 per cent of the advances to the SSI sector. PSBs were advised to operationalise at least one specialised SSI branch in every district and centre having cluster of SSI units. At end-March 2005, 536 specialised SSI bank branches were operational.

III.64 Credit extended by scheduled commercial banks to 1,38,811 sick SSI units stood at Rs.5,285 crore at end-March 2004. Of these 2,385 units were found to be viable with an outstanding bank credit at Rs.421 crore (8.0 per cent). Banks placed 783 units involving outstanding credit of Rs.385 crore (7.3 per cent) under nursing programmes.

Working Group on Flow of Credit to Small Scale Industries

III.65 The Working Group on Flow of Credit to the SSI sector (Chairman: Dr. A. S. Ganguly) submitted its report on April 30, 2004. Out of the 31 recommendations made by the Group, the Reserve Bank has so far accepted eight recommendations. These include identification of new clusters and adoption of a cluster-based approach for financing small and medium enterprises (SME) sector, sponsoring specific projects as well as widely publicising the successful working models of NGOs, sanctioning higher working capital limits to SSI in the North-East region for maintaining higher levels of inventory and exploring new instruments for promoting rural industry. As recommended by the Working Group, interest rates on deposits placed by foreign banks with the Small Industries Development Bank of India (SIDBI) *in lieu* of shortfall in priority sector lending obligations were restructured. The tenor of deposits was also increased from one year to three years with effect from 2005-06. There are 17 recommendations pertaining to other agencies, *viz.*, the Ministries of Finance and SSI, Government of India, SIDBI, Credit Guarantee Fund Trust for Small Industries (CGTSI), the Credit Information Bureau of India Ltd. (CIBIL) and the IBA. Out of these recommendations, seven have been accepted while three have been partially accepted.

CIBIL - System of Proper Credit Records

III.66 As announced in the Annual Policy Statement for the year 2004-05, the CIBIL was requested to work out a mechanism in consultation with the Reserve Bank, SIDBI and IBA for development of a system of proper credit records to enable the banks to determine appropriate pricing of loans to SMEs. The CIBIL is currently in the process of exploring solutions in association with its technology partner Dun and Bradstreet Information Services India (P) Ltd. either by modifying the existing system of CIBIL to segregate SME data or by creating a separate system for drawing information from both CIBIL's and Dun and Bradstreet's databases. This proposed SME solution will be in a position to provide consolidated report comprising SME loan-related data, SME vendor payment related data and a consolidated SME score. CIBIL expects to operationalise the projects within 18-24 months.

Internal Group to Review Guidelines on Credit Flow to SME Sector

III.67 An Internal Group (Chairman: Shri C. S. Murthy) was constituted in the Reserve Bank to review all circulars and guidelines regarding financing of SSIs, suggest appropriate terms for restructuring of the borrowal accounts of SSI/ medium enterprises and also examine the guidelines issued for nursing sick SSIs and suggest suitable norms thereof. It recommended the constitution of empowered committees at the regional level to periodically review the progress in financing the SSI and medium enterprises (ME) and to co-ordinate with other banks/financial institutions and the State Governments in removing bottlenecks, if any, to ensure smooth flow of credit to the sector. It also recommended that banks may open specialised SME branches in identified clusters/centres with a preponderance of SSI and ME units to enable entrepreneurs to have easy access to bank credit and to equip bank personnel to develop the requisite expertise. Considering the numerous problems and challenges being faced by the SME sector and predominance of a large number of sick but potentially viable SME units, the Internal Group proposed to empower the boards of banks to formulate policies relating to restructuring of accounts of SME units, subject to certain guidelines. Restructuring of accounts of corporate SSI/ME borrowers having credit limits aggregating Rs.10 crore or more under multiple banking arrangements will be covered under the revised CDR mechanism. While recommending continuation of the extant guidelines on definition of a sick SSI unit, the Group has recommended that all other instructions prescribed by the Reserve Bank relating to viability and parameters for relief and concessions to be provided to sick SSI units be withdrawn and banks be given freedom to lay down their own guidelines with the approval of their boards of directors.

Small Enterprises Financial Centres (SEFCs)

III.68 Consequent upon the announcement made in the Annual Policy Statement for the year 2005-06 regarding formulation of a scheme of strategic alliance between branches of banks and branches of SIDBI located in the clusters, a scheme "Small Enterprises Financial Centres (SEFCs)" has been worked out and circulated to all scheduled commercial banks for implementation.

Government Sponsored Schemes

III.69 A total of 1,084,749 *Swarozgaris* received bank credit amounting to Rs.958 crore (and Government subsidy amounting to Rs.381 crore) under the *Swarnjayanti Gram Swarozgar Yojana* (SGSY) during 2004-05. Of the *Swarozgaris* assisted, 285,395 (26.3 per cent) belonged to the scheduled castes (SCs) and scheduled tribes (STs), while 338,391 (31.2 per cent) were women and 10,126 (0.9 per cent) were physically handicapped. Under the *Swarna Jayanti Shahari Rozgar Yojana* (SJSRY), disbursements amounting to Rs.151 crore were made in 48,798 cases (out of 61,890 applications sanctioned) during the year 2004-05. Beneficiaries included 13,675 SCs/STs (Rs.40 crore disbursed), 10,921 women (Rs.31 crore disbursed) and 686 disabled persons (Rs.2.8 crore disbursed). Under the Scheme for Liberation and Rehabilitation of Scavengers (SLRS), Rs.21.3 crore was sanctioned and Rs.15.7 crore was disbursed to 8,209 beneficiaries (out of the total 13,654 applications received). Disbursals benefited 7,021 SCs/STs (Rs.14 crore), 691 OBCs (Rs.0.8 crore) and 1,889 women (Rs.3.8 crore) during 2004-05.

III.70 SHGs are considered eligible for financing under the Prime Minister's *Rozgar Yojana* (PMRY) effective December 8, 2003 (modified on July 30, 2004) provided all members individually satisfy the eligibility criteria laid down and total membership does not exceed twenty. There is also a ceiling on the loan amount. Assistance under the scheme during 2004-05 amounted to Rs.468 crore for 79,198 beneficiaries. Of these, 26,107 (33.6 per cent of total) belonged to the SC/ST category, 19,983 (23.9 per cent) were women and 901 (1.2 per cent) were physically handicapped.

Differential Rate of Interest Scheme

III.71 Outstanding advances of PSBs under the Differential Rate of Interest (DRI) Scheme at end-March 2005 amounted to Rs.385 crore in respect of 0.3 million borrowal accounts. At 0.1 per cent of the total advances outstanding as at the end of the previous year, this is substantially less than the target of 1.0 per cent.

General Line of Credit to NABARD

III.72 The Reserve Bank has been providing General Lines of Credit (GLC) to NABARD under Section 17(4E) of the Reserve Bank of India Act 1934, to enable it to meet the short-term requirements of scheduled commercial banks, state cooperative banks and Regional Rural Banks (RRBs). During 2004-05 (July-June), the Reserve Bank sanctioned an aggregate credit limit of Rs.5,200 crore comprising Rs.5,000 crore under GLC-I and Rs.200 crore under GLC-II at rates of interest of 6.00 per cent and 6.25 per cent, respectively.

Service Area Approach

III.73 The objective of the Service Area Approach (SAA) to rural lending, introduced in April 1989, was to focus on the credit activities of the bank branches in designated areas so that they could contribute to the development of specific areas assigned to them. All rural and semi-urban branches of scheduled commercial banks (including RRBs) were allocated specific villages, generally in geographically contiguous areas to take care of credit needs. The basic principle was demarcation of service area and preparation of credit plans for systematic administration of credit in the assigned area. In view of certain drawbacks, the Vyas Committee recommended that the restrictive provisions of SAA may be dispensed with. Consequent upon the announcement made in the Mid-term Review of the Annual Policy Statement for 2004-05, the restrictive provisions of the SAA have been dispensed with, except for lending under the Government sponsored programmes. Operational guidelines have been issued to all banks in consultation with the Government and NABARD. As the Vyas Committee had suggested strengthening of the Service Area Monitoring and Information System (SAMIS) under SAA, the NABARD has constituted a Working Group to initiate necessary modifications/changes.

Group of Experts on Credit Deposit Ratio

III.74 As a part of the Common Minimum Programme (CMP), the Government of India had appointed a Group of Experts (Chairman: Shri Y. S. P. Thorat) to examine various aspects of the credit-deposit ratio on all-India basis. The report of the Committee, submitted to the Government on February 24, 2005 is under consideration.

III.75 In brief, monetary management during 2004-05 had to contend with a spurt in inflation during the first half of the year. The Reserve Bank continued with its policy of active management of liquidity through OMOs including LAF, MSS and CRR. Various monetary measures supported by fiscal measures were successful in stabilising inflationary expectations. The Reserve Bank continued with efforts to improve credit delivery to small borrowers, particularly to the agriculture and small scale industries. The overall stance of monetary policy for 2005-06 is provision of appropriate liquidity to meet credit growth and support investment and export demand in the economy while placing equal emphasis on price stability; to pursue an interest rate environment that is conducive to macroeconomic and price stability and maintaining the momentum of growth; and to consider measures in a calibrated manner in response to evolving circumstances with a view to stabilising inflationary expectations.

IV DEVELOPMENT AND REGULATION OF FINANCIAL MARKETS

IV.1 Generally stable and liquid financial market conditions during 2004-05 and positive sentiment generated by the macroeconomic fundamentals enabled the Reserve Bank to persevere with the development and integration of the money, the debt and the foreign exchange markets. In view of the abundant global liquidity, high levels of leveraging and uncertainty characterising international financial markets, ensuring a domestic environment that avoids excessive and destabilising volatility became a key objective for the Reserve Bank during the year. Efforts to convert the call money market into a pure inter-bank market were accompanied by several initiatives to deepen the collateralised segments of the money market in order to enable non-bank participants to access/deploy funds. The Reserve Bank continued to develop the Government securities market by expanding the menu of products available, enlarging the investor base and improving the technological infrastructure. Orderly conditions in the foreign exchange market and the significant two-way exchange rate movements during the year facilitated a measured liberalisation of external current and capital account transactions in 2004-05.

IV.2 In pursuance of the proposals set out in the Mid-term Review of the Annual Policy Statement for 2004-05, the Reserve Bank appointed technical groups on the money market, the Government securities market and the foreign exchange market to draw out a medium-term framework for the future course of market development in view of changes in the institutional framework and improvement in technological infrastructure. The recommendations of these groups are being examined and public response has been invited on the Reserve Bank's website. Certain recommendations have been accepted for implementation in the Annual Policy Statement for 2005-06.

IV.3 Against this backdrop, this Section presents the regulatory and developmental aspects of the Reserve Bank's oversight of the money, the debt and the foreign exchange markets in 2004-05. The review focuses on improvements in the day-to-day functioning of market segments, upgradation of technological infrastructure, introduction of new instruments and ongoing financial market liberalisation.

MONEY MARKET

IV.4 The money market is the focal point for the central bank's operations to manage liquidity and thereby transmit monetary policy impulses. The broad policy objectives that are being pursued for the development of the money market include ensuring stability in short-term interest rates, minimising default risk and achieving a balanced development of various segments of the money market. In order to review the current status of the money market in the context of the evolving monetary policy framework, a Technical Group on Money Market, which submitted its report in May 2005, reiterated that the policy should continue to encourage collateralised markets, develop the rupee yield curve, ensure transparency and better price discovery, provide avenues for better risk management and strengthen monetary operations (Box IV.1). The Report of the Group was discussed in the Technical Advisory Committee (TAC) on Money, Foreign Exchange and Government Securities Markets. Certain recommendations of the Group have been accepted for implementation in the April 2005 Annual Policy Statement.

Call/Notice Money Market

IV.5 The process of transforming the call/notice money segment into a pure inter-bank market with a view to facilitating the transmission of monetary policy - in pursuance of the recommendations of the Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) (1998) - was completed in August 2005 (Table 4.1). This has been supported by the development of a repo market outside the Reserve Bank in which non-bank participants are allowed to trade their surplus/deficit liquidity. Prudential limits have been placed on borrowings and lendings of banks and Primary Dealers (PDs) in the call/notice market. Furthermore, in order to smoothen the transition through 2004-05, the Reserve Bank assured the market that in case of a genuine difficulty, a higher amount may be allowed to be lent in the call/notice money market for a specific period on a case-by-case basis.

IV.6 The Reserve Bank had instituted prudential limits on exposure of banks and PDs to the call/notice

Box IV.1
Recommendations of the Technical Group on Money Market

Call/Notice Money Market

- Capital funds (sum of Tier I and Tier II capital) rather than owned funds as the benchmark for fixing call/notice money exposure limits for scheduled commercial banks; for other entities, present norms may continue.
- Call/notice money market transactions on electronic negotiated quote driven platform; banks and primary dealers (PDs) with appropriate risk management systems and balance sheet structure may be allowed more flexibility to borrow in call/notice money market; larger freedom in lending in the call/notice market accorded to banks and PDs.

Repo/Collateralised Borrowing and Lending Obligations (CBLO): Broad-base the pool of securities to act as collateral for repo and CBLO markets; repo transactions on electronic, anonymous order driven trading system.

Term Money: Reporting of term money transactions on NDS platform compulsory; term money market transactions on an electronic, negotiated quote driven platform.

Certificates of Deposit (CDs): Maturity period of CDs to be reduced to 7 days in line with that of commercial paper (CP) and fixed deposits.

Commercial Paper: Asset-backed CP to be introduced in the Indian market.

Forward Rate Agreements (FRAs)/Interest Rate Swaps (IRS): Limited optionality in rupee derivative segment; legal clarity to OTC derivatives; revised risk reporting system and robust accounting standard.

Timing of liquidity adjustment facility (LAF): Late hour intra-day LAF as and when warranted in future for absorption of residual resources.

money market since a large recourse to this uncollateralised money market segment carries a potential risk of systemic instability arising out of defaults. With effect from the fortnight beginning April 30, 2005, the benchmark for fixing prudential limits on exposures to the call/notice money market in the case of scheduled commercial banks was linked to their capital funds (sum of Tier I and Tier II capital).

IV.7 All call/notice money market transactions are required to be reported to the Negotiated Dealing System (NDS) within 15 minutes of concluding the transaction, irrespective of whether the transaction was executed on the NDS or outside and whether the counterparty is a member of the NDS or not. From April 30, 2005, all NDS members are also required to report their term money deals on the NDS platform. A screen-based negotiated quote-driven system for all dealings in call/notice and term money market transactions is envisaged.

Collateralised Borrowing and Lending Obligations (CBLOs)

IV.8 Collateralised borrowing and lending obligations (CBLOs) were operationalised as a money market instrument through the Clearing Corporation of India Limited (CCIL) on January 20, 2003. With a view to developing the market for this instrument, the Reserve Bank introduced automated value-free transfer of securities between market participants and the CCIL during 2004-05.

Market Repo

IV.9 A repo market outside the liquidity adjustment facility (LAF) has been assiduously developed by the Reserve Bank to provide an avenue for bank and non-bank participants to trade funds after the conversion of the call/notice money market into a pure inter-bank market. In order to broaden the market, non-

Table 4.1: Phasing out of Non-banks from the Call/Notice Money Market

Stages	Time Table
1	2
Stage I	Effective May 5, 2001 non-bank institutions (*i.e.*, financial institutions, mutual funds and insurance companies) were allowed to lend up to 85 per cent of average daily call lendings during 2000-01. Corporates were allowed to route call transactions through primary dealers up to June 30, 2001.
Stage II	Limit of non-bank lendings in the call/notice money market was scaled down to 75 per cent of average daily call lendings during 2000-01, effective June 14, 2003.
Stage III	Access of non-banks to the call/notice money market was lowered to 60 per cent of average daily call lendings during 2000-01, effective December 27, 2003; 45 per cent, effective June 26, 2004; 30 per cent effective January 8, 2005; and 10 per cent effective June 11, 2005.
Stage IV	Non-bank participants, except primary dealers (PDs), completely phased out from the call/notice money market effective August 6, 2005.

scheduled urban cooperative banks (UCBs) and listed companies with gilt accounts with scheduled commercial banks were allowed, subject to eligibility criteria and safeguards, to participate in the repo market outside the Reserve Bank. An electronic trading platform for market repo operations in Government securities, in addition to the existing voice based system, would also be facilitated.

Certificates of Deposit

IV.10 The minimum maturity period of certificates of deposit (CDs) was reduced from 15 days to 7 days effective April 29, 2005 to align it with the minimum maturity of commercial paper (CP) and fixed deposits with banks.

Commercial Paper

IV.11 The Reserve Bank undertook several measures to further develop the CP market during 2004-05. A Status Paper on the CP market in India was placed on the Reserve Bank's website on July 7, 2004 inviting comments/suggestions from market participants. The issues raised were discussed with market participants as also in the TAC on Money, Foreign Exchange and Government Securities Markets. Based on these deliberations, the Reserve Bank reduced the minimum maturity period of CP from 15 days to 7 days in the Mid-term Review of October 2004 in order to provide an option to issuers to raise short-term resources through CP as also an avenue for investors to invest in quality short-term paper. Issuing and paying agents (IPAs) are required to report issuance of CP on the NDS platform within two days from the date of completion of the issue to provide transparency and also facilitate benchmarking of CP issues. Following the supply of relevant software, IPAs have been advised to start reporting of CP issuance data through NDS platform with effect from April 16, 2005. Also, with effect from July 1, 2005 the data on CP issuance are being made available on the Reserve Bank's website.

IV.12 A Group was set up by the Fixed Income Money Market and Derivatives Association of India (FIMMDA) at the instance of the Reserve Bank to recommend and standardise various market practices with a view to achieving settlement at least on a T+1 basis. The Group observed that while documentation and other market practices were already standardised by the FIMMDA, settlement of CP on T+1 basis could be achieved if funds settlement was ensured on a T+0 basis. It was recognised that this would be possible after full operationalisation of the Real Time Gross Settlement (RTGS) system.

IV.13 Issuers of CP are subject to stamp duty under the Indian Stamp Act, 1899, which is under the purview of the Central Government. As the stamp duty applicable was higher for non-bank entities as initial investors than for banks, the issuers of CP often sold their paper initially to banks, who in turn, offloaded them to non-bank investors, mostly mutual funds. In order to harmonise the stamp duty applicable on issuance of CP by bank and non-bank entities and to bring the Indian CP market closer to international standards, the Union Budget, 2005-06 rationalised the stamp duty such that it applies uniformly regardless of the initial class of investor.

Derivatives

IV.14 The Reserve Bank had set up a Group on Rupee Interest Rate Derivatives for harmonising the regulatory prescriptions for Over-the-Counter (OTC) and exchange-traded interest rate derivatives. The Group recommended that banks meeting a set of requirements, including adequate internal risk management, control systems and a robust operational framework could be allowed to run trading positions across various interest rate derivatives, including interest rate futures. Since banks are already permitted to undertake trading positions in the OTC segment in respect of Interest Rate Swaps (IRS)/ Forward Rate Agreements (FRAs), the requirements specified need to be adhered to by the banks already dealing in the IRS/FRAs on a time-bound basis. Following discussions on the recommendations, the TAC appointed a Sub-Group (Chairman: Shri D. N. Ghosh) to examine the harmonisation issues and suggest a road map for a more liberal participation by banks in interest rate futures.

IV.15 The OTC derivatives market has grown to an outstanding notional amount of over Rs.10,00,000 crore as at end-March 2005. In this context the need for the appropriate legal framework for removing legal ambiguity of derivative contracts is important. The Reserve Bank has made suggestions to the Central Government for appropriate legislative changes. The Union Budget, 2005-06 has also proposed steps for removal of legal ambiguity of OTC derivative contracts.

GOVERNMENT SECURITIES MARKET

IV.16 The Reserve Bank stepped up efforts to further deepen and broaden the Government securities market during the year. The measures to improve functional efficiency through improved technological infrastructure were accompanied by an assessment of the risk management systems in place under the new institutional arrangements.

IV.17 The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 prohibits the Reserve Bank from participating in primary issuances of Government securities with effect from April 1, 2006, except under exceptional circumstances. Consequently, open market operations (OMOs) would become a more active policy instrument necessitating a review of processes and technological infrastructure consistent with market advancement. In order to address these emerging needs and equip the Reserve Bank as well as the market participants appropriately, an internal Technical Group on Central Government Securities Market was constituted. The recommendations of the Group include proposals to enlarge liquidity and improve pricing in the market, reorientation of PD system post-FRBM, standardisation of transactions in Government securities to T+1 basis, and allowing banks to carry out PD business departmentally. The recommendations of the Group relating to restructuring the underwriting obligations of PDs, allowing PDs exclusivity in primary auctions, introduction of 'When Issued Market' and short selling in Government securities would be considered in consultation with the Government.

IV.18 In the context of the FRBM Act, the Annual Policy Statement for the year 2005-06 had indicated reorientation of Government debt management operations while simultaneously strengthening monetary operations within the Reserve Bank with a view to moving towards functional separation between debt management and monetary operations. Accordingly, the Reserve Bank constituted a new Financial Markets Department (FMD). The functions of the FMD would include: (i) monetary operations such as OMOs, LAF, standing liquidity facilities and Market Stabilisation Scheme (MSS), (ii) regulation and development of money market instruments such as call/notice/term money, market repo, CBLO, CP and CDs and (iii) monitoring of money, Government securities and foreign exchange markets. In due course, the functions of the Department would also cover the Reserve Bank's operations in the domestic foreign exchange market to achieve the desired integration in the conduct of monetary operations.

Diversification of Instruments

IV.19 The Reserve Bank continued to diversify the products available in the Government securities market to meet the requirements of various classes of investors. In order to improve price discovery and secondary market trading in floating rate bonds (FRBs), a Sub-Group of the TAC (Chairman: Dr. Arvind Virmani) was constituted to examine issues of pricing, floating benchmark and liquidity.

IV.20 Market conventions for secondary market trading and settlement were finalised in consultation with the FIMMDA and Primary Dealers Association of India (PDAI) during the year. Suitable modifications carried out in the Public Debt Office (PDO)-NDS trading, clearing and settlement system are being tested. It is expected that Capital Indexed Bonds (CIBs) would be introduced during 2005-06 in consultation with the Central Government.

Technological Infrastructure

IV.21 Several initiatives were taken to develop the technological infrastructure for the efficient functioning of the Government securities market. The anonymous, order-driven trading in Government securities introduced in select stock exchanges in January 2003 has had limited success. A Working Group on Screen Based Trading in Government Securities (Chairman: Dr. R. H. Patil) recommended operationalisation of a screen-based trading system in the NDS. Accordingly, a screen based trading system was operationalised with effect from August 1, 2005 initially for the Reserve Bank regulated NDS members.

IV.22 Full-fledged functionalities relating to auctions of various kinds of Treasury Bills, including under the MSS and the LAF, are now run on-line on the PDO-NDS system. This provides for Straight Through Processing (STP) of bids submitted by member banks/PDs/financial institutions (FIs) and settlement of successful bids. During the year, changes relating to Treasury Bill auctions under the MSS and the revised LAF scheme were implemented. The revised LAF application provides flexibility to conduct repo/ reverse repo of varying maturities. The PDO-NDS system also provides for settlement of successful LAF bids in Repo Constituent Subsidiary General Ledger (SGL) accounts, which are handled by the Securities Section of the Mumbai Office of the Reserve Bank. A

Primary Market Operations (PMO) module, covering functionalities relating to auctions of Government dated securities has been developed and operationalised.

IV.23 The Reserve Bank constituted a User Group to serve as a forum to exchange views on the operational aspects of the NDS on a continuous basis. Representatives are drawn from various NDS member groups comprising FIMMDA, PDAI, Association of Mutual Funds of India (AMFI) and CCIL and the Reserve Bank. The User Group held meetings on November 30, 2004 and April 21, 2005.

IV.24 The Government securities market used to follow both T+0 and T+1 settlements. In order to standardise trading procedures and help in better cash and risk management for participants, the Reserve Bank standardised the settlement system for transactions in Government securities to T+1 basis with effect from May 24, 2005.

Primary Dealers

IV.25 The Reserve Bank had set up a Group (Chairman: Dr. R.H. Patil) to examine the role of PDs in the Government securities market. The Report of the Group was discussed in the TAC. The recommendations are being examined for implementation. The Annual Policy Statement for 2005-06 has proposed that permitted structures of PD business could be expanded to include banks, which fulfil certain minimum criteria subject to safeguards, in consultation with banks, PDs and the Government.

FOREIGN EXCHANGE MARKET

IV.26 The Reserve Bank continued with its policy of liberalisation of external transactions with a view to deepening the foreign exchange market. Resident individuals were allowed a greater degree of freedom in terms of access to foreign exchange. Measures initiated in respect of corporates included liberalisation of norms relating to external commercial borrowings (ECBs) and dispensation of prior approval of the Reserve Bank for cross-border transfer of equity. Several measures were also undertaken to encourage exports, including overseas deployment of funds from the Exchange Earners' Foreign Currency (EEFC) accounts. This was backed by steps to provide easier access to import financing, especially with the enlargement of limits of the authorised dealers (ADs) in respect of trade credits. Import of gold, especially for jewellery exports, has also been liberalised further. Benefits for non-resident Indians (NRIs) include easier access to housing loans for acquisition of property in India.

IV.27 The foreign exchange market has acquired a distinct vibrancy as evident from the range of products, participation, liquidity and turnover. In this context, the Reserve Bank set up a Technical Group on the Foreign Exchange Market to review comprehensively the initiatives taken by it in the foreign exchange market and identify areas for further improvements. The draft report of the Group has been placed on the Reserve Bank's website for comments. Some of the recommendations have already been accepted for implementation in the Annual Policy Statement of 2005-06. Cancellation and rebooking of all eligible forward contracts booked by residents, irrespective of tenor, has been allowed. Banks are allowed to approve proposals for commodity hedging in international exchanges from their corporate customers. The closing time for inter-bank foreign exchange market in India has been extended by one hour up to 5.00 p.m. The Reserve Bank would disseminate additional information including traded volumes for derivatives such as foreign currency-rupee options to the market. Other recommendations relating to writing of covered options by corporates and hedging of economic risk of corporates in respect of their domestic operations arising out of changes in the landed cost of the imported substitutes of the commodities they consume/produce would be considered. The sequencing with regard to implementation of these measures would take into account the enabling conditions for further progress towards capital account convertibility, liberalisation in other sectors of the economy and the trend in overall balance of payments.

Capital Account Liberalisation

Facilities for Resident Individuals

IV.28 The condition that shares should be offered at a concessional price for the acquisition of foreign securities by residents under the Employees Stock Option Plan (ESOP) was dispensed with, effective May 3, 2004. Shares acquired under the ESOP are allowed to be sold without obtaining prior permission of the Reserve Bank, provided the proceeds thereof are repatriated to India.

IV.29 Resident individuals were allowed, effective July 2004, to credit to the Resident Foreign Currency (RFC)/ RFC (Domestic) account of the beneficiary the foreign exchange received by them by way of the proceeds of life insurance policy claims/maturity/ surrender values settled in foreign currency from an insurance company in India permitted to undertake life insurance business by the Insurance Regulatory and Development Authority (IRDA).

IV.30 Prior approval of the Reserve Bank was dispensed with and ADs were permitted to extend the enhanced facility of opening, holding and maintaining EEFC accounts. Individual professionals were permitted to keep up to 100 per cent of their foreign exchange earnings from consultancy and other sources rendered to persons or bodies outside India in their EEFC accounts. Furthermore, the EEFC account scheme was rationalised to only two categories, *viz.*, i) 100 per cent of the foreign exchange earned can be retained by Status Holder Exporter/Resident Professionals/units in 100 per cent Export Oriented Units (EOUs)/Export Promotion Zones (EPZs)/Software Technology Parks (STPs)/ Electronic Hardware Technology Parks (EHTPs) and ii) up to 50 per cent by others (any other person resident in India).

Facilities for Corporates

IV.31 Effective October 1, 2004 the issue of ADR/ GDR-linked stock options by a listed company in the knowledge-based sectors is being governed by the SEBI (Employees Stock Option and Stock Purchase Scheme) Guidelines, 1999. The issue of ESOP by an unlisted company in such knowledge-based sectors shall continue to be governed by the guidelines issued by the Government of India for issue of ADR/GDR linked stock options to its employees. Therefore, ADs were permitted to make remittances up to US $ 50,000 or its equivalent in a block of five calendar years, without prior approval of the Reserve Bank, for purchase of foreign securities under the ADR/GDR linked ESOP Scheme.

IV.32 Effective October 1, 2004 general permission was granted for conversion of ECBs into equity, subject to certain conditions and prescribed reporting requirements. However, import payables deemed as ECBs would not be eligible for conversion into equity/ preference shares.

IV.33 The requirement of prior approval of the Reserve Bank for transfer of shares and convertible debentures (excluding financial services sector) was dispensed with from October 2004. General permission was granted subject to compliance of the terms and conditions and reporting requirements for the following categories: (i) transfer by a person resident in India to a person resident outside India and (ii) transfer by a person resident outside India to a person resident in India. The cases of increase in foreign equity participation by fresh issue of shares as well as conversion of preference shares into equity capital was put under general permission, provided such increase falls within the sectoral cap in relevant sectors and is within the automatic route.

IV.34 Non-government organisations (NGOs) engaged in micro finance activities were permitted to raise external commercial borrowings (ECBs) up to US $ 5 million during a financial year for permitted end-use under the automatic route, effective April 25, 2005. NGOs engaged in micro finance with a satisfactory borrowing relationship of three years with a bank and 'fit and proper' board/management committee would be eligible to avail ECBs. The designated AD would have to ensure that (a) the ECB proceeds are utilised for lending to self-help groups or for micro-credit or for *bona fide* micro finance activity including capacity building and (b) at the time of draw down, the foreign exchange exposure of the borrower is hedged. ECB funds should be routed through normal banking channels from internationally recognised sources, *viz.*, international banks, multilateral financial institutions and export credit agencies. Furthermore, overseas organisations and individuals complying with Know Your Customer (KYC) guidelines and anti-money laundering safeguards may lend ECBs. All other ECB parameters such as minimum average maturity, all-in-cost ceilings, issuance of guarantee, choice of security, parking of proceeds, prepayment, refinancing and reporting arrangements under the Automatic Route should be complied with.

IV.35 Effective August 1, 2005, the Reserve Bank would consider under the Approval Route (i) ECBs with minimum average maturity of 5 years by NBFCs from recognised lenders to finance import of infrastructure equipment for leasing to infrastructure projects, (ii) Foreign Currency Convertible Bonds (FCCBs) by housing finance companies satisfying specific criteria and (iii) application for domestic rupee denominated structured obligations to be credit enhanced by international banks / international financial institutions / joint venture partners. Furthermore, the limit for allowing prepayment of ECBs by ADs without prior approval of the Reserve Bank was raised to US $ 200 million from US $ 100 million, subject to compliance with minimum average maturity period for the loan.

Facilities for Exporters and Importers

IV.36 ADs were allowed to approve trade credits for imports into India up to US $ 20 million per import transaction with a maturity period of up to one year, effective April 2004. For import of capital goods, ADs were allowed to approve trade credits up to US $ 20 million per import transaction with a maturity period of more than one year and less than three years. No roll over/extension can be permitted by the ADs beyond the permissible period.

IV.37 The limit for outstanding forward contracts booked by importers/exporters, based on their past performance (*i.e.*, without production of the underlying documents), was increased from 50 per cent to 100 per cent of the eligible limit from November 2004. However, the contracts booked in excess of 25 per cent of the eligible limits would be on a deliverable basis.

IV.38 All status holder exporters are permitted a period of 12 months for realisation and repatriation of export proceeds. This facility was extended to 100 per cent EOUs and units set up under EHTPs, STPs and Bio-Technology Parks (BTPs) schemes from November 2004.

IV.39 As per the extant guidelines, only nominated agencies, approved banks and EOUs/SEZ units in the gems and jewellery sector can directly import gold. Accordingly, ADs were permitted to open letters of credit (LCs) and allow remittances on behalf of EOUs, units in SEZs in the gems and jewellery sector and nominated agencies, for direct import of gold, from July 2004, subject to certain conditions. ADs would also need to ensure that due diligence is undertaken and all KYC norms and the Anti-Money Laundering guidelines issued by the Reserve Bank are adhered to while undertaking such transactions.

IV.40 ADs were granted general permission from November 2004 to issue guarantees, letters of comfort and letters of undertaking in favour of overseas suppliers or banks for their importer clients up to US $ 20 million per transaction for a period up to one year for import of all non-capital goods permissible under the Foreign Trade Policy (except gold) and up to three years for import of capital goods, subject to prudential guidelines.

IV.41 As per the existing guidelines, nominated agencies/approved banks can import gold on loan basis for on-lending to exporters of jewellery and by EOUs and units in SEZs for manufacturing and export of jewellery on their own account only. The maximum tenor of gold loan was enhanced to 240 days, *i.e.*, 60 days for manufacture and exports and 180 days for fixing the price and repayment from February 2005. ADs are permitted to open standby LCs for tenor equivalent to the loan period and on behalf of entities permitted to import gold. The standby LC should be in favour of internationally renowned bullion banks only.

Overseas Direct Investment

IV.42 An employee or a director of an Indian office or branch or a subsidiary of a foreign company in India or of an Indian company in which the foreign holding is not less than 51 per cent can purchase shares under ESOP offered by a foreign company even if it is an indirect shareholding (through a holding company or a Special Purpose Vehicle (SPV) in third country) in the Indian company, effective February 9, 2005.

IV.43 With a view to promoting Indian investment abroad and to enable Indian companies to reap the benefits of globalisation, it was decided to raise the ceiling on overseas investment from 100 per cent of the investing company's net worth to 200 per cent as on the date of last audited balance sheet. The enhanced ceiling is not applicable to the investments made out of balances held in EEFC accounts and out of the proceeds of ADR/GDR issues.

Facilities for Non-resident Indians and Persons of Indian Origin

IV.44 ADs or housing finance institutions in India approved by the National Housing Bank were allowed to provide housing loans to a non-resident Indian or a person of Indian origin resident outside India for acquisition of a residential accommodation in India. From May 2004 the instalment on such loans, interest and other charges can be repaid by close relatives (as defined under Section 6 of the Companies Act, 1956) of the borrower in India directly to the borrower's loan account with the AD/housing finance institution.

IV.45 Banks authorised to deal in foreign exchange are permitted to allow a resident power of attorney holder to remit funds out of the balances in the NRE/FCNR(B) account through normal banking channels to the non-resident account holder only, provided specific powers for the purpose have been given. Deposits by NRIs with persons other than ADs/authorised banks out of inward remittances from overseas or by debit to NRE/FCNR(B) accounts are prohibited. However, such deposits by debit to NRO accounts have been permitted to continue, provided that the amount deposited with such entities does not represent inward remittances or transfer from NRE/FCNR(B) accounts into the NRO accounts.

Foreign Investment in India

IV.46 Insurance companies incorporated outside India, which have obtained prior approval from the IRDA, were granted general permission to establish Liaison Offices in India from April 2005 under conditions specified by the IRDA.

Compounding of Contraventions under Foreign Exchange Management Act, 1999

IV.47 The Government reviewed the procedures for compounding of contravention under the Foreign Exchange Management Act (FEMA), 1999 in consultation with the Reserve Bank. With a view to providing comfort to the citizens and the corporate community by minimising transaction costs, the responsibilities of administering compounding of contravention cases under the FEMA were vested with the Reserve Bank with exception of clause (a) of Section 3 of the FEMA, 1999 which deals essentially with *hawala* transactions. The Reserve Bank has issued directions to ADs operationalising the revised procedures for compounding of contravention under the FEMA. An application for compounding in prescribed form with necessary fee may be submitted to the Compounding Authority (CA) either on being advised of a contravention under the FEMA or *suo moto* on becoming aware of the contravention. On receipt of the application for compounding of contravention, the compounding proceedings would be initiated in accordance with the compounding rules. This process would be concluded by the CA within 180 days from the date of the receipt of the application for compounding. The compounding order would be passed after affording an opportunity to the contravener and all other concerned to be heard. Once a contravention has been compounded by the CA, no proceeding or further proceeding will be initiated or continued, against the contravener.

IV.48 To sum up, the Reserve Bank continued with its efforts to increase the depth and width of the various segments of the financial market during 2004-05 with a view to enhancing allocative efficiency and ensuring financial stability. Notably, the process of converting the call money market into a pure inter-bank market was completed by August 2005. A series of measures in the foreign exchange market were aimed at further liberalisation of the current and capital account transactions. In the Government securities market, efforts continued towards improving the technological infrastructure. In the context of the FRBM Act 2003 and with a view to moving towards functional separation between debt management and monetary operations, the Reserve Bank initiated attempts to restructure/reorient the PD system. The Reserve Bank will pursue its efforts to further develop, integrate and provide vibrancy to the various segments of the financial markets.

V FINANCIAL REGULATION AND SUPERVISION

V.1 The conduct of financial regulation and supervision by the Reserve Bank in 2004-05 was guided by the need for ensuring financial stability. The overriding objective has been to maintain confidence in the financial system by enhancing its soundness and efficiency. For this purpose, the Reserve Bank evaluates system-wide risks and promotes sound business and financial practices. It also conducts inspections and analyses of institution-wise risks. Over the years, the Reserve Bank has progressively aligned the regulatory framework with international best practices with country-specific adaptation. During the year, in addition to fine-tuning the prudential guidelines, the Reserve Bank focussed on encouraging market discipline and ensuring good governance with an emphasis on "fit and proper" owners and diversified ownership. Steps to implement Basel II norms were carried forward through the Capital Adequacy Assessment Process (CAAP). With regard to Regional Rural Banks, the focus of regulation and supervision was on consolidation, efficiency and expansion of areas of business. Efforts were carried forward during the year to develop urban cooperative banks into a sound, well managed network of financial institutions providing quality banking services to the widest sections of society. Regulatory issues in the context of integrating development finance institutions into the financial system engaged the Reserve Bank in 2004-05. As regards non-banking financial companies (NBFCs), the focus during the year was on strengthening supervisory oversight and disclosure standards.

V.2 This Section presents an overview of the regulatory and supervisory policy initiatives undertaken in 2004-05. It reviews the measures initiated during the year to strengthen the financial sector with a view to calibrating the approach to a new supervisory regime compatible with the Basel II process. Various measures initiated to enhance the coordination with other regulatory agencies, to strengthen transparency and corporate governance practices and to improve customer service are also presented.

REGULATORY FRAMEWORK FOR THE INDIAN FINANCIAL SYSTEM

V.3 The Reserve Bank is vested with regulatory and supervisory authority over commercial banks and urban co-operative banks (UCBs), development finance institutions (DFIs) and non-banking financial companies (NBFCs). As on March 31, 2005 there were 289 commercial banks, 1,872 UCBs, 8 DFIs and 13,187 NBFCs. The Board for Financial Supervision (BFS) has been constituted as a Committee of the Central Board of the Reserve Bank since November 1994 and is headed by the Governor with a Deputy Governor as Vice Chairperson and other Deputy Governors and four Directors of the Central Board as members. In respect of State and district central cooperative banks, while the Reserve Bank is the regulator, the supervision is vested with the National Bank for Agriculture and Rural Development (NABARD). Insurance companies and mutual funds are regulated by the Insurance Regulatory and Development Authority (IRDA) and the Securities and Exchange Board of India (SEBI), respectively.

V.4 During the year (July 2004 - June 2005), the BFS held 12 meetings and examined 105 inspection reports. Various issues which received the attention of the BFS included ownership and governance in banks; further progress towards international best practices in prudential norms; greater deregulation and rationalisation of banking policies; and compliance with Know Your Customer (KYC) norms. Strengthening the financial system for global integration in the light of the ongoing liberalisation of the exchange and payments regime assumed priority for the BFS in 2004-05. Greater inter-regulatory coordination and improving the quality of public services rendered by banks were concurrent objectives.

V.5 A consultative approach to financial regulation and supervision was persevered with through formal institutional structures such as the BFS, the newly-formed Standing Committee on Financial Regulation, the Technical Advisory Committee on Money, Foreign Exchange and Government Securities Markets, the Standing Advisory Committee for Urban Cooperative Banks and also through specific working groups and committees. This was reinforced by formal and informal consultations with the regulated entities, external experts and professionals.

REGULATORY AND SUPERVISORY INITIATIVES

Scheduled Commercial Banks

V.6 Commercial banks (285 scheduled and 4 non-scheduled at the end of March 2005) include 28 public sector banks, 30 private sector banks, 31 foreign banks and four local area banks. There were 196 regional rural banks (RRBs) operating in 26 States across 518 districts with a network of 14,487 branches as on March 31, 2005.

Ownership and Governance of Banks

V.7 In recent years, the Reserve Bank has initiated several measures to enhance transparency and strengthen corporate governance practices in the banking sector in India in order to ensure financial sector stability. In this context, issues of ownership and governance in private sector banks assumed importance in 2004-05. The BFS formulated a draft comprehensive policy framework with regard to ownership of and governance in private sector banks and placed it in the public domain on July 2, 2004. Based on the feedback and inputs received from the public, and in consultation with Government, the Reserve Bank released detailed guidelines on February 28, 2005 stipulating diversified ownership and restrictions on cross holding by banks (Box V.1). Based on the recommendation of the Working Group to evolve guidelines for voluntary mergers involving banking companies, the guidelines laying down the process of merger, determination of swap ratios, disclosures, the stages at which Boards will get involved and norms for buying/selling of shares by promoters before and during the process were finalised and sent to all scheduled commercial banks in May 2005.

V.8 On April 1, 2005 the Reserve Bank sanctioned the amalgamation of IDBI Bank Limited with Industrial Development Bank of India Limited. “IDBI Bank Limited” was, therefore, excluded from the second schedule of the Banking Regulation Act with effect from April 2, 2005.

V.9 The prudential ceiling on a bank’s aggregate investment in Tier II bonds issued by other banks and financial institutions (FIs) up to 10 per cent of the investing bank’s capital funds was made applicable to banks’/FIs’ investments in the following types of

Box V.1

Guidelines on Ownership and Governance in Private Sector Banks

The broad principle underlying the guidelines on ownership and governance in private sector banks is to ensure that the control of private sector banks is well diversified to minimise the risk of misuse or imprudent use of leveraged funds. The guidelines require that: (i) important shareholders (*i.e.*, with shareholding of five per cent and above) are ‘fit and proper’ as per the Reserve Bank’s guidelines on acknowledgement for allotment and transfer of shares; (ii) the directors and the Chief Executive Officer who manage the affairs of the bank are ‘fit and proper’ and observe sound corporate governance principles; (iii) banks have minimum capital/net worth for optimal operations and systemic stability; and (iv) policy and processes are transparent and fair.

Some additional requirements are that : (a) banks maintain a net worth of Rs.300 crore at all times; (b) shareholding or control in any bank in excess of 10 per cent of the paid-up capital by any single entity or group of related entities requires the Reserve Bank’s prior approval; (c) banks (including foreign banks having branch presence in India)/ financial institutions are not allowed to exceed equity holding of five per cent of the equity capital of the investee bank; (d) large industrial houses are allowed to acquire shares not exceeding 10 per cent of the paid-up capital of the bank subject to the Reserve Bank’s prior approval; (e) the Reserve Bank would permit a higher level of shareholding on a case-by-case basis for restructuring of problem/weak banks or in the interest of consolidation in the banking sector; and (f) if the shareholding exceeds the prescribed limit or if the net worth is below Rs.300 crore in any bank, a time-bound programme to reduce the stake or to augment the capital should be submitted to the Reserve Bank.

On the issue of aggregate foreign investment in private banks from all sources (FDI, FII, NRI), the guidelines stipulate that it cannot exceed 74 per cent of the paid-up capital of a bank. If FDI (other than by foreign banks or foreign bank groups) in private banks exceeds 5 per cent, the entity acquiring such stake would have to meet the ‘fit and proper’ criteria indicated in the share transfer guidelines and get the Reserve Bank’s acknowledgement for transfer of the shares. The aggregate limit for all FII investments is restricted to 24 per cent which can be raised to 49 per cent with the approval of the board/ shareholders. The current aggregate limit for all NRI investments is 24 per cent, with the individual NRI limit being five per cent, subject to the approval of the board/ shareholders.

instruments issued by other banks/FIs: (a) equity shares; (b) preference shares eligible for capital status; (c) subordinated debt instruments; (d) hybrid debt capital instruments; and (e) any other instrument approved as in the nature of capital. Furthermore, banks/FIs were advised not to acquire any fresh stake in a bank's equity shares in excess of 5 per cent of the investee bank's equity capital. Banks/FIs which exceed these limits are required to approach the Reserve Bank along with a definite road map for reduction of the exposure within prudential limits in a prescribed time frame.

Strengthening Prudential Norms

V.10 The Reserve Bank has accepted the adoption of the New Capital Adequacy Framework (Basel II) in principle. The pace of approaching the various levels of sophistication under the Basel II standards would be decided by the Reserve Bank depending upon the preparedness of the banks. Accordingly, commercial banks in India (excluding RRBs) are required to adopt the Standardised Approach for credit risk and Basic Indicator Approach for operational risk as on March 31, 2007. After adequate skills are developed, some banks would be allowed to migrate to the Internal Rating Based (IRB) Approach. In terms of the New Capital Adequacy Framework, banks will be allowed to adopt/migrate to the advanced approaches only with the specific approval of the Reserve Bank. Banks aiming to adopt the advanced approaches should first make an objective self assessment of their fulfilment of the minimum criteria prescribed under Basel II. Banks that meet the minimum requirements for adopting advance methods may approach the Reserve Bank with a road map that has approval of their board of directors for migration to these approaches. In order to ensure a smooth transition to Basel II in a non-disruptive manner, a consultative approach has been adopted. The Reserve Bank appointed a Steering Committee comprising senior officials from 14 banks. On the basis of the recommendations of the Steering Group, draft guidelines on implementation of the New Capital Adequacy Framework were formulated and issued to banks on February 15, 2005. An Internal Working Group was also constituted for identifying eligible domestic credit rating agencies whose ratings may be used by the banks for computing capital for credit risk under Basel II.

V.11 Pillar 2 of the New Capital Adequacy Framework recognises the responsibility of bank management in developing an Internal Capital Adequacy Assessment Process (ICAAP) and setting capital targets that are commensurate with banks' risk profile and control environment. Banks were encouraged to focus on formalising and operationalising their ICAAP, which will serve as a useful benchmark while undertaking the parallel run with effect from April 1, 2006.

V.12 Banks were advised of the applicability of the Accounting Standard (AS) 11 in respect of the effects of changes in foreign exchange rates for compliance. A minimum framework for disclosures on risk exposures in derivatives was required to be furnished by banks as a part of the 'Notes on Accounts' to the balance sheet with effect from March 31, 2005.

V.13 Banks maintaining capital of at least nine per cent of risk weighted assets for credit risk and market risk for both held-for-trading (HFT) and available-for-sale (AFS) categories were allowed to transfer the balance in excess of five per cent of securities included under the HFT and the AFS categories in the Investment Fluctuation Reserve (IFR) to Statutory Reserve which is eligible for inclusion in Tier I capital. This transfer shall be made a 'below the line' item in Profit and Loss Appropriation Account.

V.14 Pursuant to the recommendations of the Joint Parliamentary Committee (JPC) on Stock Market Scam and Matters Relating Thereto and consistent with the international best practices in disclosure of penalties imposed by the regulator, it was decided to place in the public domain the details of the levy of penalty on a bank with effect from November 1, 2004. Strictures or directions on the basis of inspection reports or other adverse findings will also be placed in the public domain. Banks are also required to disclose the penalty in the "Notes on Accounts" to the balance sheet in their next Annual Report.

V.15 On the basis of the inputs received from an informal Working Group comprising representatives of banks, a draft guidance note on management of operational risk was issued to banks on March 11, 2005.

V.16 Pursuant to the announcement in the Union Budget 2004-05, banks were advised in August 2004 that in case of rural housing advances granted to agriculturists under the *Indira Awas Yojana* and Golden Jubilee Rural Housing Finance scheme, the interest/ instalment payable on such advances should be linked to crop cycles.

V.17 The margin requirement on all advances against shares/financing of IPOs/issue of guarantees was increased on December 2004 from the existing 40 per cent to 50 per cent and the minimum cash margin from 20 per cent to 25 per cent. The risk weight on exposure of banks to commercial real estate as well as for credit risk on capital market exposure was increased from 100 per cent to 125 per cent, effective July 26, 2005.

Resolution of NPAs

V.18 With a view to increasing the options available to banks for dealing with non-performing assets (NPAs), guidelines were issued on sale/purchase of NPAs on July 13, 2005. The guidelines broadly cover the areas on procedure for purchase/sale of NPAs by banks including valuation and pricing aspects, prudential norms and disclosure requirements.

V.19 In April 2004, a Supreme Court ruling on the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2003 struck down the provisions requiring the borrower to pre-deposit 75 per cent of the liability in case the borrower wants to appeal against the order of attachment of the assets. The SARFAESI Act was amended in 2004 in order to dissuade the borrower from delaying the repayment of dues and to facilitate the speedy recovery of debt of secured creditors. By end-March 2005, public sector banks had issued 83,984 notices involving an outstanding amount of Rs.26,291 crore. An amount of Rs.3,337 crore was recovered in respect of 41,697 cases. Furthermore, an amount of Rs.2,193 crore was received through 21,311 compromise proposals.

V.20 Under the Recovery of Debts due to Banks and Financial Institutions Act, which provides for the establishment of tribunals for expeditious adjudication and recovery of debts due to banks and financial institutions, 67,875 cases involving Rs. 1,05,169 crore had been filed with Debt Recovery Tribunals (DRTs) by the banks up to March 31, 2005. 32,389 cases involving Rs.33,861 crore have been adjudicated with the amount recovered at Rs.10,281 crore.

V.21 *Lok Adalats* also provide banks with an avenue to recover their smaller NPAs. According to the earlier guidelines, banks could settle banking disputes involving amounts up to Rs.5 lakh through *Lok Adalats*. The monetary ceiling of cases to be referred to *Lok Adalats* organised by civil courts was enhanced to Rs.20 lakh. Furthermore, banks were advised to participate in the *Lok Adalats* convened by various DRTs/DRATs for resolving cases involving Rs. 10 lakh and above to reduce the stock of NPAs. As on March 31, 2005 the number of cases filed by commercial banks with *Lok Adalats* stood at 634,521 involving Rs.3,162 crore. The number of cases decided was 252,829 involving an amount of Rs.1,224 crore. The recovery effected in 202,173 cases stood at Rs.426 crore.

V.22 A Special Group (Chairperson: Smt. S. Gopinath) was constituted in September 2004 to undertake a review of the Corporate Debt Restructuring (CDR) scheme. Based on the recommendations made by the Special Group, the major modifications proposed to the existing CDR Scheme are: (i) extension of scheme to corporate entities on whom banks and institutions have an outstanding exposure of Rs.10 crore or more, from the existing Rs.20 crore or more; (ii) requirement of support of 60 per cent of creditors by number in addition to the support of 75 per cent of creditors by value; (iii) linking the restoration of asset classification to implementation of package within three months from the date of approval; (iv) restricting the regulatory concession in asset classification and provisioning requirement to the first restructuring; (v) limiting the Reserve Bank's role to providing broad guidelines for the CDR System; (vi) enhancing balance sheet disclosures; (vii) *pro-rata* sharing of additional finance requirements; and (viii) including One-Time Settlement (OTS) as a part of the CDR Scheme to make the exit option more flexible.

Inter-Regulatory Co-ordination and Co-operation

V.23 Conflict of interest is a crucial issue in the area of corporate governance in the context of ensuring financial stability in an environment of growing financial openness. Legislative and regulatory measures have been adopted by different countries to ensure that conflicts of interest are not allowed to compromise the interest of stakeholders and public at large. As indicated in the Mid-term Review of October 2004, the Reserve Bank constituted a Working Group on Conflict of Interest in the Indian Financial Services Sector (Chairman: Shri D. M. Satwalekar) to identify the sources and nature of potential conflicts of interest in the financial sector in India and possible measures/actions to be taken for mitigating them.

Opening up of the Financial Sector

V.24 Indian banks continued to expand their presence overseas. During the year, State Bank of India opened branches in Sydney (Australia), Ruwi

(Oman), Chittagong and Sylhet (Bangladesh). Bank of India opened a branch in Kenya and Punjab National Bank opened its branch in Kabul (Afghanistan). The number of Indian banks with overseas operations increased from 10 to 11 and the number of branches increased to 100 as at end-June 2005. Bank of Baroda opened representative offices in Kuala Lumpur (Malaysia) and Guang Zhou (China), State Bank of India opened an office in Luanda (Angola), Punjab National Bank in Shanghai (China), while ICICI Bank Ltd. opened offices in Dhaka (Bangladesh) and Johannesburg (South Africa). As at end-June 2005, the number of representative offices increased by five to 27, while the total number of subsidiaries set up by Indian banks abroad stood at 17.

V.25 Out of the ten banks which were given 'in principle' approval during 2003-04 to open 14 Offshore Banking Units (OBUs) in Special Economic Zones (SEZs), six banks commenced operations in the Santa Cruz Electronics Exports Processing Zone (SEEPZ), Mumbai, Noida, Uttar Pradesh and SEZ Kochi, Kerala in 2004-05. Vijaya Bank, which was given approval to open an OBU at SEEPZ surrendered its authorisation.

V.26 During 2004-05, permission was granted to seven foreign banks to open 12 branches. A scheme of amalgamation of the Indian operations of Sumitomo Mitsui Banking Corporation with Indian branches of Standard Chartered Bank was sanctioned in February 2005 under Section 44A of the Banking Regulation Act, 1949. During the year, Banco de Sabadell from Spain opened its representative office in New Delhi. The total number of representative offices operating in India stood at 27 at end-June 2005.

V.27 As a part of the measured approach to integrating into the global financial system, the Reserve Bank set out a roadmap for the presence of foreign banks in India on February 28, 2005 (Box V.2).

Towards More Deregulation

V.28 Banks were advised that the quantum and margin requirement for loans / advances to individuals against units of exclusively debt-oriented mutual funds can be decided by the individual banks themselves in accordance with their loan policy. At the time of extending credit facility, banks are required to satisfy themselves about the acceptability of credit needs of borrowers and end use of the funds. As regards loans and advances against units of other mutual funds (other than exclusively debt-oriented mutual funds), the existing guidelines remained unchanged.

V.29 Preventing misuse of the financial system and preserving its integrity is vital for orderly development of the financial system. Keeping in view the sweeping changes across the financial sector, the Reserve Bank has suggested certain amendments to the Banking Regulation Act, 1949 to enhance its regulatory and supervisory powers, consistent with best international practices. These, *inter alia,* include: (i) redefining the category of 'approved securities'; (ii) enabling the banking companies to issue preference shares; (iii) inserting a new section requiring the prior approval of the

Box V.2

Road Map for Presence of Foreign Banks

Under the road map, during the first phase, between March 2005 and March 2009, foreign banks satisfying the eligibility criteria prescribed by the Reserve Bank will be permitted to establish presence by way of setting up a wholly owned banking subsidiary (WOS) or converting the existing branches into a WOS following the one mode presence criterion. The WOS should have a minimum capital of Rs.300 crore and sound corporate governance. The WOS will be treated on par with the existing branches of foreign banks for branch expansion with flexibility to go beyond the existing WTO commitments of 12 branches in a year and preference for branch expansion in under-banked areas. The Reserve Bank would also prescribe market access and national treatment limitation consistent with WTO commitments as also other appropriate limitations consistent with international practices and the country's requirements. Permission for acquisition of shareholding in Indian private sector banks by eligible foreign banks will be limited to banks identified by the Reserve Bank for restructuring. The Reserve Bank would consider permitting such acquisition if it is satisfied that such investment by the foreign bank concerned will be in the long term interest of all the stakeholders in the investee bank. Where such acquisition is by a foreign bank having presence in India, a maximum period of six months will be given for conforming to the 'one form of presence' concept.

The second phase will commence in April 2009 after a review of the experience gained and after due consultation with all the stakeholders in the banking sector. Extension of national treatment to WOS, dilution of stake and permitting mergers / acquisitions of any private sector banks in India by a foreign bank would be considered, subject to the overall investment limit of 74 per cent.

Reserve Bank for acquisition of five per cent or more of shares and voting rights of a banking company by any person and empowering the Reserve Bank to grant such approval; (iv) removing the restriction on voting rights, currently at 10 per cent; (v) empowering the Reserve Bank to grant exemption to any banking company from the provisions of Section 20; (vi) doing away with the lower and upper limit on the statutory liquidity ratio (SLR) and empowering the Reserve Bank to specify SLR without any floor or ceiling; (vii) empowering the Reserve Bank to direct banking companies to disclose financial statements and also to carry out their inspection; (viii) providing the Reserve Bank the powers to supersede the board of a banking company; and (ix) allowing the Reserve Bank to order special audit of co-operative banks in the public interest.

V.30 Banks have been allowed to extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures/wholly owned subsidiaries or in other new or existing overseas companies as strategic investment, in terms of a board approved policy duly incorporated in the loan policy of the bank.

Improving Customer Service

V.31 Based on the recommendations of the Committee on Procedures and Performance Audit on Public Services (CPPAPS) (Chairman: S.S.Tarapore), efforts were renewed in 2004-05 for facilitating improvements in customer service in banks. All public sector/private sector banks and select foreign banks were advised in August 2004 to constitute Customer Service Committees of their boards with a view to strengthening the corporate governance structure in the banking system and bringing about ongoing improvements in the quality of customer service. Formulation of a comprehensive deposit policy, addressing issues such as the treatment on death of a depositor for operation of his account, the product approval process, the annual survey of depositor satisfaction and the tri-enniel audit of such services were issues which were placed in the ambit of the functioning of these Committees. They would also play a pro-active role with regard to complaints/grievances resolved by the Banking Ombudsmen. Banks were advised to ensure that the awards of the Banking Ombudsmen are implemented immediately and with active involvement of Top Management. Furthermore, banks were also advised to place all the awards of the Banking Ombudsmen before the Customer Service Committee. All the awards remaining unimplemented without valid reasons for more than three months before the Customer Service Committee are required to be reported to the board.

V.32 Banks were advised to constitute *ad hoc* Committees to undertake procedures and performance audit on public services rendered by them. The CPPAPS had observed that there should be a dedicated focal point for customer service in banks which should have sufficient powers to evaluate the functioning in various departments. It had recommended that the *ad hoc* Committees should be converted into Standing Committees on Customer Service. Banks were advised in April 2005 to take necessary action to convert the existing *ad hoc* Committees into Standing Committees on Customer Service. It was felt that the *ad hoc* Committees can serve as the micro level executive committee driving the implementation process and provide relevant feedback while the Customer Service Committee of the board would oversee and review/modify the initiatives. Thus, the two Committees would be mutually reinforcing.

V.33 The CPPAPS had recommended that a Banking Codes and Standards Boards of India (BCSBI) should be set up as an independent organisation but strongly supported by the Reserve Bank. Accordingly, as announced in the Annual Policy Statement for 2005-06, it is proposed to set up an independent BSCBI on the model of the mechanism in the UK in order to ensure that a comprehensive code of conduct for fair treatment of customers is evolved and adhered to.

V.34 From time to time, the Reserve Bank has been issuing instructions to banks on issues relating to credit of local/outstation cheques. It was decided to withdraw these instructions, leaving it to the individual banks to formulate policies in this regard. Banks were advised to formulate a comprehensive and transparent customer service policy taking into account technological capabilities, systems and processes and other internal arrangements for collection through correspondents. The policy framed in this regard was required to be integrated with the deposit policy formulated by the banks in line with the Indian Banks Association's (IBA's) model deposit policy. The policy was also required to clearly lay down the liability of the banks by way of interest payments due to delays for non-compliance with the standards set by the banks themselves. Compensation by way of interest payment, where necessary, was required to be made without any claim from the customer.

V.35 The requirement of obtaining "No-Objection Certificate" (NOC) from the lending bank(s) for opening current accounts of entities which enjoy credit facilities from the banking system was eased and banks were given the freedom to open current accounts of prospective customers after a minimum waiting period. Banks are required to put in place policies and procedures to implement KYC norms and Anti-Money Laundering standards to prevent laundering of funds through the banking system (Box V. 3).

V.36 In the light of the recommendations of CPPAPS, instructions were issued to banks in supersession of all earlier instructions on settlement of claims in respect of deceased depositors covering aspects relating to: (a) access to balance in deposit accounts; (b) premature termination of term deposit accounts; (c) treatment of flows in the name of the deceased depositor; (d) access to the safe deposit lockers/safe custody articles; and (e) time limit for settlement of claims.

Supervisory Initiatives

V.37 During 2004-05, the BFS continued to guide the development of supervisory prescriptions and practices relating to: (a) strengthening of asset classification norms; (b) "fit and proper" status of directors; (c) ownership and governance of private sector banks; (d) eligibility norms for appointment of statutory auditors; (e) integrated approach for monitoring of frauds of the entire financial system through setting of a fraud monitoring cell; (f) monitoring of FIs; and (g) revision of off-site surveillance reporting.

V.38 Basel II rests on three pillars *viz.*, (a) minimum capital requirements (Pillar 1), (b) supervisory review process (Pillar 2) and (c) market discipline (Pillar 3). All the three pillars need to be implemented for a system to be Basel II compliant. In this context, supervisors are required to encourage the implementation of the key principles underlying Pillars 2 and 3, even before they move to Pillar 1. Pillar 2 discusses the key principles of supervisory review, risk management guidance and supervisory transparency and accountability with respect to banking risks. A group was set up by the Reserve Bank for the implementation of Pillar 2. The group consists of three sub-groups on the internal capital adequacy assessment process, supervisory review and evaluation process, and supervisory review process for securitisation. Pillar 2 is meant not only for ensuring adequate capital to support all the risks in a bank, but also to encourage banks to adopt better risk management (Box V.4).

Box V.3

Guidelines on Know Your Customer (KYC) and Anti-Money Laundering Measures

The Reserve Bank issued comprehensive guidelines to banks in November 2004 which require banks to frame their KYC policies incorporating the four key elements *viz.*, (i) customer acceptance policy (ii) customer identification procedures (iii) monitoring of transactions and (iv) risk management. The salient features of the policy are :

- No account to be opened in anonymous, fictitious or *benami* names;
- The identify of the customer and his address to be verified through documentary evidence;
- Customer accounts to be classified according to risk perceived and a customer profile should be prepared;
- Banks should look for "beneficial owners" in case of legal persons and accounts operated under mandate in respect of individuals and establish their identity;
- Accounts of politically exposed persons residing outside India to be opened with specific approval of senior management;
- Banks to establish correspondent banking relationships with banks operating abroad after ascertaining commitment to KYC norms and the regulatory environment in that country;
- Banks to develop a system of ongoing monitoring of transactions in customers' accounts. Transactions that fall outside the regular pattern of customer activity and cash transactions of Rs. 10 lakh and above are to be reported to Head/Controlling office;
- Banks to ensure that adherence to KYC policies/procedures is tested and evaluated by internal/concurrent auditors.
- Any remittance of funds by way of demand draft, mail/telegraphic transfer or any other mode and issue of travellers' cheques for value of Rupees fifty thousand and above to be effected by debit to the customer's account or against cheques and not against cash payment.
- Provisions of Foreign Contribution and Regulation Act, 1976 to be adhered to strictly.
- Banks should apply revised KYC norms to the existing customers on the basis of material and risk;
- Banks are required to put in place a proper policy framework on 'Know Your Customer' and anti-money laundering measures with the approval of their boards and ensure that they are fully compliant before December 31, 2005.

Box V.4
Pillar 2 of the Basel II Accord

The Supervisory Review Process is intended to ensure that banks have adequate capital to support all the risks in their business and also to encourage banks to develop and use better risk management techniques in monitoring and managing their risks. This process also recognises the responsibility of bank management in developing an internal capital assessment process and setting capital targets that are commensurate with the bank's risk profile and control environment. Supervisors are expected to evaluate how well banks are assessing their capital needs relative to their risks and to intervene where appropriate.

The four basic and complementary principles on which the Pillar 2 rests are: (a) a bank should have a process for assessing its overall capital adequacy in relation to its risk profile as well as a strategy for maintaining its capital levels; (b) supervisors should review and evaluate a bank's internal capital adequacy assessment and strategy as well as its compliance with regulatory capital ratios; (c) supervisors expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum; and (d) supervisors should seek to intervene at an early stage to prevent capital from dipping below prudential levels.

Implementation of Pillar 2 requires that a comprehensive assessment of risks be carried out by both the banks (internally) and the supervisor (externally). Banks and supervisors need to focus on key risks which are not directly addressed under Pillar 1 and supervisors are required to ensure proper functioning of certain aspects of Pillar 1. Some of the key issues are: (i) interest rate risk in banking book; (ii) residual risk; and (iii) credit concentration risk. Supervisors are also required to consider whether the capital requirement generated by Pillar 1 gives a consistent picture of the bank's operational risk exposure.

V.39 In view of the importance of RRBs as purveyors of rural credit, the Union Budget 2004-05 emphasised that the sponsor banks would be accountable for the performance of their RRBs. Sponsor banks were advised by the Reserve Bank to provide support to their sponsored RRBs in matters relating to efficient management, training of staff, computerisation and networking of activities. Empowered committees for RRBs under the chairmanship of the Reserve Bank's Regional Directors have been constituted to monitor performance of RRBs under the jurisdiction of the regional offices of the Reserve Bank.

V.40 As indicated in the Mid-term Review of the Annual Policy Statement for the year 2004-05, sponsor banks are being encouraged to merge their RRBs. Sponsor banks were advised that the appointment of chairmen of their RRBs should be approved by the management committees of their boards. The Government was requested to ensure that independent and professionally qualified persons are nominated to the boards of RRBs to make them more vibrant and proactive.

V.41 In order to re-position RRBs as an effective instrument of credit delivery in the Indian financial system, an Internal Group was set up within the Reserve Bank on February 23, 2005 (Chairman: Shri A. V. Sardesai) to examine various alternatives available within the existing legal framework for strengthening the RRBs and making them viable rural financial institutions. The Group made recommendations relating to minimum capital requirements of the RRBs and suggested, *inter alia*, measures for better governance, suitable regulation and supervision.

Co-operative Banks

V.42 It has been the endeavour of the Reserve Bank to ensure that the UCBs emerge as a sound and healthy network of jointly owned, democratically controlled and ethically managed banking institutions providing need based quality banking services, essentially to the middle and lower middle classes and marginalised sections of the society. Accordingly, in 2004-05, the Reserve Bank continued its efforts to integrate the urban cooperative banking system with the rest of the banking system (Box V.5). Major policy initiatives undertaken by the Reserve Bank in 2004-05 with a view to further strengthening the urban banking sector relate to legislative and structural changes, regulatory measures on scheduled and non-scheduled urban cooperative banks and computerisation of returns.

V.43 Scheduled UCBs generally have a large deposit base and hence de-scheduling weak scheduled banks or taking them into liquidation may have a significant systemic impact. Accordingly it was decided to draw up a programme for their restructuring and rehabilitation in a time-bound manner. As the restructuring involves generation of funds internally and through external sources (Government), discussions are underway among the various regulators to put in place a package that would ensure turnaround in a reasonable timeframe.

Box V.5

Draft Vision Document for Urban Co-operative Banks

The Draft Vision Document seeks to (i) rationalise the existing regulatory and supervisory approach; (ii) facilitate a focused and continuous system of supervision through enhancement of technology; (iii) enhance professionalism and improve the quality of governance in UCBs by providing training for skill upgradation; (iv) put in place a mechanism that addresses the problems of dual control, given the present legal framework, and the time consuming process in bringing requisite legislative changes; (v) put in place a consultative arrangement for identifying weak but potentially viable entities in the sector; and (vi) identify the unviable entities and provide an exit path for such entities.

These objectives are to be addressed through a differentiated regulatory regime as opposed to a "one-size-fits-all" approach. Therefore, a two-tier regulatory regime is proposed: (i) a simplified regulatory regime for unit banks and banks with operations confined to a single district with deposits up to Rs.100 crore and (ii) for all other banks, regulation will be at par with commercial banks.

As the strategy to deal with UCBs needs to be State specific, a State Level Task Force would be constituted comprising senior officials from the Reserve Bank, State Governments and local/central co-operative federations. The Task Force will be responsible for identifying weak but viable UCBs and framing of time-bound programme for revival, recommending nature and extent of financial support, future set-up of unlicensed banks and time frame for exit of unviable banks. In order to address issues/difficulties related to dual control within the existing legal framework, a working arrangement in the form of a Memorandum of Understanding (MoU) between the Reserve Bank and the State Governments has been proposed. In this regard, the Reserve Bank has already entered into agreement with two State Governments through MoUs and discussions are underway with other State Governments as well.

V.44 In order to ensure that only financially strong UCBs are accorded scheduled status, the Government of India notified the prescribed minimum level of demand and time liabilities (DTL) at Rs.250 crore against the earlier requirement of Rs.100 crore, based on the recommendations of an internal group of the Reserve Bank. It was also decided not to include any more banks in the scheduled category, pending a comprehensive policy on UCBs.

V.45 On receipt of representations from co-operative federations/banks, small loans up to Rs.1 lakh, including gold loans, had been exempted from the purview of the 90 day impairment norm and continue to be governed by the 180-day impairment norm. However, this exemption will be available only up to March 31, 2006. It was also decided to grant an additional time of two years to UCBs as compared with commercial bank counterparts to meet the 100 per cent provisioning norm for advances identified as doubtful for more than three years.

V.46 Asset classification and provisioning requirements of UCBs in respect of State Government guaranteed advances and investments were earlier linked to invocation of the State Government guarantee. This was de-linked and same norms as applicable to exposures not guaranteed by the State Governments were prescribed. The revised norms will be effective from the year ending March 31, 2006.

V.47 UCBs were given some relaxation in their investment portfolio. They were allowed to exceed the present limit of 25 per cent of a bank's total investment under the HTM category provided (a) the excess comprises only of SLR securities and (b) the total SLR securities held in the HTM category are not more than 25 per cent of their NDTL as on the last Friday of the second preceding fortnight.

V.48 In consonance with the best practices, it was decided that details of the levy of penalty on a bank would be put in the public domain through a press release by the Reserve Bank. The UCBs were advised that the penalty should also be disclosed in the "Notes on Accounts" to their balance sheets in the annual reports.

V.49 As a prudential measure aimed at better risk management and avoidance of concentration of credit risk, UCBs were advised (a) to fix the prudential exposure limits at 15 per cent and 40 per cent of the capital funds in case of single borrower and group of borrowers, respectively; (b) to fix capital funds for the purpose of prudential exposure norm in relation to the bank's total capital funds (both Tier I and Tier II capital); and (c) that the exposure shall henceforth include both credit exposure and investment exposure (non-SLR).

V.50 The off-site surveillance system for supervision of all scheduled UCBs was extended to non-scheduled banks with deposit base of over Rs.100 crore with effect from June 2004.

V.51 UCBs were advised to ensure that they are fully compliant with the provisions of the revised KYC guidelines before December 31, 2005.

V.52 For resolving problems arising out of the dual control regime on UCBs, a draft legislative bill proposing certain amendments to the Banking Regulation Act, 1949 in line with the recommendations of the High Power Committee on UCBs had been forwarded to the Government of India. The Government of India had proposed certain changes to the recommendations seeking to make cooperatives more autonomous and professional. The proposals were re-examined in light of the above developments and revised proposals have been communicated to the Government of India.

V.53 Some of the UCBs that have faced problems in recent times are those that have had weak governance, either by design or by default. In this regard, the UCBs have been advised to have at least two directors with professional qualifications or adequate experience in banking on their boards. The most important stakeholder in a UCB is the depositor. Therefore, a mandatory right to regular membership for depositors above a threshold limit is under consideration.

V.54 With a view to encouraging and facilitating consolidation and emergence of strong entities and providing an avenue for non-disruptive exit of weak/ unviable entities in the co-operative banking sector, guidelines were issued to facilitate merger/ amalgamation in the sector (Box V.6).

V.55 The Government of India had constituted a Task Force on Revival of Rural Co-operative Credit Institutions, under the Chairmanship of Prof. A. Vaidyanathan, Professor *Emeritus*, Madras Institute of Development Studies, Chennai to propose an action plan for reviving the rural cooperative banking institutions and suggest an appropriate regulatory framework for these institutions. The Task Force submitted its report to the Central Government on February 15, 2005 (Box V.7). In his Budget Speech for the year 2005-06, the Union Finance Minister announced that the Government has accepted the recommendations of the Task Force in principle and would begin the process of implementing the recommendations in the States that show willingness to accept the recommendations. The Government of India has entrusted the work of studying the long term cooperative credit structure for agriculture and rural development to the same Task Force.

V.56 Keeping in view the precarious financial position of District Central Cooperative Banks (DCCBs), the Reserve Bank has so far rejected licence applications of eight DCCBs. Besides, show cause notices were issued to six DCCBs for rejection of licence application during the year 2004-05. As on March 31, 2005, nine State Cooperative Banks/ DCCBs were placed under the Reserve Bank's directions, prohibiting them from granting any loans and advances and/or accepting fresh deposits and renewing the existing ones.

V.57 In November 2004, scheduled or licensed State Cooperative Banks and licensed DCCBs with minimum net worth of Rs.100 crore were permitted to undertake insurance business as corporate agent without risk participation, subject to certain conditions, after obtaining prior permission of the Reserve Bank. The minimum net worth was reduced to Rs.50 crore in February 2005. Furthermore, in May 2005, all State Cooperative Banks and DCCBs were allowed to undertake insurance business on a referral basis without any risk participation through their network of branches without prior approval of the Reserve Bank.

Development Finance Institutions (DFIs)

V.58 Consolidation in the banking sector has also encompassed the Development Finance Institutions (DFIs) which have been the traditional providers of long-term finance in India. The complexities involved in harmonising the role and operations of the DFIs

Box V.6

Guidelines for Mergers/Amalgamations for Urban Cooperative Banks

The Reserve Bank will consider proposals for merger/ amalgamation of UCBs of the following types, subject to the post-merger entity meeting the prescribed prudential norms:

(i) net worth of the acquiree bank is positive and the acquirer bank assures to protect entire deposits of all the depositors of the acquired bank;

(ii) when the net worth of acquiree bank is negative, the acquirer bank on its own assures to protect deposits of all the depositors of the acquired bank; and

(iii) when the net worth of the acquiree bank is negative and the acquirer bank assures to protect the deposits of all the depositors with financial support from the State Government extended upfront as part of the process of merger.

Box V.7
Task Force on Revival of Rural Co-operative Credit Institutions

Major recommendations of the Task Force in the Final Report are:

- The approach for financial restructuring should be contingent on commitment to and implementation of legal and institutional reforms. The total package is likely to be of the order of Rs.14,839 crore.
- All losses should be covered by the revival package.
- Special audit of accounts as of 31st March 2004 should be undertaken, the cost of which would be borne by the revival package.
- A contingency fund of Rs.4,000 crore to take care of covering accumulated losses (part of the total package).
- The Central Government should provide a soft loan to concerned States if the latter do not have necessary resources to pay the cooperative banks in case of invocation of guarantees.
- Assistance necessary to bring all cooperatives, including primary agricultural cooperative societies (PACS), to a minimum CRAR of seven per cent may be provided and cooperatives then may be asked to increase it to 12 per cent within five years from their internal resources.
- Cooperatives will need to computerise and costs (estimated at Rs.1,030 crore) should be met through grant assistance by the Centre.
- All PACS which have a recovery rate of at least 50 per cent and whose gross margin covers at least 50 per cent of their establishment costs should be covered under the package. DCCBs with positive net worth and those with negative net worth but with less than 25 per cent deposit erosion may be taken up under the package for revival. The same criteria will also apply to State Co-operative Banks.
- The proposed financial assistance package for revival of cooperatives should be only a one-time measure. Assistance will be strictly conditional and released on the implementation of the recommendations for legal and institutional reforms.
- State Governments may issue executive orders to bring in the desired reforms. A model Cooperative Law can be enacted by the State Governments.
- Amendments to the Banking Regulation Act may be made to bring cooperative banks on par with commercial banks as far as regulatory norms are concerned.
- NABARD would be designated as the implementing agency of the scheme.

were examined and the Reserve Bank enabled the reverse-merger of a large DFI with its commercial banking subsidiary. Another large DFI also converted into a bank.

V.59 As announced in the Annual Policy Statement for the year 2004-05, a Technical Group on Refinancing Institutions was constituted on September 3, 2004 (Chairman: Shri G.P.Muniappan) to evaluate the efficacy of regulatory and supervisory systems of refinancing institutions (RFIs) (Box V.8).

Non-Banking Financial Companies (NBFCs)

V.60 Supervisory oversight over non-banking financial companies (NBFCs) continued to be based on a four-pronged strategy comprising: a) on-site inspection based on CAMELS methodology, b) off-site monitoring supported by state-of-the-art technology, c) market intelligence and d) reports of statutory auditors. The emphasis was on developing NBFCs into a financially strong sector with improved skills and technology. The policy changes made by the Reserve Bank during the year related to issue of credit cards, preparation of balance sheets, premature withdrawal of deposits, quarterly returns for NBFCs not accepting/holding public deposits and having an asset size of Rs.500 crore and above, cover for public deposits and policy changes for RNBCs (Box V.9).

V.61 NBFCs are not allowed to undertake credit card business without prior approval of the Reserve Bank. NBFCs were advised that the issue of debit cards, stored value cards, smart cards and value added cards have a characteristic akin to demand deposits and acceptance of deposits payable on demand is a banking function. The Reserve Bank, therefore, advised banks that they should not issue smart/debit cards in tie-ups with any other non-bank entities.

V.62 In terms of the extant directions, every NBFC is required to prepare its balance sheet and profit and loss account as on March 31 every year. Whenever an NBFC intends to extend the date of its balance sheet as per provisions of the Companies Act, 1956 it should take prior approval of the Reserve Bank before approaching the Registrar of Companies (RoC) for this purpose. In the cases where permission is granted for extension of time, the company would be required to furnish to the Reserve Bank a proforma

Box V.8

Report of the Technical Group on Refinancing Institutions (RFIs)

The major recommendations of the Technical Group are:

Regulatory Systems

Entities regulated/supervised by RFIs should be classified into those accepting public deposits and those not accepting public deposits. The Reserve Bank should subject entities accepting public deposits to direct regulation till such time they cease to accept public deposits. Furthermore, entities not accepting public deposits should be segregated into (a) entities with an asset size of more than Rs.100 crore and which either do not avail of refinance from RFIs at all or those whose dominant source of funds is not refinance from RFIs, (b) entities with an asset size of more than Rs.100 crore but whose sole/dominant source of funds is refinance from RFIs and (c) entities with asset size equal to or less than Rs.100 crore. Regarding entities in category (a), the Reserve Bank should provide to RFIs a broad framework for regulation of these entities. Regulation of entities falling under categories (b) and (c), including prescription of prudential norms, may be entirely left to the RFI themselves. Furthermore, SFCs may be discouraged from accepting public deposits and the Reserve Bank may withdraw permission granted to them for accessing public deposits. Acceptance of public deposits by non-bank financial intermediaries should be phased out and eventually, regulation of entities accepting public deposits should converge with the prudential norms of commercial banks.

Supervisory Practices

Supervision may be carried out on the basis of CAMELS approach and the capabilities should preferably be developed in-house. SIDBI and NHB may consider setting up boards of supervision (BoS), as in the case of NABARD. The supervisory functions of SIDBI need to be well defined with no State Government intervention and adequate powers for imposition of penalty be vested in SIDBI. NHB may consider introducing the system of awarding ratings to HFCs in a phased manner.

Coordination between the *Reserve Bank and RFIs*

A Standing Committee comprising representatives of the Reserve Bank, SIDBI, NABARD and NHB may be set up for ensuring coordination. The arrangements existing between the Reserve Bank and NABARD may be replicated between the Reserve Bank, on the one hand, and SIDBI and NHB, on the other. As in the case of NHB and NABARD, the Reserve Bank may have a Top Management level nominee on the board of SIDBI.

Reserve Bank Oversight over the Regulatory/Supervisory Systems of RFIs

While the existing arrangements of annual financial inspection and special scrutinies are necessary and useful, a formal system to measure supervisory effectiveness may be developed by the RFIs and implemented after approval from the Reserve Bank.

Income Recognition, Asset Classification and Provisioning Norms of the RFIs

The aggregate refinance by a RFI to an apex lending institute may be viewed as if it were a bundle of back-to-back facilities granted to various primary lending institutions or to various categories of borrowers. It may be permissible to classify the contaminated portion and non-contaminated portion of the facility separately so that the entire refinance assistance to an apex lending institution does not get classified as NPA in the books of the RFI merely as a result of contamination of only a part. The revised prudential norms recently prescribed by the Reserve Bank for banks in regard to State Government guaranteed exposures should be applied to RFIs as well.

Reference

Report of the Technical Group on Refinancing Institutions (Chairman: Shri G.P.Muniappan) (2005), Reserve Bank of India, January.

balance sheet (unaudited) as on March 31 of the year and the statutory returns on the due dates.

V.63 NBFCs not accepting/holding public deposits and having asset size of Rs.500 crore and above were advised to submit a quarterly return in the prescribed format commencing from the quarter ended September 2004. It was also advised that a provisional return for the quarter ended March may be submitted within 30 days of the close of the quarter and a final return should be submitted with a copy of the audited balance sheet as soon as the same is finalised but not later than September 30 of the year. Non-submission of return would be viewed seriously and penal action would be taken for such non-compliance.

V.64 In order to protect depositors' interest, all NBFCs accepting/holding public deposits were advised to ensure that there should be full asset cover available for public deposits accepted by them. The assets should be evaluated at their book value or realisable/market value, whichever is lower, for this purpose. NBFCs have to report to the Reserve Bank in case the asset cover calculated falls short of the liability on account of public deposits.

Box V.9
Recent Policy Changes Relating to RNBCs

Residuary Non-Banking Companies (RNBCs) are a sub-set of NBFCs whose principal business is acceptance of public deposits. RNBCs mobilise deposits largely from rural/semi-urban centres in the form of daily, recurring and fixed deposits. RNBCs account for more than 85 per cent of the aggregate public deposits of registered deposit-taking NBFCs. Two large RNBCs had a share of more than 99 per cent of the total deposits accepted by all the RNBCs. The aggregate deposits of RNBCs have shown rapid growth compared to other NBFCs. RNBCs are required to invest 80 per cent of the deposit liability in directed investment with the remaining 20 per cent being at the discretion of the board of the company.

Investment

The directions for investments by RNBCs were rationalised in June 2004 with a view to reducing the overall systemic risk in the financial sector and safeguard the interests of depositors. A road map was also put in place to phase out the discretionary investments by the companies by April 1, 2006 and substitute them with investment in the securities specified by the Reserve Bank. Towards this target, beginning April 1, 2005, RNBCs are required to invest 90 per cent of their public deposit liability in directed investments. Besides, the requirement of AA+ rating and listing on stock exchange has been introduced for bonds/debentures which qualify towards directed investments. These measures are expected to impart greater liquidity and safety to the investments of RNBCs and thus enhance protection available to depositors.

Corporate Governance

'Fit and proper' guidelines were prescribed for evaluating the suitability of the directors appointed to the boards of RNBCs. The companies were asked to comply with the guidelines on connected lending relationships. They were also to ensure compliance with the KYC guidelines by agents and sub-agents. The companies were instructed to put in place a process of due diligence in respect of agents/sub-agents collecting deposits on behalf of the company through a uniform policy for appointment and detailed verification. All deposit receipts are required to indicate identification particulars like name and address of the agent / sub-agent who mobilised the deposits and of the link branch with telephone numbers. Agency commission structure, which is not detrimental to the interest of the depositors, is also to be devised.

V.65 NBFCs were advised to ensure that they are fully compliant with the revised KYC guidelines before December 31, 2005.

V.66 At the end of March 2005, a total of 38,096 applications had been received for grant of Certificate of Registration (CoR). The Reserve Bank approved 13,724 applications, including 642 applications of companies authorised to accept/hold public deposits. A total of 537 CoRs were cancelled which included 168 deposit taking NBFCs. As on March 31, 2005 the number of non-deposit taking NBFCs stood at 12,713 while NBFCs authorised to accept deposits stood at 474.

V.67 Inspection policy of NBFCs was revised in January 2005. During the period April 2004 to March 2005, a total of 570 (315 deposit taking companies and 255 non-deposit taking companies) registered NBFCs were inspected. In addition, the Reserve Bank conducted 236 snap scrutinies during the same period.

MACRO-PRUDENTIAL INDICATORS REVIEW

V.68 In line with international best practices for monitoring the stability of the financial system, the Reserve Bank has been compiling macro-prudential indicators (MPIs), comprising both aggregated micro-prudential indicators (AMPIs) relating to the health of individual financial institutions and macro economic indicators (MEIs) associated with financial system soundness. India is one of the few countries which has volunteered to participate in the coordinated compilation of the financial soundness indicators for December 2005 under the aegis of the International Monetary Fund.

V.69 The MPI review for 2004-05 indicates that capital ratios were well above minimum requirements across the financial system in India with a distinct improvement in asset quality. This was accompanied by some erosion in earnings and profitability indicators, except for development finance institutions, and an increase in operating costs. The salient features of the MPI review for 2004-05 are set out below (Tables 5.1).

Capital Adequacy

V.70 The aggregated capital ratio of scheduled commercial banks at end-March 2005 was marginally lower than at end-March 2004. The small decline in CRAR of scheduled commercial banks over the year could be attributed to the increase in total risk weighted assets relative to

Table 5.1: Select Financial Indicators

(Per cent)

Item	Period	Scheduled Commercial Banks	DFIs	PDs	NBFCs	SUCBs
1	2	3	4	5	6	7
CRAR	Mar-2004	12.9	22.0	42.7	26.8	11.0
	Mar-2005	12.8	22.8	54.3	22.9	12.7
Gross NPAs to Gross Advances	Mar-2004	7.4	16.4	n.a.	8.2	30.4
	Mar-2005	5.2	11.5	n.a.	8.1	24.9
Net NPAs to Net Advances	Mar-2004	2.9	10.5	n.a.	2.4	20.8
	Mar-2005	2.0	3.7	n.a.	3.4	8.9
Return on Total Assets	2003-04	1.1	-0.2	5.9	2.5	0.4
	2004-05	0.9	1.1	-1.8	n.a.	0.3
Return on Equity	2003-04	19.3	-1.2	19.9	13.6	n.a.
	2004-05	14.0	4.8	-5.1	n.a.	n.a.
Cost/Income Ratio	2003-04	45.6	0.2	16.9	14.1	24.9
	2004-05	49.3	0.2	297.0	n.a.	25.5

n.a. : Not available.

Note: 1. Data for March 2005 are provisional.
2. Data for NBFCs pertain to deposit taking NBFCs having an asset size of Rs.10 crore and above. Data for 2005 in respect of NBFCs pertain to the period ended September 2004.
3. Data for scheduled commercial banks pertain to domestic operations only and may not tally with the balance sheet data.
4. Data in respect of DFIs as on March 2005 do not include IDBI due to its conversion into a banking company.
5. In regard to UCBs, data for CRAR relate to 52 scheduled UCBs while other data relate to 53 scheduled UCBs (out of 55). Data for scheduled UCBs are based on Off-site Surveillance statements.

capital, for the first time since March 2000. Higher growth in the advances portfolio of banks and higher risk weights made applicable for housing loans - the most rapidly increasing retail loans component - contributed to the increase in risk-weighted assets. The core capital (Tier-I) ratio of banks increased from 8.1 per cent at end-March 2004 to 8.5 per cent at end-March-2005 as some banks raised resources from the capital market, mostly at substantial premium. Only two banks could not meet the prescribed CRAR requirements at end March 2005 (Table 5.2).

Table 5.2: Scheduled Commercial Banks: Frequency Distribution of CRAR (end-March 2005)

Bank Group	Negative	Between 0 and 9 per cent	Between 9 and 10 per cent	Between 10 and 15 per cent	15 per cent and above	Total
1	2	3	4	5	6	7
Public Sector Banks	0	0	2	22	4	28
	(0)	(0)	(1)	(24)	(2)	(27)
SBI Group	0	0	0	8	0	8
	(0)	(0)	(0)	(8)	(0)	(8)
Nationalised Banks	0	0	2	14	4	20
	(0)	(0)	(1)	(16)	(2)	(19)
Private Sector Banks	0	2	4	16	7	29
	(1)	(1)	(0)	(19)	(9)	(30)
Old Private Sector Banks	0	2	2	11	5	20
	(0)	(0)	(0)	(12)	(8)	(20)
New Private Sector Banks	0	0	2	5	2	9
	(1)	(1)	(0)	(7)	(1)	(10)
Foreign Banks	0	0	1	10	19	30
	(0)	(0)	(0)	(8)	(25)	(33)
All Banks	0	2	7	48	30	87
	(1)	(1)	(1)	(51)	(36)	(90)

Note : 1. Data for March 2005 are un-audited and provisional.
2. Figures in parentheses relate to March 2004.

Source: Off-site supervisory returns submitted by the banks.

V.71 The CRAR of the scheduled UCBs as a group increased to 12.7 per cent at end-March 2005 from 11.0 per cent at end-March 2004. Tier I capital of scheduled UCBs recorded a significant decline during 2004-05 (Table 5.3).

V.72 The conversion of IDBI into a commercial bank had a significant impact on the FI segment which was reflected in a depletion of their total assets by around Rs.60,000 crore. The aggregated CRAR of FIs was placed at 22.8 per cent at end-March 2005 (Table 5.4). Erosion of capital for two large term-lending institutions, whose CRAR has turned negative, emerged as an issue of concern, due to the high level of NPAs coupled with repeated financial losses.

V.73 The minimum CRAR prescribed for NBFCs is 12 per cent and 15 per cent under certain circumstances. At end-September 2004, 94.9 per cent of companies reported a CRAR equal to or in excess of the stipulated minimum, while 78.3 per cent of companies reported a CRAR above 30 per cent (Chart V.1). For the NBFCs, the average aggregate capital ratio at 22.9 per cent as at end-September 2004 remained well above the regulatory requirements. The proportion of companies not complying with the minimum stipulated CRAR of 12 per cent declined from 5.6 per cent in September 2003 to 5.1 per cent in September 2004. The CRAR of PDs improved and stood at 54.3 per cent at end-March 2005 (42.7 per cent at end-March 2004).

Table 5.3: Key Financial Indicators of Scheduled UCBs

(Rupees crore)

Indicator	March 2005	March 2004	Percentage variation
1	2	3	4
Number of Scheduled UCBs	53	52	
Paid up capital	761	671	13.4
Reserves (excluding loan loss provisions)	2,753	2,456	12.1
Tier I capital	838	2,189	-61.7
Tier II capital	501	450	11.3
Deposits	40,606	38,004	6.8
Investment in Government and other approved securities	15,420	13,292	16.0
Loans and Advances	24,912	20,026	24.4
Gross NPAs	6,210	6,081	2.1
Net NPAs	1,829	3,654	-49.9
Net Profit	303	472	-35.8
Net Loss	120	262	-54.2
Accumulated Losses	2,312	2,263	2.2
Memo:			
Gross NPAs to gross advances (per cent)	24.9	30.4	
Net NPAs to net advances (per cent)	8.9	20.8	

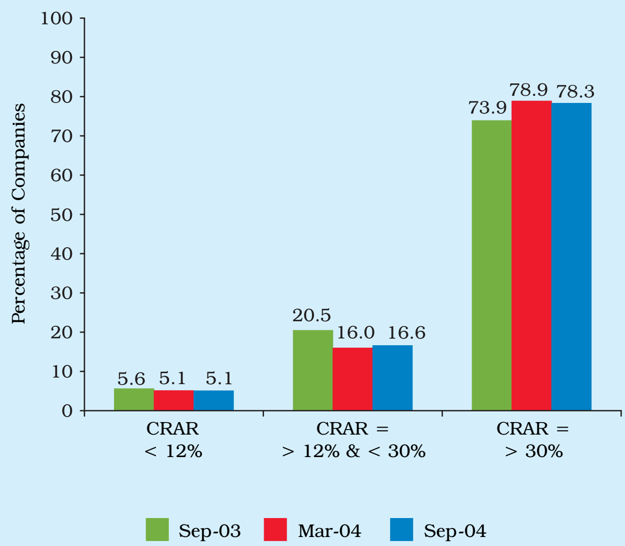
Note : Data as on March 31, 2005 are unaudited and provisional.

Table 5.4: CRAR and Net NPAs of Select FIs (end-March 2005)

Financial Institution	CRAR (Per cent)	Net NPAs (Rupees crore)	Net NPAs to net loans (Per cent)
1	2	3	4
Term-Lending Institutions (TLIs)			
IFCI	-23.4	2,682	28.8
EXIM Bank	21.6	109	0.9
IIBI	-41.1	487	32.9
TFCI	27.5	65	11.1
IDFC	28.7	0	0
All TLIs	**5.9**	**3,343**	**10.6**
Refinancing Institutions (RFIs)			
NABARD	38.8	0	0
NHB	16.5	0	0
SIDBI	53.8	407	4.0
All RFIs	**36.5**	**407**	**0.6**
All FIs	**22.8**	**3,750**	**3.7**

Source : Off-site returns submitted by FIs.

Chart V.1: Frequency Distribution of CRAR of Reporting NBFCs

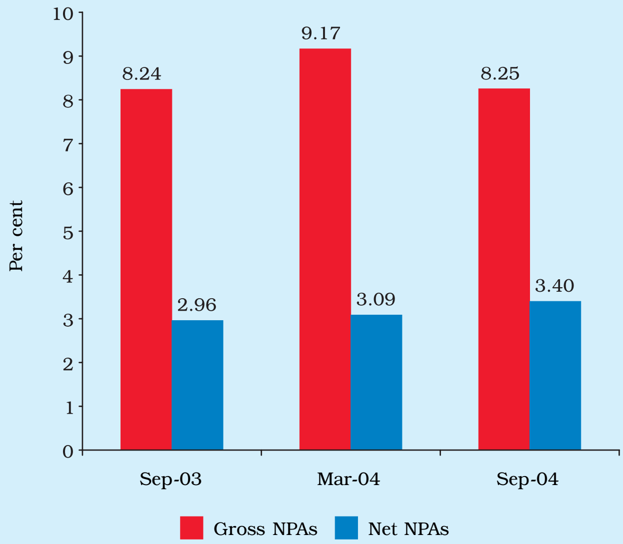


Asset Quality

V.74 The declining trend in gross and net NPAs for scheduled commercial banks that set in during 2002-03 continued during 2004-05 with the net NPA ratio going below two per cent for the first time. The fact that the provisioning for NPAs was much lower during 2004-05 indicates that the decline was due to increased recovery and overall reduction in asset slippage. An improved industrial climate also contributed to better recoveries. Only four banks had net NPAs in excess of 10 per cent of their net advances (Table 5.5). Similarly, the net NPA to capital ratio steadily declined from 21.3 per cent at end-March 2004 to 14.4 per cent by end-March 2005 reflecting the increase in capital, coupled with rapid decline in net NPAs.

V.75 As regards NBFCs, the gross NPA ratio declined between March 2004 and September 2004 while the net NPA ratio increased (Chart V.2).

Chart V.2: Ratio of Non-Performing Assets to Credit Exposure - NBFCs



V.76 There was a significant improvement in the asset quality of the DFIs (excluding IDBI) during the year. While the gross NPA ratio declined from 16.4 per cent in March 2004 to 11.5 per cent in March 2005, the net NPA ratio recorded an even sharper decline

Table 5.5: Net NPAs to Net Advances of Scheduled Commercial Banks

(Frequency Distribution)

Year	Public Sector Banks		Private Sector Banks		
	SBI Group	Nationalised Banks	Old	New	Foreign Banks
1	2	3	4	5	6
2000-01					
Up to 2 per cent	0	0	0	1	22
Above 2 per cent and up to 5 per cent	1	5	4	5	5
Above 5 per cent and up to 10 per cent	7	8	12	3	4
Above 10 per cent	0	6	6	0	11
2001-02					
Up to 2 per cent	0	0	1	1	20
Above 2 per cent and up to 5 per cent	4	4	2	3	4
Above 5 per cent and up to 10 per cent	4	12	13	5	1
Above 10 per cent	0	3	6	0	14
2002-03					
Up to 2 per cent	1	3	1	3	21
Above 2 per cent and up to 5 per cent	6	6	4	2	2
Above 5 per cent and up to 10 per cent	1	8	13	4	5
Above 10 per cent	0	2	2	1	8
2003-04					
Up to 2 per cent	6	5	2	4	19
Above 2 per cent and up to 5 per cent	2	9	9	5	4
Above 5 per cent and up to 10 per cent	0	4	7	0	3
Above 10 per cent	0	1	2	1	7
2004-05 P					
Up to 2 per cent	7	10	4	5	22
Above 2 per cent and up to 5 per cent	1	8	11	3	2
Above 5 per cent and up to 10 per cent	0	2	5	1	2
Above 10 per cent	0	0	0	0	4

P : Provisional.
Note: Data as on March 31, 2005 are unaudited and provisional.
Source : Off-site supervisory returns submitted by the banks pertaining to their domestic operations.

insurance company in India permitted to undertake life insurance business by the Insurance Regulatory and Development Authority (IRDA).

IV.30 Prior approval of the Reserve Bank was dispensed with and ADs were permitted to extend the enhanced facility of opening, holding and maintaining EEFC accounts. Individual professionals were permitted to keep up to 100 per cent of their foreign exchange earnings from consultancy and other sources rendered to persons or bodies outside India in their EEFC accounts. Furthermore, the EEFC account scheme was rationalised to only two categories, *viz.*, i) 100 per cent of the foreign exchange earned can be retained by Status Holder Exporter/Resident Professionals/units in 100 per cent Export Oriented Units (EOUs)/Export Promotion Zones (EPZs)/Software Technology Parks (STPs)/ Electronic Hardware Technology Parks (EHTPs) and ii) up to 50 per cent by others (any other person resident in India).

Facilities for Corporates

IV.31 Effective October 1, 2004 the issue of ADR/ GDR-linked stock options by a listed company in the knowledge-based sectors is being governed by the SEBI (Employees Stock Option and Stock Purchase Scheme) Guidelines, 1999. The issue of ESOP by an unlisted company in such knowledge-based sectors shall continue to be governed by the guidelines issued by the Government of India for issue of ADR/GDR linked stock options to its employees. Therefore, ADs were permitted to make remittances up to US $ 50,000 or its equivalent in a block of five calendar years, without prior approval of the Reserve Bank, for purchase of foreign securities under the ADR/GDR linked ESOP Scheme.

IV.32 Effective October 1, 2004 general permission was granted for conversion of ECBs into equity, subject to certain conditions and prescribed reporting requirements. However, import payables deemed as ECBs would not be eligible for conversion into equity/ preference shares.

IV.33 The requirement of prior approval of the Reserve Bank for transfer of shares and convertible debentures (excluding financial services sector) was dispensed with from October 2004. General permission was granted subject to compliance of the terms and conditions and reporting requirements for the following categories: (i) transfer by a person resident in India to a person resident outside India and (ii) transfer by a person resident outside India to a person resident in India. The cases of increase in foreign equity participation by fresh issue of shares as well as conversion of preference shares into equity capital was put under general permission, provided such increase falls within the sectoral cap in relevant sectors and is within the automatic route.

IV.34 Non-government organisations (NGOs) engaged in micro finance activities were permitted to raise external commercial borrowings (ECBs) up to US $ 5 million during a financial year for permitted end-use under the automatic route, effective April 25, 2005. NGOs engaged in micro finance with a satisfactory borrowing relationship of three years with a bank and 'fit and proper' board/management committee would be eligible to avail ECBs. The designated AD would have to ensure that (a) the ECB proceeds are utilised for lending to self-help groups or for micro-credit or for *bona fide* micro finance activity including capacity building and (b) at the time of draw down, the foreign exchange exposure of the borrower is hedged. ECB funds should be routed through normal banking channels from internationally recognised sources, *viz.*, international banks, multilateral financial institutions and export credit agencies. Furthermore, overseas organisations and individuals complying with Know Your Customer (KYC) guidelines and anti-money laundering safeguards may lend ECBs. All other ECB parameters such as minimum average maturity, all-in-cost ceilings, issuance of guarantee, choice of security, parking of proceeds, prepayment, refinancing and reporting arrangements under the Automatic Route should be complied with.

IV.35 Effective August 1, 2005, the Reserve Bank would consider under the Approval Route (i) ECBs with minimum average maturity of 5 years by NBFCs from recognised lenders to finance import of infrastructure equipment for leasing to infrastructure projects, (ii) Foreign Currency Convertible Bonds (FCCBs) by housing finance companies satisfying specific criteria and (iii) application for domestic rupee denominated structured obligations to be credit enhanced by international banks / international financial institutions / joint venture partners. Furthermore, the limit for allowing prepayment of ECBs by ADs without prior approval of the Reserve Bank was raised to US $ 200 million from US $ 100 million, subject to compliance with minimum average maturity period for the loan.

Facilities for Exporters and Importers

IV.36 ADs were allowed to approve trade credits for imports into India up to US $ 20 million per import transaction with a maturity period of up to one year, effective April 2004. For import of capital goods, ADs were allowed to approve trade credits up to US $ 20 million per import transaction with a maturity period of more than one year and less than three years. No roll over/extension can be permitted by the ADs beyond the permissible period.

IV.37 The limit for outstanding forward contracts booked by importers/exporters, based on their past performance (*i.e.*, without production of the underlying documents), was increased from 50 per cent to 100 per cent of the eligible limit from November 2004. However, the contracts booked in excess of 25 per cent of the eligible limits would be on a deliverable basis.

IV.38 All status holder exporters are permitted a period of 12 months for realisation and repatriation of export proceeds. This facility was extended to 100 per cent EOUs and units set up under EHTPs, STPs and Bio-Technology Parks (BTPs) schemes from November 2004.

IV.39 As per the extant guidelines, only nominated agencies, approved banks and EOUs/SEZ units in the gems and jewellery sector can directly import gold. Accordingly, ADs were permitted to open letters of credit (LCs) and allow remittances on behalf of EOUs, units in SEZs in the gems and jewellery sector and nominated agencies, for direct import of gold, from July 2004, subject to certain conditions. ADs would also need to ensure that due diligence is undertaken and all KYC norms and the Anti-Money Laundering guidelines issued by the Reserve Bank are adhered to while undertaking such transactions.

IV.40 ADs were granted general permission from November 2004 to issue guarantees, letters of comfort and letters of undertaking in favour of overseas suppliers or banks for their importer clients up to US $ 20 million per transaction for a period up to one year for import of all non-capital goods permissible under the Foreign Trade Policy (except gold) and up to three years for import of capital goods, subject to prudential guidelines.

IV.41 As per the existing guidelines, nominated agencies/approved banks can import gold on loan basis for on-lending to exporters of jewellery and by EOUs and units in SEZs for manufacturing and export of jewellery on their own account only. The maximum tenor of gold loan was enhanced to 240 days, *i.e.*, 60 days for manufacture and exports and 180 days for fixing the price and repayment from February 2005. ADs are permitted to open standby LCs for tenor equivalent to the loan period and on behalf of entities permitted to import gold. The standby LC should be in favour of internationally renowned bullion banks only.

Overseas Direct Investment

IV.42 An employee or a director of an Indian office or branch or a subsidiary of a foreign company in India or of an Indian company in which the foreign holding is not less than 51 per cent can purchase shares under ESOP offered by a foreign company even if it is an indirect shareholding (through a holding company or a Special Purpose Vehicle (SPV) in third country) in the Indian company, effective February 9, 2005.

IV.43 With a view to promoting Indian investment abroad and to enable Indian companies to reap the benefits of globalisation, it was decided to raise the ceiling on overseas investment from 100 per cent of the investing company's net worth to 200 per cent as on the date of last audited balance sheet. The enhanced ceiling is not applicable to the investments made out of balances held in EEFC accounts and out of the proceeds of ADR/GDR issues.

Facilities for Non-resident Indians and Persons of Indian Origin

IV.44 ADs or housing finance institutions in India approved by the National Housing Bank were allowed to provide housing loans to a non-resident Indian or a person of Indian origin resident outside India for acquisition of a residential accommodation in India. From May 2004 the instalment on such loans, interest and other charges can be repaid by close relatives (as defined under Section 6 of the Companies Act, 1956) of the borrower in India directly to the borrower's loan account with the AD/housing finance institution.

IV.45 Banks authorised to deal in foreign exchange are permitted to allow a resident power of attorney holder to remit funds out of the balances in the NRE/FCNR(B) account through normal banking channels to the non-resident account holder only, provided specific powers for the purpose have been given. Deposits by NRIs with persons other than ADs/authorised banks out of inward remittances from overseas or by debit to NRE/FCNR(B) accounts are prohibited. However, such deposits by debit to NRO accounts have been permitted to continue, provided that the amount deposited with such entities does not represent inward remittances or transfer from NRE/FCNR(B) accounts into the NRO accounts.

Foreign Investment in India

IV.46 Insurance companies incorporated outside India, which have obtained prior approval from the IRDA, were granted general permission to establish Liaison Offices in India from April 2005 under conditions specified by the IRDA.

Compounding of Contraventions under Foreign Exchange Management Act, 1999

IV.47 The Government reviewed the procedures for compounding of contravention under the Foreign Exchange Management Act (FEMA), 1999 in consultation with the Reserve Bank. With a view to providing comfort to the citizens and the corporate community by minimising transaction costs, the responsibilities of administering compounding of contravention cases under the FEMA were vested with the Reserve Bank with exception of clause (a) of Section 3 of the FEMA, 1999 which deals essentially with *hawala* transactions. The Reserve Bank has issued directions to ADs operationalising the revised procedures for compounding of contravention under the FEMA. An application for compounding in prescribed form with necessary fee may be submitted to the Compounding Authority (CA) either on being advised of a contravention under the FEMA or *suo moto* on becoming aware of the contravention. On receipt of the application for compounding of contravention, the compounding proceedings would be initiated in accordance with the compounding rules. This process would be concluded by the CA within 180 days from the date of the receipt of the application for compounding. The compounding order would be passed after affording an opportunity to the contravener and all other concerned to be heard. Once a contravention has been compounded by the CA, no proceeding or further proceeding will be initiated or continued, against the contravener.

IV.48 To sum up, the Reserve Bank continued with its efforts to increase the depth and width of the various segments of the financial market during 2004-05 with a view to enhancing allocative efficiency and ensuring financial stability. Notably, the process of converting the call money market into a pure inter-bank market was completed by August 2005. A series of measures in the foreign exchange market were aimed at further liberalisation of the current and capital account transactions. In the Government securities market, efforts continued towards improving the technological infrastructure. In the context of the FRBM Act 2003 and with a view to moving towards functional separation between debt management and monetary operations, the Reserve Bank initiated attempts to restructure/reorient the PD system. The Reserve Bank will pursue its efforts to further develop, integrate and provide vibrancy to the various segments of the financial markets.

V FINANCIAL REGULATION AND SUPERVISION

V.1 The conduct of financial regulation and supervision by the Reserve Bank in 2004-05 was guided by the need for ensuring financial stability. The overriding objective has been to maintain confidence in the financial system by enhancing its soundness and efficiency. For this purpose, the Reserve Bank evaluates system-wide risks and promotes sound business and financial practices. It also conducts inspections and analyses of institution-wise risks. Over the years, the Reserve Bank has progressively aligned the regulatory framework with international best practices with country-specific adaptation. During the year, in addition to fine-tuning the prudential guidelines, the Reserve Bank focussed on encouraging market discipline and ensuring good governance with an emphasis on "fit and proper" owners and diversified ownership. Steps to implement Basel II norms were carried forward through the Capital Adequacy Assessment Process (CAAP). With regard to Regional Rural Banks, the focus of regulation and supervision was on consolidation, efficiency and expansion of areas of business. Efforts were carried forward during the year to develop urban cooperative banks into a sound, well managed network of financial institutions providing quality banking services to the widest sections of society. Regulatory issues in the context of integrating development finance institutions into the financial system engaged the Reserve Bank in 2004-05. As regards non-banking financial companies (NBFCs), the focus during the year was on strengthening supervisory oversight and disclosure standards.

V.2 This Section presents an overview of the regulatory and supervisory policy initiatives undertaken in 2004-05. It reviews the measures initiated during the year to strengthen the financial sector with a view to calibrating the approach to a new supervisory regime compatible with the Basel II process. Various measures initiated to enhance the coordination with other regulatory agencies, to strengthen transparency and corporate governance practices and to improve customer service are also presented.

REGULATORY FRAMEWORK FOR THE INDIAN FINANCIAL SYSTEM

V.3 The Reserve Bank is vested with regulatory and supervisory authority over commercial banks and urban co-operative banks (UCBs), development finance institutions (DFIs) and non-banking financial companies (NBFCs). As on March 31, 2005 there were 289 commercial banks, 1,872 UCBs, 8 DFIs and 13,187 NBFCs. The Board for Financial Supervision (BFS) has been constituted as a Committee of the Central Board of the Reserve Bank since November 1994 and is headed by the Governor with a Deputy Governor as Vice Chairperson and other Deputy Governors and four Directors of the Central Board as members. In respect of State and district central cooperative banks, while the Reserve Bank is the regulator, the supervision is vested with the National Bank for Agriculture and Rural Development (NABARD). Insurance companies and mutual funds are regulated by the Insurance Regulatory and Development Authority (IRDA) and the Securities and Exchange Board of India (SEBI), respectively.

V.4 During the year (July 2004 - June 2005), the BFS held 12 meetings and examined 105 inspection reports. Various issues which received the attention of the BFS included ownership and governance in banks; further progress towards international best practices in prudential norms; greater deregulation and rationalisation of banking policies; and compliance with Know Your Customer (KYC) norms. Strengthening the financial system for global integration in the light of the ongoing liberalisation of the exchange and payments regime assumed priority for the BFS in 2004-05. Greater inter-regulatory coordination and improving the quality of public services rendered by banks were concurrent objectives.

V.5 A consultative approach to financial regulation and supervision was persevered with through formal institutional structures such as the BFS, the newly-formed Standing Committee on Financial Regulation, the Technical Advisory Committee on Money, Foreign Exchange and Government Securities Markets, the Standing Advisory Committee for Urban Cooperative Banks and also through specific working groups and committees. This was reinforced by formal and informal consultations with the regulated entities, external experts and professionals.

REGULATORY AND SUPERVISORY INITIATIVES

Scheduled Commercial Banks

V.6 Commercial banks (285 scheduled and 4 non-scheduled at the end of March 2005) include 28 public sector banks, 30 private sector banks, 31 foreign banks and four local area banks. There were 196 regional rural banks (RRBs) operating in 26 States across 518 districts with a network of 14,487 branches as on March 31, 2005.

Ownership and Governance of Banks

V.7 In recent years, the Reserve Bank has initiated several measures to enhance transparency and strengthen corporate governance practices in the banking sector in India in order to ensure financial sector stability. In this context, issues of ownership and governance in private sector banks assumed importance in 2004-05. The BFS formulated a draft comprehensive policy framework with regard to ownership of and governance in private sector banks and placed it in the public domain on July 2, 2004. Based on the feedback and inputs received from the public, and in consultation with Government, the Reserve Bank released detailed guidelines on February 28, 2005 stipulating diversified ownership and restrictions on cross holding by banks (Box V.1). Based on the recommendation of the Working Group to evolve guidelines for voluntary mergers involving banking companies, the guidelines laying down the process of merger, determination of swap ratios, disclosures, the stages at which Boards will get involved and norms for buying/selling of shares by promoters before and during the process were finalised and sent to all scheduled commercial banks in May 2005.

V.8 On April 1, 2005 the Reserve Bank sanctioned the amalgamation of IDBI Bank Limited with Industrial Development Bank of India Limited. "IDBI Bank Limited" was, therefore, excluded from the second schedule of the Banking Regulation Act with effect from April 2, 2005.

V.9 The prudential ceiling on a bank's aggregate investment in Tier II bonds issued by other banks and financial institutions (FIs) up to 10 per cent of the investing bank's capital funds was made applicable to banks'/FIs' investments in the following types of

Box V.1

Guidelines on Ownership and Governance in Private Sector Banks

The broad principle underlying the guidelines on ownership and governance in private sector banks is to ensure that the control of private sector banks is well diversified to minimise the risk of misuse or imprudent use of leveraged funds. The guidelines require that: (i) important shareholders (*i.e.*, with shareholding of five per cent and above) are 'fit and proper' as per the Reserve Bank's guidelines on acknowledgement for allotment and transfer of shares; (ii) the directors and the Chief Executive Officer who manage the affairs of the bank are 'fit and proper' and observe sound corporate governance principles; (iii) banks have minimum capital/net worth for optimal operations and systemic stability; and (iv) policy and processes are transparent and fair.

Some additional requirements are that : (a) banks maintain a net worth of Rs.300 crore at all times; (b) shareholding or control in any bank in excess of 10 per cent of the paid-up capital by any single entity or group of related entities requires the Reserve Bank's prior approval; (c) banks (including foreign banks having branch presence in India)/ financial institutions are not allowed to exceed equity holding of five per cent of the equity capital of the investee bank; (d) large industrial houses are allowed to acquire shares not exceeding 10 per cent of the paid-up capital of the bank subject to the Reserve Bank's prior approval; (e) the Reserve Bank would permit a higher level of shareholding on a case-by-case basis for restructuring of problem/weak banks or in the interest of consolidation in the banking sector; and (f) if the shareholding exceeds the prescribed limit or if the net worth is below Rs.300 crore in any bank, a time-bound programme to reduce the stake or to augment the capital should be submitted to the Reserve Bank.

On the issue of aggregate foreign investment in private banks from all sources (FDI, FII, NRI), the guidelines stipulate that it cannot exceed 74 per cent of the paid-up capital of a bank. If FDI (other than by foreign banks or foreign bank groups) in private banks exceeds 5 per cent, the entity acquiring such stake would have to meet the 'fit and proper' criteria indicated in the share transfer guidelines and get the Reserve Bank's acknowledgement for transfer of the shares. The aggregate limit for all FII investments is restricted to 24 per cent which can be raised to 49 per cent with the approval of the board/ shareholders. The current aggregate limit for all NRI investments is 24 per cent, with the individual NRI limit being five per cent, subject to the approval of the board/ shareholders.

instruments issued by other banks/FIs: (a) equity shares; (b) preference shares eligible for capital status; (c) subordinated debt instruments; (d) hybrid debt capital instruments; and (e) any other instrument approved as in the nature of capital. Furthermore, banks/FIs were advised not to acquire any fresh stake in a bank's equity shares in excess of 5 per cent of the investee bank's equity capital. Banks/FIs which exceed these limits are required to approach the Reserve Bank along with a definite road map for reduction of the exposure within prudential limits in a prescribed time frame.

Strengthening Prudential Norms

V.10 The Reserve Bank has accepted the adoption of the New Capital Adequacy Framework (Basel II) in principle. The pace of approaching the various levels of sophistication under the Basel II standards would be decided by the Reserve Bank depending upon the preparedness of the banks. Accordingly, commercial banks in India (excluding RRBs) are required to adopt the Standardised Approach for credit risk and Basic Indicator Approach for operational risk as on March 31, 2007. After adequate skills are developed, some banks would be allowed to migrate to the Internal Rating Based (IRB) Approach. In terms of the New Capital Adequacy Framework, banks will be allowed to adopt/migrate to the advanced approaches only with the specific approval of the Reserve Bank. Banks aiming to adopt the advanced approaches should first make an objective self assessment of their fulfilment of the minimum criteria prescribed under Basel II. Banks that meet the minimum requirements for adopting advance methods may approach the Reserve Bank with a road map that has approval of their board of directors for migration to these approaches. In order to ensure a smooth transition to Basel II in a non-disruptive manner, a consultative approach has been adopted. The Reserve Bank appointed a Steering Committee comprising senior officials from 14 banks. On the basis of the recommendations of the Steering Group, draft guidelines on implementation of the New Capital Adequacy Framework were formulated and issued to banks on February 15, 2005. An Internal Working Group was also constituted for identifying eligible domestic credit rating agencies whose ratings may be used by the banks for computing capital for credit risk under Basel II.

V.11 Pillar 2 of the New Capital Adequacy Framework recognises the responsibility of bank management in developing an Internal Capital Adequacy Assessment Process (ICAAP) and setting capital targets that are commensurate with banks' risk profile and control environment. Banks were encouraged to focus on formalising and operationalising their ICAAP, which will serve as a useful benchmark while undertaking the parallel run with effect from April 1, 2006.

V.12 Banks were advised of the applicability of the Accounting Standard (AS) 11 in respect of the effects of changes in foreign exchange rates for compliance. A minimum framework for disclosures on risk exposures in derivatives was required to be furnished by banks as a part of the 'Notes on Accounts' to the balance sheet with effect from March 31, 2005.

V.13 Banks maintaining capital of at least nine per cent of risk weighted assets for credit risk and market risk for both held-for-trading (HFT) and available-for-sale (AFS) categories were allowed to transfer the balance in excess of five per cent of securities included under the HFT and the AFS categories in the Investment Fluctuation Reserve (IFR) to Statutory Reserve which is eligible for inclusion in Tier I capital. This transfer shall be made a 'below the line' item in Profit and Loss Appropriation Account.

V.14 Pursuant to the recommendations of the Joint Parliamentary Committee (JPC) on Stock Market Scam and Matters Relating Thereto and consistent with the international best practices in disclosure of penalties imposed by the regulator, it was decided to place in the public domain the details of the levy of penalty on a bank with effect from November 1, 2004. Strictures or directions on the basis of inspection reports or other adverse findings will also be placed in the public domain. Banks are also required to disclose the penalty in the "Notes on Accounts" to the balance sheet in their next Annual Report.

V.15 On the basis of the inputs received from an informal Working Group comprising representatives of banks, a draft guidance note on management of operational risk was issued to banks on March 11, 2005.

V.16 Pursuant to the announcement in the Union Budget 2004-05, banks were advised in August 2004 that in case of rural housing advances granted to agriculturists under the *Indira Awas Yojana* and Golden Jubilee Rural Housing Finance scheme, the interest/ instalment payable on such advances should be linked to crop cycles.

V.17 The margin requirement on all advances against shares/financing of IPOs/issue of guarantees was increased on December 2004 from the existing 40 per cent to 50 per cent and the minimum cash margin from 20 per cent to 25 per cent. The risk weight on exposure of banks to commercial real estate as well as for credit risk on capital market exposure was increased from 100 per cent to 125 per cent, effective July 26, 2005.

Resolution of NPAs

V.18 With a view to increasing the options available to banks for dealing with non-performing assets (NPAs), guidelines were issued on sale/purchase of NPAs on July 13, 2005. The guidelines broadly cover the areas on procedure for purchase/sale of NPAs by banks including valuation and pricing aspects, prudential norms and disclosure requirements.

V.19 In April 2004, a Supreme Court ruling on the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2003 struck down the provisions requiring the borrower to pre-deposit 75 per cent of the liability in case the borrower wants to appeal against the order of attachment of the assets. The SARFAESI Act was amended in 2004 in order to dissuade the borrower from delaying the repayment of dues and to facilitate the speedy recovery of debt of secured creditors. By end-March 2005, public sector banks had issued 83,984 notices involving an outstanding amount of Rs.26,291 crore. An amount of Rs.3,337 crore was recovered in respect of 41,697 cases. Furthermore, an amount of Rs.2,193 crore was received through 21,311 compromise proposals.

V.20 Under the Recovery of Debts due to Banks and Financial Institutions Act, which provides for the establishment of tribunals for expeditious adjudication and recovery of debts due to banks and financial institutions, 67,875 cases involving Rs. 1,05,169 crore had been filed with Debt Recovery Tribunals (DRTs) by the banks up to March 31, 2005. 32,389 cases involving Rs.33,861 crore have been adjudicated with the amount recovered at Rs.10,281 crore.

V.21 *Lok Adalats* also provide banks with an avenue to recover their smaller NPAs. According to the earlier guidelines, banks could settle banking disputes involving amounts up to Rs.5 lakh through *Lok Adalats*. The monetary ceiling of cases to be referred to *Lok Adalats* organised by civil courts was enhanced to Rs.20 lakh. Furthermore, banks were advised to participate in the *Lok Adalats* convened by various DRTs/DRATs for resolving cases involving Rs. 10 lakh and above to reduce the stock of NPAs. As on March 31, 2005 the number of cases filed by commercial banks with *Lok Adalats* stood at 634,521 involving Rs.3,162 crore. The number of cases decided was 252,829 involving an amount of Rs.1,224 crore. The recovery effected in 202,173 cases stood at Rs.426 crore.

V.22 A Special Group (Chairperson: Smt. S. Gopinath) was constituted in September 2004 to undertake a review of the Corporate Debt Restructuring (CDR) scheme. Based on the recommendations made by the Special Group, the major modifications proposed to the existing CDR Scheme are: (i) extension of scheme to corporate entities on whom banks and institutions have an outstanding exposure of Rs.10 crore or more, from the existing Rs.20 crore or more; (ii) requirement of support of 60 per cent of creditors by number in addition to the support of 75 per cent of creditors by value; (iii) linking the restoration of asset classification to implementation of package within three months from the date of approval; (iv) restricting the regulatory concession in asset classification and provisioning requirement to the first restructuring; (v) limiting the Reserve Bank's role to providing broad guidelines for the CDR System; (vi) enhancing balance sheet disclosures; (vii) *pro-rata* sharing of additional finance requirements; and (viii) including One-Time Settlement (OTS) as a part of the CDR Scheme to make the exit option more flexible.

Inter-Regulatory Co-ordination and Co-operation

V.23 Conflict of interest is a crucial issue in the area of corporate governance in the context of ensuring financial stability in an environment of growing financial openness. Legislative and regulatory measures have been adopted by different countries to ensure that conflicts of interest are not allowed to compromise the interest of stakeholders and public at large. As indicated in the Mid-term Review of October 2004, the Reserve Bank constituted a Working Group on Conflict of Interest in the Indian Financial Services Sector (Chairman: Shri D. M. Satwalekar) to identify the sources and nature of potential conflicts of interest in the financial sector in India and possible measures/actions to be taken for mitigating them.

Opening up of the Financial Sector

V.24 Indian banks continued to expand their presence overseas. During the year, State Bank of India opened branches in Sydney (Australia), Ruwi

(Oman), Chittagong and Sylhet (Bangladesh). Bank of India opened a branch in Kenya and Punjab National Bank opened its branch in Kabul (Afghanistan). The number of Indian banks with overseas operations increased from 10 to 11 and the number of branches increased to 100 as at end-June 2005. Bank of Baroda opened representative offices in Kuala Lumpur (Malaysia) and Guang Zhou (China), State Bank of India opened an office in Luanda (Angola), Punjab National Bank in Shanghai (China), while ICICI Bank Ltd. opened offices in Dhaka (Bangladesh) and Johannesburg (South Africa). As at end-June 2005, the number of representative offices increased by five to 27, while the total number of subsidiaries set up by Indian banks abroad stood at 17.

V.25 Out of the ten banks which were given 'in principle' approval during 2003-04 to open 14 Offshore Banking Units (OBUs) in Special Economic Zones (SEZs), six banks commenced operations in the Santa Cruz Electronics Exports Processing Zone (SEEPZ), Mumbai, Noida, Uttar Pradesh and SEZ Kochi, Kerala in 2004-05. Vijaya Bank, which was given approval to open an OBU at SEEPZ surrendered its authorisation.

V.26 During 2004-05, permission was granted to seven foreign banks to open 12 branches. A scheme of amalgamation of the Indian operations of Sumitomo Mitsui Banking Corporation with Indian branches of Standard Chartered Bank was sanctioned in February 2005 under Section 44A of the Banking Regulation Act, 1949. During the year, Banco de Sabadell from Spain opened its representative office in New Delhi. The total number of representative offices operating in India stood at 27 at end-June 2005.

V.27 As a part of the measured approach to integrating into the global financial system, the Reserve Bank set out a roadmap for the presence of foreign banks in India on February 28, 2005 (Box V.2).

Towards More Deregulation

V.28 Banks were advised that the quantum and margin requirement for loans / advances to individuals against units of exclusively debt-oriented mutual funds can be decided by the individual banks themselves in accordance with their loan policy. At the time of extending credit facility, banks are required to satisfy themselves about the acceptability of credit needs of borrowers and end use of the funds. As regards loans and advances against units of other mutual funds (other than exclusively debt-oriented mutual funds), the existing guidelines remained unchanged.

V.29 Preventing misuse of the financial system and preserving its integrity is vital for orderly development of the financial system. Keeping in view the sweeping changes across the financial sector, the Reserve Bank has suggested certain amendments to the Banking Regulation Act, 1949 to enhance its regulatory and supervisory powers, consistent with best international practices. These, *inter alia,* include: (i) redefining the category of 'approved securities'; (ii) enabling the banking companies to issue preference shares; (iii) inserting a new section requiring the prior approval of the

Box V.2

Road Map for Presence of Foreign Banks

Under the road map, during the first phase, between March 2005 and March 2009, foreign banks satisfying the eligibility criteria prescribed by the Reserve Bank will be permitted to establish presence by way of setting up a wholly owned banking subsidiary (WOS) or converting the existing branches into a WOS following the one mode presence criterion. The WOS should have a minimum capital of Rs.300 crore and sound corporate governance. The WOS will be treated on par with the existing branches of foreign banks for branch expansion with flexibility to go beyond the existing WTO commitments of 12 branches in a year and preference for branch expansion in under-banked areas. The Reserve Bank would also prescribe market access and national treatment limitation consistent with WTO commitments as also other appropriate limitations consistent with international practices and the country's requirements. Permission for acquisition of shareholding in Indian private sector banks by eligible foreign banks will be limited to banks identified by the Reserve Bank for restructuring. The Reserve Bank would consider permitting such acquisition if it is satisfied that such investment by the foreign bank concerned will be in the long term interest of all the stakeholders in the investee bank. Where such acquisition is by a foreign bank having presence in India, a maximum period of six months will be given for conforming to the 'one form of presence' concept.

The second phase will commence in April 2009 after a review of the experience gained and after due consultation with all the stakeholders in the banking sector. Extension of national treatment to WOS, dilution of stake and permitting mergers / acquisitions of any private sector banks in India by a foreign bank would be considered, subject to the overall investment limit of 74 per cent.

Reserve Bank for acquisition of five per cent or more of shares and voting rights of a banking company by any person and empowering the Reserve Bank to grant such approval; (iv) removing the restriction on voting rights, currently at 10 per cent; (v) empowering the Reserve Bank to grant exemption to any banking company from the provisions of Section 20; (vi) doing away with the lower and upper limit on the statutory liquidity ratio (SLR) and empowering the Reserve Bank to specify SLR without any floor or ceiling; (vii) empowering the Reserve Bank to direct banking companies to disclose financial statements and also to carry out their inspection; (viii) providing the Reserve Bank the powers to supersede the board of a banking company; and (ix) allowing the Reserve Bank to order special audit of co-operative banks in the public interest.

V.30 Banks have been allowed to extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures/wholly owned subsidiaries or in other new or existing overseas companies as strategic investment, in terms of a board approved policy duly incorporated in the loan policy of the bank.

Improving Customer Service

V.31 Based on the recommendations of the Committee on Procedures and Performance Audit on Public Services (CPPAPS) (Chairman: S.S.Tarapore), efforts were renewed in 2004-05 for facilitating improvements in customer service in banks. All public sector/private sector banks and select foreign banks were advised in August 2004 to constitute Customer Service Committees of their boards with a view to strengthening the corporate governance structure in the banking system and bringing about ongoing improvements in the quality of customer service. Formulation of a comprehensive deposit policy, addressing issues such as the treatment on death of a depositor for operation of his account, the product approval process, the annual survey of depositor satisfaction and the tri-enniel audit of such services were issues which were placed in the ambit of the functioning of these Committees. They would also play a pro-active role with regard to complaints/grievances resolved by the Banking Ombudsmen. Banks were advised to ensure that the awards of the Banking Ombudsmen are implemented immediately and with active involvement of Top Management. Furthermore, banks were also advised to place all the awards of the Banking Ombudsmen before the Customer Service Committee. All the awards remaining unimplemented without valid reasons for more than three months before the Customer Service Committee are required to be reported to the board.

V.32 Banks were advised to constitute *ad hoc* Committees to undertake procedures and performance audit on public services rendered by them. The CPPAPS had observed that there should be a dedicated focal point for customer service in banks which should have sufficient powers to evaluate the functioning in various departments. It had recommended that the *ad hoc* Committees should be converted into Standing Committees on Customer Service. Banks were advised in April 2005 to take necessary action to convert the existing *ad hoc* Committees into Standing Committees on Customer Service. It was felt that the *ad hoc* Committees can serve as the micro level executive committee driving the implementation process and provide relevant feedback while the Customer Service Committee of the board would oversee and review/modify the initiatives. Thus, the two Committees would be mutually reinforcing.

V.33 The CPPAPS had recommended that a Banking Codes and Standards Boards of India (BCSBI) should be set up as an independent organisation but strongly supported by the Reserve Bank. Accordingly, as announced in the Annual Policy Statement for 2005-06, it is proposed to set up an independent BSCBI on the model of the mechanism in the UK in order to ensure that a comprehensive code of conduct for fair treatment of customers is evolved and adhered to.

V.34 From time to time, the Reserve Bank has been issuing instructions to banks on issues relating to credit of local/outstation cheques. It was decided to withdraw these instructions, leaving it to the individual banks to formulate policies in this regard. Banks were advised to formulate a comprehensive and transparent customer service policy taking into account technological capabilities, systems and processes and other internal arrangements for collection through correspondents. The policy framed in this regard was required to be integrated with the deposit policy formulated by the banks in line with the Indian Banks Association's (IBA's) model deposit policy. The policy was also required to clearly lay down the liability of the banks by way of interest payments due to delays for non-compliance with the standards set by the banks themselves. Compensation by way of interest payment, where necessary, was required to be made without any claim from the customer.

V.35 The requirement of obtaining "No-Objection Certificate" (NOC) from the lending bank(s) for opening current accounts of entities which enjoy credit facilities from the banking system was eased and banks were given the freedom to open current accounts of prospective customers after a minimum waiting period. Banks are required to put in place policies and procedures to implement KYC norms and Anti-Money Laundering standards to prevent laundering of funds through the banking system (Box V. 3).

V.36 In the light of the recommendations of CPPAPS, instructions were issued to banks in supersession of all earlier instructions on settlement of claims in respect of deceased depositors covering aspects relating to: (a) access to balance in deposit accounts; (b) premature termination of term deposit accounts; (c) treatment of flows in the name of the deceased depositor; (d) access to the safe deposit lockers/safe custody articles; and (e) time limit for settlement of claims.

Supervisory Initiatives

V.37 During 2004-05, the BFS continued to guide the development of supervisory prescriptions and practices relating to: (a) strengthening of asset classification norms; (b) "fit and proper" status of directors; (c) ownership and governance of private sector banks; (d) eligibility norms for appointment of statutory auditors; (e) integrated approach for monitoring of frauds of the entire financial system through setting of a fraud monitoring cell; (f) monitoring of FIs; and (g) revision of off-site surveillance reporting.

V.38 Basel II rests on three pillars *viz.*, (a) minimum capital requirements (Pillar 1), (b) supervisory review process (Pillar 2) and (c) market discipline (Pillar 3). All the three pillars need to be implemented for a system to be Basel II compliant. In this context, supervisors are required to encourage the implementation of the key principles underlying Pillars 2 and 3, even before they move to Pillar 1. Pillar 2 discusses the key principles of supervisory review, risk management guidance and supervisory transparency and accountability with respect to banking risks. A group was set up by the Reserve Bank for the implementation of Pillar 2. The group consists of three sub-groups on the internal capital adequacy assessment process, supervisory review and evaluation process, and supervisory review process for securitisation. Pillar 2 is meant not only for ensuring adequate capital to support all the risks in a bank, but also to encourage banks to adopt better risk management (Box V.4).

Box V.3

Guidelines on Know Your Customer (KYC) and Anti-Money Laundering Measures

The Reserve Bank issued comprehensive guidelines to banks in November 2004 which require banks to frame their KYC policies incorporating the four key elements *viz.*, (i) customer acceptance policy (ii) customer identification procedures (iii) monitoring of transactions and (iv) risk management. The salient features of the policy are :

- No account to be opened in anonymous, fictitious or *benami* names;
- The identify of the customer and his address to be verified through documentary evidence;
- Customer accounts to be classified according to risk perceived and a customer profile should be prepared;
- Banks should look for "beneficial owners" in case of legal persons and accounts operated under mandate in respect of individuals and establish their identity;
- Accounts of politically exposed persons residing outside India to be opened with specific approval of senior management;
- Banks to establish correspondent banking relationships with banks operating abroad after ascertaining commitment to KYC norms and the regulatory environment in that country;
- Banks to develop a system of ongoing monitoring of transactions in customers' accounts. Transactions that fall outside the regular pattern of customer activity and cash transactions of Rs. 10 lakh and above are to be reported to Head/Controlling office;
- Banks to ensure that adherence to KYC policies/procedures is tested and evaluated by internal/concurrent auditors.
- Any remittance of funds by way of demand draft, mail/telegraphic transfer or any other mode and issue of travellers' cheques for value of Rupees fifty thousand and above to be effected by debit to the customer's account or against cheques and not against cash payment.
- Provisions of Foreign Contribution and Regulation Act, 1976 to be adhered to strictly.
- Banks should apply revised KYC norms to the existing customers on the basis of material and risk;
- Banks are required to put in place a proper policy framework on 'Know Your Customer' and anti-money laundering measures with the approval of their boards and ensure that they are fully compliant before December 31, 2005.

Box V.4
Pillar 2 of the Basel II Accord

The Supervisory Review Process is intended to ensure that banks have adequate capital to support all the risks in their business and also to encourage banks to develop and use better risk management techniques in monitoring and managing their risks. This process also recognises the responsibility of bank management in developing an internal capital assessment process and setting capital targets that are commensurate with the bank's risk profile and control environment. Supervisors are expected to evaluate how well banks are assessing their capital needs relative to their risks and to intervene where appropriate.

The four basic and complementary principles on which the Pillar 2 rests are: (a) a bank should have a process for assessing its overall capital adequacy in relation to its risk profile as well as a strategy for maintaining its capital levels; (b) supervisors should review and evaluate a bank's internal capital adequacy assessment and strategy as well as its compliance with regulatory capital ratios; (c) supervisors expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum; and (d) supervisors should seek to intervene at an early stage to prevent capital from dipping below prudential levels.

Implementation of Pillar 2 requires that a comprehensive assessment of risks be carried out by both the banks (internally) and the supervisor (externally). Banks and supervisors need to focus on key risks which are not directly addressed under Pillar 1 and supervisors are required to ensure proper functioning of certain aspects of Pillar 1. Some of the key issues are: (i) interest rate risk in banking book; (ii) residual risk; and (iii) credit concentration risk. Supervisors are also required to consider whether the capital requirement generated by Pillar 1 gives a consistent picture of the bank's operational risk exposure.

V.39 In view of the importance of RRBs as purveyors of rural credit, the Union Budget 2004-05 emphasised that the sponsor banks would be accountable for the performance of their RRBs. Sponsor banks were advised by the Reserve Bank to provide support to their sponsored RRBs in matters relating to efficient management, training of staff, computerisation and networking of activities. Empowered committees for RRBs under the chairmanship of the Reserve Bank's Regional Directors have been constituted to monitor performance of RRBs under the jurisdiction of the regional offices of the Reserve Bank.

V.40 As indicated in the Mid-term Review of the Annual Policy Statement for the year 2004-05, sponsor banks are being encouraged to merge their RRBs. Sponsor banks were advised that the appointment of chairmen of their RRBs should be approved by the management committees of their boards. The Government was requested to ensure that independent and professionally qualified persons are nominated to the boards of RRBs to make them more vibrant and proactive.

V.41 In order to re-position RRBs as an effective instrument of credit delivery in the Indian financial system, an Internal Group was set up within the Reserve Bank on February 23, 2005 (Chairman: Shri A. V. Sardesai) to examine various alternatives available within the existing legal framework for strengthening the RRBs and making them viable rural financial institutions. The Group made recommendations relating to minimum capital requirements of the RRBs and suggested, *inter alia*, measures for better governance, suitable regulation and supervision.

Co-operative Banks

V.42 It has been the endeavour of the Reserve Bank to ensure that the UCBs emerge as a sound and healthy network of jointly owned, democratically controlled and ethically managed banking institutions providing need based quality banking services, essentially to the middle and lower middle classes and marginalised sections of the society. Accordingly, in 2004-05, the Reserve Bank continued its efforts to integrate the urban cooperative banking system with the rest of the banking system (Box V.5). Major policy initiatives undertaken by the Reserve Bank in 2004-05 with a view to further strengthening the urban banking sector relate to legislative and structural changes, regulatory measures on scheduled and non-scheduled urban cooperative banks and computerisation of returns.

V.43 Scheduled UCBs generally have a large deposit base and hence de-scheduling weak scheduled banks or taking them into liquidation may have a significant systemic impact. Accordingly it was decided to draw up a programme for their restructuring and rehabilitation in a time-bound manner. As the restructuring involves generation of funds internally and through external sources (Government), discussions are underway among the various regulators to put in place a package that would ensure turnaround in a reasonable timeframe.

Box V.5

Draft Vision Document for Urban Co-operative Banks

The Draft Vision Document seeks to (i) rationalise the existing regulatory and supervisory approach; (ii) facilitate a focused and continuous system of supervision through enhancement of technology; (iii) enhance professionalism and improve the quality of governance in UCBs by providing training for skill upgradation; (iv) put in place a mechanism that addresses the problems of dual control, given the present legal framework, and the time consuming process in bringing requisite legislative changes; (v) put in place a consultative arrangement for identifying weak but potentially viable entities in the sector; and (vi) identify the unviable entities and provide an exit path for such entities.

These objectives are to be addressed through a differentiated regulatory regime as opposed to a "one-size-fits-all" approach. Therefore, a two-tier regulatory regime is proposed: (i) a simplified regulatory regime for unit banks and banks with operations confined to a single district with deposits up to Rs.100 crore and (ii) for all other banks, regulation will be at par with commercial banks.

As the strategy to deal with UCBs needs to be State specific, a State Level Task Force would be constituted comprising senior officials from the Reserve Bank, State Governments and local/central co-operative federations. The Task Force will be responsible for identifying weak but viable UCBs and framing of time-bound programme for revival, recommending nature and extent of financial support, future set-up of unlicensed banks and time frame for exit of unviable banks. In order to address issues/difficulties related to dual control within the existing legal framework, a working arrangement in the form of a Memorandum of Understanding (MoU) between the Reserve Bank and the State Governments has been proposed. In this regard, the Reserve Bank has already entered into agreement with two State Governments through MoUs and discussions are underway with other State Governments as well.

V.44 In order to ensure that only financially strong UCBs are accorded scheduled status, the Government of India notified the prescribed minimum level of demand and time liabilities (DTL) at Rs.250 crore against the earlier requirement of Rs.100 crore, based on the recommendations of an internal group of the Reserve Bank. It was also decided not to include any more banks in the scheduled category, pending a comprehensive policy on UCBs.

V.45 On receipt of representations from co-operative federations/banks, small loans up to Rs.1 lakh, including gold loans, had been exempted from the purview of the 90 day impairment norm and continue to be governed by the 180-day impairment norm. However, this exemption will be available only up to March 31, 2006. It was also decided to grant an additional time of two years to UCBs as compared with commercial bank counterparts to meet the 100 per cent provisioning norm for advances identified as doubtful for more than three years.

V.46 Asset classification and provisioning requirements of UCBs in respect of State Government guaranteed advances and investments were earlier linked to invocation of the State Government guarantee. This was de-linked and same norms as applicable to exposures not guaranteed by the State Governments were prescribed. The revised norms will be effective from the year ending March 31, 2006.

V.47 UCBs were given some relaxation in their investment portfolio. They were allowed to exceed the present limit of 25 per cent of a bank's total investment under the HTM category provided (a) the excess comprises only of SLR securities and (b) the total SLR securities held in the HTM category are not more than 25 per cent of their NDTL as on the last Friday of the second preceding fortnight.

V.48 In consonance with the best practices, it was decided that details of the levy of penalty on a bank would be put in the public domain through a press release by the Reserve Bank. The UCBs were advised that the penalty should also be disclosed in the "Notes on Accounts" to their balance sheets in the annual reports.

V.49 As a prudential measure aimed at better risk management and avoidance of concentration of credit risk, UCBs were advised (a) to fix the prudential exposure limits at 15 per cent and 40 per cent of the capital funds in case of single borrower and group of borrowers, respectively; (b) to fix capital funds for the purpose of prudential exposure norm in relation to the bank's total capital funds (both Tier I and Tier II capital); and (c) that the exposure shall henceforth include both credit exposure and investment exposure (non-SLR).

V.50 The off-site surveillance system for supervision of all scheduled UCBs was extended to non-scheduled banks with deposit base of over Rs.100 crore with effect from June 2004.

V.51 UCBs were advised to ensure that they are fully compliant with the provisions of the revised KYC guidelines before December 31, 2005.

V.52 For resolving problems arising out of the dual control regime on UCBs, a draft legislative bill proposing certain amendments to the Banking Regulation Act, 1949 in line with the recommendations of the High Power Committee on UCBs had been forwarded to the Government of India. The Government of India had proposed certain changes to the recommendations seeking to make cooperatives more autonomous and professional. The proposals were re-examined in light of the above developments and revised proposals have been communicated to the Government of India.

V.53 Some of the UCBs that have faced problems in recent times are those that have had weak governance, either by design or by default. In this regard, the UCBs have been advised to have at least two directors with professional qualifications or adequate experience in banking on their boards. The most important stakeholder in a UCB is the depositor. Therefore, a mandatory right to regular membership for depositors above a threshold limit is under consideration.

V.54 With a view to encouraging and facilitating consolidation and emergence of strong entities and providing an avenue for non-disruptive exit of weak/ unviable entities in the co-operative banking sector, guidelines were issued to facilitate merger/ amalgamation in the sector (Box V.6).

V.55 The Government of India had constituted a Task Force on Revival of Rural Co-operative Credit Institutions, under the Chairmanship of Prof. A. Vaidyanathan, Professor *Emeritus*, Madras Institute of Development Studies, Chennai to propose an action plan for reviving the rural cooperative banking institutions and suggest an appropriate regulatory framework for these institutions. The Task Force submitted its report to the Central Government on February 15, 2005 (Box V.7). In his Budget Speech for the year 2005-06, the Union Finance Minister announced that the Government has accepted the recommendations of the Task Force in principle and would begin the process of implementing the recommendations in the States that show willingness to accept the recommendations. The Government of India has entrusted the work of studying the long term cooperative credit structure for agriculture and rural development to the same Task Force.

V.56 Keeping in view the precarious financial position of District Central Cooperative Banks (DCCBs), the Reserve Bank has so far rejected licence applications of eight DCCBs. Besides, show cause notices were issued to six DCCBs for rejection of licence application during the year 2004-05. As on March 31, 2005, nine State Cooperative Banks/ DCCBs were placed under the Reserve Bank's directions, prohibiting them from granting any loans and advances and/or accepting fresh deposits and renewing the existing ones.

V.57 In November 2004, scheduled or licensed State Cooperative Banks and licensed DCCBs with minimum net worth of Rs.100 crore were permitted to undertake insurance business as corporate agent without risk participation, subject to certain conditions, after obtaining prior permission of the Reserve Bank. The minimum net worth was reduced to Rs.50 crore in February 2005. Furthermore, in May 2005, all State Cooperative Banks and DCCBs were allowed to undertake insurance business on a referral basis without any risk participation through their network of branches without prior approval of the Reserve Bank.

Development Finance Institutions (DFIs)

V.58 Consolidation in the banking sector has also encompassed the Development Finance Institutions (DFIs) which have been the traditional providers of long-term finance in India. The complexities involved in harmonising the role and operations of the DFIs

Box V.6

Guidelines for Mergers/Amalgamations for Urban Cooperative Banks

The Reserve Bank will consider proposals for merger/ amalgamation of UCBs of the following types, subject to the post-merger entity meeting the prescribed prudential norms:

(i) net worth of the acquiree bank is positive and the acquirer bank assures to protect entire deposits of all the depositors of the acquired bank;

(ii) when the net worth of acquiree bank is negative, the acquirer bank on its own assures to protect deposits of all the depositors of the acquired bank; and

(iii) when the net worth of the acquiree bank is negative and the acquirer bank assures to protect the deposits of all the depositors with financial support from the State Government extended upfront as part of the process of merger.

Box V.7
Task Force on Revival of Rural Co-operative Credit Institutions

Major recommendations of the Task Force in the Final Report are:

- The approach for financial restructuring should be contingent on commitment to and implementation of legal and institutional reforms. The total package is likely to be of the order of Rs.14,839 crore.
- All losses should be covered by the revival package.
- Special audit of accounts as of 31st March 2004 should be undertaken, the cost of which would be borne by the revival package.
- A contingency fund of Rs.4,000 crore to take care of covering accumulated losses (part of the total package).
- The Central Government should provide a soft loan to concerned States if the latter do not have necessary resources to pay the cooperative banks in case of invocation of guarantees.
- Assistance necessary to bring all cooperatives, including primary agricultural cooperative societies (PACS), to a minimum CRAR of seven per cent may be provided and cooperatives then may be asked to increase it to 12 per cent within five years from their internal resources.
- Cooperatives will need to computerise and costs (estimated at Rs.1,030 crore) should be met through grant assistance by the Centre.
- All PACS which have a recovery rate of at least 50 per cent and whose gross margin covers at least 50 per cent of their establishment costs should be covered under the package. DCCBs with positive net worth and those with negative net worth but with less than 25 per cent deposit erosion may be taken up under the package for revival. The same criteria will also apply to State Co-operative Banks.
- The proposed financial assistance package for revival of cooperatives should be only a one-time measure. Assistance will be strictly conditional and released on the implementation of the recommendations for legal and institutional reforms.
- State Governments may issue executive orders to bring in the desired reforms. A model Cooperative Law can be enacted by the State Governments.
- Amendments to the Banking Regulation Act may be made to bring cooperative banks on par with commercial banks as far as regulatory norms are concerned.
- NABARD would be designated as the implementing agency of the scheme.

were examined and the Reserve Bank enabled the reverse-merger of a large DFI with its commercial banking subsidiary. Another large DFI also converted into a bank.

V.59 As announced in the Annual Policy Statement for the year 2004-05, a Technical Group on Refinancing Institutions was constituted on September 3, 2004 (Chairman: Shri G.P.Muniappan) to evaluate the efficacy of regulatory and supervisory systems of refinancing institutions (RFIs) (Box V.8).

Non-Banking Financial Companies (NBFCs)

V.60 Supervisory oversight over non-banking financial companies (NBFCs) continued to be based on a four-pronged strategy comprising: a) on-site inspection based on CAMELS methodology, b) off-site monitoring supported by state-of-the-art technology, c) market intelligence and d) reports of statutory auditors. The emphasis was on developing NBFCs into a financially strong sector with improved skills and technology. The policy changes made by the Reserve Bank during the year related to issue of credit cards, preparation of balance sheets, premature withdrawal of deposits, quarterly returns for NBFCs not accepting/holding public deposits and having an asset size of Rs.500 crore and above, cover for public deposits and policy changes for RNBCs (Box V.9).

V.61 NBFCs are not allowed to undertake credit card business without prior approval of the Reserve Bank. NBFCs were advised that the issue of debit cards, stored value cards, smart cards and value added cards have a characteristic akin to demand deposits and acceptance of deposits payable on demand is a banking function. The Reserve Bank, therefore, advised banks that they should not issue smart/debit cards in tie-ups with any other non-bank entities.

V.62 In terms of the extant directions, every NBFC is required to prepare its balance sheet and profit and loss account as on March 31 every year. Whenever an NBFC intends to extend the date of its balance sheet as per provisions of the Companies Act, 1956 it should take prior approval of the Reserve Bank before approaching the Registrar of Companies (RoC) for this purpose. In the cases where permission is granted for extension of time, the company would be required to furnish to the Reserve Bank a proforma

Box V.8

Report of the Technical Group on Refinancing Institutions (RFIs)

The major recommendations of the Technical Group are:

Regulatory Systems

Entities regulated/supervised by RFIs should be classified into those accepting public deposits and those not accepting public deposits. The Reserve Bank should subject entities accepting public deposits to direct regulation till such time they cease to accept public deposits. Furthermore, entities not accepting public deposits should be segregated into (a) entities with an asset size of more than Rs.100 crore and which either do not avail of refinance from RFIs at all or those whose dominant source of funds is not refinance from RFIs, (b) entities with an asset size of more than Rs.100 crore but whose sole/dominant source of funds is refinance from RFIs and (c) entities with asset size equal to or less than Rs.100 crore. Regarding entities in category (a), the Reserve Bank should provide to RFIs a broad framework for regulation of these entities. Regulation of entities falling under categories (b) and (c), including prescription of prudential norms, may be entirely left to the RFI themselves. Furthermore, SFCs may be discouraged from accepting public deposits and the Reserve Bank may withdraw permission granted to them for accessing public deposits. Acceptance of public deposits by non-bank financial intermediaries should be phased out and eventually, regulation of entities accepting public deposits should converge with the prudential norms of commercial banks.

Supervisory Practices

Supervision may be carried out on the basis of CAMELS approach and the capabilities should preferably be developed in-house. SIDBI and NHB may consider setting up boards of supervision (BoS), as in the case of NABARD. The supervisory functions of SIDBI need to be well defined with no State Government intervention and adequate powers for imposition of penalty be vested in SIDBI. NHB may consider introducing the system of awarding ratings to HFCs in a phased manner.

Coordination between the *Reserve Bank and RFIs*

A Standing Committee comprising representatives of the Reserve Bank, SIDBI, NABARD and NHB may be set up for ensuring coordination. The arrangements existing between the Reserve Bank and NABARD may be replicated between the Reserve Bank, on the one hand, and SIDBI and NHB, on the other. As in the case of NHB and NABARD, the Reserve Bank may have a Top Management level nominee on the board of SIDBI.

Reserve Bank Oversight over the Regulatory/Supervisory Systems of RFIs

While the existing arrangements of annual financial inspection and special scrutinies are necessary and useful, a formal system to measure supervisory effectiveness may be developed by the RFIs and implemented after approval from the Reserve Bank.

Income Recognition, Asset Classification and Provisioning Norms of the RFIs

The aggregate refinance by a RFI to an apex lending institute may be viewed as if it were a bundle of back-to-back facilities granted to various primary lending institutions or to various categories of borrowers. It may be permissible to classify the contaminated portion and non-contaminated portion of the facility separately so that the entire refinance assistance to an apex lending institution does not get classified as NPA in the books of the RFI merely as a result of contamination of only a part. The revised prudential norms recently prescribed by the Reserve Bank for banks in regard to State Government guaranteed exposures should be applied to RFIs as well.

Reference

Report of the Technical Group on Refinancing Institutions (Chairman: Shri G.P.Muniappan) (2005), Reserve Bank of India, January.

balance sheet (unaudited) as on March 31 of the year and the statutory returns on the due dates.

V.63 NBFCs not accepting/holding public deposits and having asset size of Rs.500 crore and above were advised to submit a quarterly return in the prescribed format commencing from the quarter ended September 2004. It was also advised that a provisional return for the quarter ended March may be submitted within 30 days of the close of the quarter and a final return should be submitted with a copy of the audited balance sheet as soon as the same is finalised but not later than September 30 of the year. Non-submission of return would be viewed seriously and penal action would be taken for such non-compliance.

V.64 In order to protect depositors' interest, all NBFCs accepting/holding public deposits were advised to ensure that there should be full asset cover available for public deposits accepted by them. The assets should be evaluated at their book value or realisable/market value, whichever is lower, for this purpose. NBFCs have to report to the Reserve Bank in case the asset cover calculated falls short of the liability on account of public deposits.

Box V.9

Recent Policy Changes Relating to RNBCs

Residuary Non-Banking Companies (RNBCs) are a sub-set of NBFCs whose principal business is acceptance of public deposits. RNBCs mobilise deposits largely from rural/semi-urban centres in the form of daily, recurring and fixed deposits. RNBCs account for more than 85 per cent of the aggregate public deposits of registered deposit-taking NBFCs. Two large RNBCs had a share of more than 99 per cent of the total deposits accepted by all the RNBCs. The aggregate deposits of RNBCs have shown rapid growth compared to other NBFCs. RNBCs are required to invest 80 per cent of the deposit liability in directed investment with the remaining 20 per cent being at the discretion of the board of the company.

Investment

The directions for investments by RNBCs were rationalised in June 2004 with a view to reducing the overall systemic risk in the financial sector and safeguard the interests of depositors. A road map was also put in place to phase out the discretionary investments by the companies by April 1, 2006 and substitute them with investment in the securities specified by the Reserve Bank. Towards this target, beginning April 1, 2005, RNBCs are required to invest 90 per cent of their public deposit liability in directed investments. Besides, the requirement of AA+ rating and listing on stock exchange has been introduced for bonds/ debentures which qualify towards directed investments. These measures are expected to impart greater liquidity and safety to the investments of RNBCs and thus enhance protection available to depositors.

Corporate Governance

'Fit and proper' guidelines were prescribed for evaluating the suitability of the directors appointed to the boards of RNBCs. The companies were asked to comply with the guidelines on connected lending relationships. They were also to ensure compliance with the KYC guidelines by agents and sub-agents. The companies were instructed to put in place a process of due diligence in respect of agents/sub-agents collecting deposits on behalf of the company through a uniform policy for appointment and detailed verification. All deposit receipts are required to indicate identification particulars like name and address of the agent / sub-agent who mobilised the deposits and of the link branch with telephone numbers. Agency commission structure, which is not detrimental to the interest of the depositors, is also to be devised.

V.65 NBFCs were advised to ensure that they are fully compliant with the revised KYC guidelines before December 31, 2005.

V.66 At the end of March 2005, a total of 38,096 applications had been received for grant of Certificate of Registration (CoR). The Reserve Bank approved 13,724 applications, including 642 applications of companies authorised to accept/hold public deposits. A total of 537 CoRs were cancelled which included 168 deposit taking NBFCs. As on March 31, 2005 the number of non-deposit taking NBFCs stood at 12,713 while NBFCs authorised to accept deposits stood at 474.

V.67 Inspection policy of NBFCs was revised in January 2005. During the period April 2004 to March 2005, a total of 570 (315 deposit taking companies and 255 non-deposit taking companies) registered NBFCs were inspected. In addition, the Reserve Bank conducted 236 snap scrutinies during the same period.

MACRO-PRUDENTIAL INDICATORS REVIEW

V.68 In line with international best practices for monitoring the stability of the financial system, the Reserve Bank has been compiling macro-prudential indicators (MPIs), comprising both aggregated micro-prudential indicators (AMPIs) relating to the health of individual financial institutions and macro economic indicators (MEIs) associated with financial system soundness. India is one of the few countries which has volunteered to participate in the coordinated compilation of the financial soundness indicators for December 2005 under the aegis of the International Monetary Fund.

V.69 The MPI review for 2004-05 indicates that capital ratios were well above minimum requirements across the financial system in India with a distinct improvement in asset quality. This was accompanied by some erosion in earnings and profitability indicators, except for development finance institutions, and an increase in operating costs. The salient features of the MPI review for 2004-05 are set out below (Tables 5.1).

Capital Adequacy

V.70 The aggregated capital ratio of scheduled commercial banks at end-March 2005 was marginally lower than at end-March 2004. The small decline in CRAR of scheduled commercial banks over the year could be attributed to the increase in total risk weighted assets relative to

Table 5.1: Select Financial Indicators

(Per cent)

Item	Period	Scheduled Commercial Banks	DFIs	PDs	NBFCs	SUCBs
1	2	3	4	5	6	7
CRAR	Mar-2004	12.9	22.0	42.7	26.8	11.0
	Mar-2005	12.8	22.8	54.3	22.9	12.7
Gross NPAs to Gross Advances	Mar-2004	7.4	16.4	n.a.	8.2	30.4
	Mar-2005	5.2	11.5	n.a.	8.1	24.9
Net NPAs to Net Advances	Mar-2004	2.9	10.5	n.a.	2.4	20.8
	Mar-2005	2.0	3.7	n.a.	3.4	8.9
Return on Total Assets	2003-04	1.1	-0.2	5.9	2.5	0.4
	2004-05	0.9	1.1	-1.8	n.a.	0.3
Return on Equity	2003-04	19.3	-1.2	19.9	13.6	n.a.
	2004-05	14.0	4.8	-5.1	n.a.	n.a.
Cost/Income Ratio	2003-04	45.6	0.2	16.9	14.1	24.9
	2004-05	49.3	0.2	297.0	n.a.	25.5

n.a. : Not available.

Note: 1. Data for March 2005 are provisional.
2. Data for NBFCs pertain to deposit taking NBFCs having an asset size of Rs.10 crore and above. Data for 2005 in respect of NBFCs pertain to the period ended September 2004.
3. Data for scheduled commercial banks pertain to domestic operations only and may not tally with the balance sheet data.
4. Data in respect of DFIs as on March 2005 do not include IDBI due to its conversion into a banking company.
5. In regard to UCBs, data for CRAR relate to 52 scheduled UCBs while other data relate to 53 scheduled UCBs (out of 55). Data for scheduled UCBs are based on Off-site Surveillance statements.

capital, for the first time since March 2000. Higher growth in the advances portfolio of banks and higher risk weights made applicable for housing loans - the most rapidly increasing retail loans component - contributed to the increase in risk-weighted assets. The core capital (Tier-I) ratio of banks increased from 8.1 per cent at end-March 2004 to 8.5 per cent at end-March-2005 as some banks raised resources from the capital market, mostly at substantial premium. Only two banks could not meet the prescribed CRAR requirements at end March 2005 (Table 5.2).

Table 5.2: Scheduled Commercial Banks: Frequency Distribution of CRAR (end-March 2005)

Bank Group	Negative	Between 0 and 9 per cent	Between 9 and 10 per cent	Between 10 and 15 per cent	15 per cent and above	Total
1	2	3	4	5	6	7
Public Sector Banks	0	0	2	22	4	28
	(0)	(0)	(1)	(24)	(2)	(27)
SBI Group	0	0	0	8	0	8
	(0)	(0)	(0)	(8)	(0)	(8)
Nationalised Banks	0	0	2	14	4	20
	(0)	(0)	(1)	(16)	(2)	(19)
Private Sector Banks	0	2	4	16	7	29
	(1)	(1)	(0)	(19)	(9)	(30)
Old Private Sector Banks	0	2	2	11	5	20
	(0)	(0)	(0)	(12)	(8)	(20)
New Private Sector Banks	0	0	2	5	2	9
	(1)	(1)	(0)	(7)	(1)	(10)
Foreign Banks	0	0	1	10	19	30
	(0)	(0)	(0)	(8)	(25)	(33)
All Banks	0	2	7	48	30	87
	(1)	(1)	(1)	(51)	(36)	(90)

Note : 1. Data for March 2005 are un-audited and provisional.
2. Figures in parentheses relate to March 2004.

Source : Off-site supervisory returns submitted by the banks.

V.71 The CRAR of the scheduled UCBs as a group increased to 12.7 per cent at end-March 2005 from 11.0 per cent at end-March 2004. Tier I capital of scheduled UCBs recorded a significant decline during 2004-05 (Table 5.3).

V.72 The conversion of IDBI into a commercial bank had a significant impact on the FI segment which was reflected in a depletion of their total assets by around Rs.60,000 crore. The aggregated CRAR of FIs was placed at 22.8 per cent at end-March 2005 (Table 5.4). Erosion of capital for two large term-lending institutions, whose CRAR has turned negative, emerged as an issue of concern, due to the high level of NPAs coupled with repeated financial losses.

V.73 The minimum CRAR prescribed for NBFCs is 12 per cent and 15 per cent under certain circumstances. At end-September 2004, 94.9 per cent of companies reported a CRAR equal to or in excess of the stipulated minimum, while 78.3 per cent of companies reported a CRAR above 30 per cent (Chart V.1). For the NBFCs, the average aggregate capital ratio at 22.9 per cent as at end-September 2004 remained well above the regulatory requirements. The proportion of companies not complying with the minimum stipulated CRAR of 12 per cent declined from 5.6 per cent in September 2003 to 5.1 per cent in September 2004. The CRAR of PDs improved and stood at 54.3 per cent at end-March 2005 (42.7 per cent at end-March 2004).

Table 5.3: Key Financial Indicators of Scheduled UCBs

(Rupees crore)

Indicator	March 2005	March 2004	Percentage variation
1	2	3	4
Number of Scheduled UCBs	53	52	
Paid up capital	761	671	13.4
Reserves (excluding loan loss provisions)	2,753	2,456	12.1
Tier I capital	838	2,189	-61.7
Tier II capital	501	450	11.3
Deposits	40,606	38,004	6.8
Investment in Government and other approved securities	15,420	13,292	16.0
Loans and Advances	24,912	20,026	24.4
Gross NPAs	6,210	6,081	2.1
Net NPAs	1,829	3,654	-49.9
Net Profit	303	472	-35.8
Net Loss	120	262	-54.2
Accumulated Losses	2,312	2,263	2.2
Memo:			
Gross NPAs to gross advances (per cent)	24.9	30.4	
Net NPAs to net advances (per cent)	8.9	20.8	

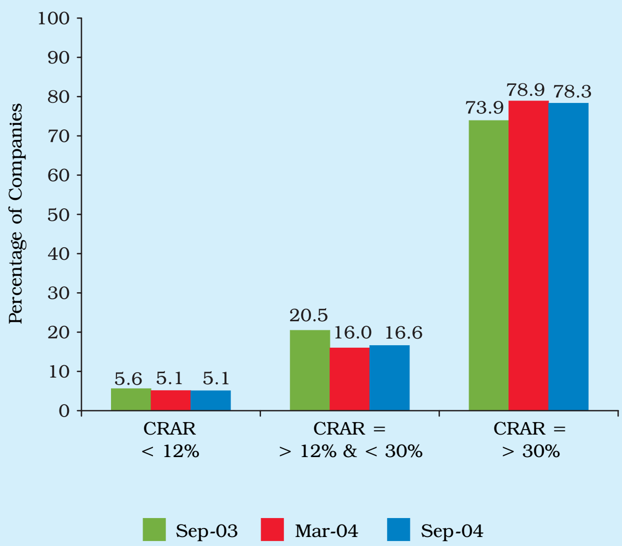
Note : Data as on March 31, 2005 are unaudited and provisional.

Table 5.4: CRAR and Net NPAs of Select FIs (end-March 2005)

Financial Institution	CRAR (Per cent)	Net NPAs (Rupees crore)	Net NPAs to net loans (Per cent)
1	2	3	4
Term-Lending Institutions (TLIs)			
IFCI	-23.4	2,682	28.8
EXIM Bank	21.6	109	0.9
IIBI	-41.1	487	32.9
TFCI	27.5	65	11.1
IDFC	28.7	0	0
All TLIs	**5.9**	**3,343**	**10.6**
Refinancing Institutions (RFIs)			
NABARD	38.8	0	0
NHB	16.5	0	0
SIDBI	53.8	407	4.0
All RFIs	**36.5**	**407**	**0.6**
All FIs	**22.8**	**3,750**	**3.7**

Source : Off-site returns submitted by FIs.

Chart V.1: Frequency Distribution of CRAR of Reporting NBFCs



Asset Quality

V.74 The declining trend in gross and net NPAs for scheduled commercial banks that set in during 2002-03 continued during 2004-05 with the net NPA ratio going below two per cent for the first time. The fact that the provisioning for NPAs was much lower during 2004-05 indicates that the decline was due to increased recovery and overall reduction in asset slippage. An improved industrial climate also contributed to better recoveries. Only four banks had net NPAs in excess of 10 per cent of their net advances (Table 5.5). Similarly, the net NPA to capital ratio steadily declined from 21.3 per cent at end-March 2004 to 14.4 per cent by end-March 2005 reflecting the increase in capital, coupled with rapid decline in net NPAs.

V.75 As regards NBFCs, the gross NPA ratio declined between March 2004 and September 2004 while the net NPA ratio increased (Chart V.2).

V.76 There was a significant improvement in the asset quality of the DFIs (excluding IDBI) during the year. While the gross NPA ratio declined from 16.4 per cent in March 2004 to 11.5 per cent in March 2005, the net NPA ratio recorded an even sharper decline

Chart V.2: Ratio of Non-Performing Assets to Credit Exposure - NBFCs

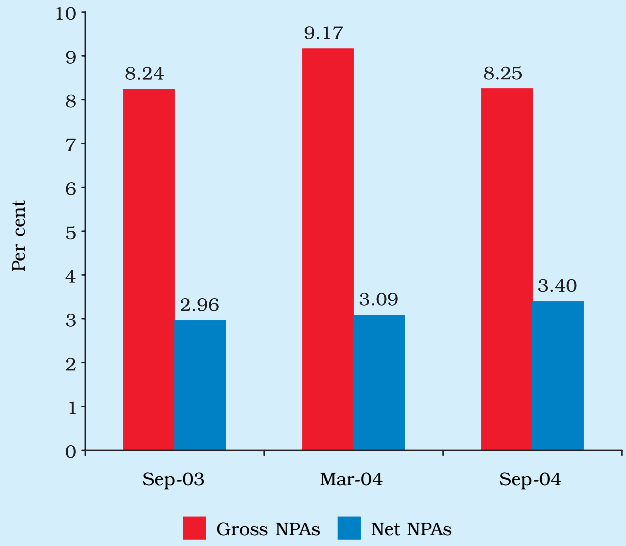


Table 5.5: Net NPAs to Net Advances of Scheduled Commercial Banks

(Frequency Distribution)

Year	Public Sector Banks		Private Sector Banks		
	SBI Group	Nationalised Banks	Old	New	Foreign Banks
1	2	3	4	5	6
2000-01					
Up to 2 per cent	0	0	0	1	22
Above 2 per cent and up to 5 per cent	1	5	4	5	5
Above 5 per cent and up to 10 per cent	7	8	12	3	4
Above 10 per cent	0	6	6	0	11
2001-02					
Up to 2 per cent	0	0	1	1	20
Above 2 per cent and up to 5 per cent	4	4	2	3	4
Above 5 per cent and up to 10 per cent	4	12	13	5	1
Above 10 per cent	0	3	6	0	14
2002-03					
Up to 2 per cent	1	3	1	3	21
Above 2 per cent and up to 5 per cent	6	6	4	2	2
Above 5 per cent and up to 10 per cent	1	8	13	4	5
Above 10 per cent	0	2	2	1	8
2003-04					
Up to 2 per cent	6	5	2	4	19
Above 2 per cent and up to 5 per cent	2	9	9	5	4
Above 5 per cent and up to 10 per cent	0	4	7	0	3
Above 10 per cent	0	1	2	1	7
2004-05 P					
Up to 2 per cent	7	10	4	5	22
Above 2 per cent and up to 5 per cent	1	8	11	3	2
Above 5 per cent and up to 10 per cent	0	2	5	1	2
Above 10 per cent	0	0	0	0	4

P : Provisional.
Note: Data as on March 31, 2005 are unaudited and provisional.
Source : Off-site supervisory returns submitted by the banks pertaining to their domestic operations.

from 10.5 per cent to 3.7 per cent over the same period. Gross and net NPA ratios of term lending institutions, however, remained high at 29.0 per cent and 10.6 per cent, respectively.

V.77 The gross NPA ratios of the scheduled UCBs declined from 30.4 per cent at end-March 2004 to 24.9 per cent at end-March 2005. The net NPA ratio also declined from 20.8 per cent to 8.9 per cent over the same period, which is still high as compared with the other segments of the financial system indicating the requirement for further provisioning in future.

Earnings and Profitability Indicators

V.78 The earnings and profitability indicators for the financial system showed mixed movements during 2004-05. The cost-income ratio of PDs increased sharply during 2004-05 reflecting low net income on account of upward shifts in the yield curve and the return on total assets turned negative during the year. The return on total assets of scheduled UCBs declined marginally from 0.4 per cent to 0.3 per cent in 2004-05. FIs posted a turnaround and their return on total assets moved from (-)0.2 per cent in 2003-04 to 1.1 per cent in spite of narrowing of spreads. The replacement of high cost borrowings by low cost borrowings resulted in higher net profits for most FIs.

V.79 As regards scheduled commercial banks (SCBs) too, movements in performance indicators are mixed. While operating expenses and net interest income as proportion to total assets show little or no quarterly variation over 2003-04 and 2004-05 across bank groups, there was some erosion in profitability and capital (Table 5.6).

Table 5.6: Scheduled Commercial Banks – Performance Indicators

(Per cent)

Item / Bank Group	2005-06	2004-05				2003-04			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
1	2	3	4	5	6	7	8	9	10
Operating Expenses/Total Assets*									
Scheduled Commercial Banks	2.2	1.9	2.1	2.4	2.3	2.2	2.3	2.3	2.2
Public Sector Banks	2.1	1.9	2.0	2.3	2.2	2.2	2.2	2.3	2.2
Old Private Sector Banks	2.3	1.2	2.3	2.1	2.1	1.6	2.1	2.2	2.0
New Private Sector Banks	2.4	1.6	2.0	2.4	2.4	1.7	2.0	2.3	2.2
Foreign Banks	2.8	2.4	2.8	3.2	2.9	2.5	3.3	2.7	2.6
Net Interest Income/Total Assets*									
Scheduled Commercial Banks	3.1	2.5	2.8	3.2	3.1	2.5	3.1	2.9	3.1
Public Sector Banks	3.2	2.7	2.9	3.3	3.1	2.8	3.2	3.0	3.2
Old Private Sector Banks	3.0	1.5	3.2	3.2	2.9	1.9	2.7	2.8	2.7
New Private Sector Banks	2.3	1.6	2.0	2.7	2.5	1.5	2.1	2.1	2.0
Foreign Banks	3.8	3.9	2.5	3.1	3.7	3.0	3.8	3.1	4.0
Net Profit/Total Assets*									
Scheduled Commercial Banks	0.9	0.9	0.7	0.9	1.2	0.8	1.2	1.3	1.3
Public Sector Banks	0.8	0.9	0.7	0.9	1.2	1.1	1.2	1.2	1.2
Old Private Sector Banks	0.7	0.0	0.7	0.1	0.9	0.2	1.5	1.5	1.6
New Private Sector Banks	1.1	0.8	1.0	1.3	1.2	-0.6	1.3	1.4	1.2
Foreign Banks	1.7	2.0	0.7	0.7	1.8	1.4	0.9	1.8	2.5
Gross NPAs to Gross Advances**									
Scheduled Commercial Banks	5.1	5.2	6.2	6.6	7.4	7.4	9.3	9.7	9.8
Public Sector Banks	5.5	5.7	6.8	7.3	8.1	8.1	9.6	10.0	10.2
Old Private Sector Banks	6.1	6.1	7.0	7.6	7.9	7.6	10.1	9.9	9.8
New Private Sector Banks	3.1	2.9	3.8	3.9	4.9	5.0	9.6	10.6	10.4
Foreign Banks	3.0	3.1	3.9	4.3	4.7	4.9	5.2	5.3	5.4
Net NPAs to Net Advances**									
Scheduled Commercial Banks	1.9	2.0	2.3	2.5	2.8	2.9	3.7	4.0	4.6
Public Sector Banks	2.0	2.1	2.5	2.7	3.0	3.1	3.6	4.0	4.7
Old Private Sector Banks	2.7	2.8	3.5	3.8	3.8	3.9	5.7	5.8	6.2
New Private Sector Banks	1.6	1.5	1.7	1.8	2.4	2.4	4.0	4.6	4.6
Foreign Banks	0.9	0.9	0.9	1.0	1.4	1.5	1.3	1.5	1.7
CRAR**									
Scheduled Commercial Banks	12.8	12.8	13.1	13.4	13.6	12.9	13.5	13.2	13.0
Public Sector Banks	12.9	12.9	13.1	13.2	13.5	13.2	13.8	13.3	13.0
Old Private Sector Banks	13.1	12.5	13.8	13.6	14.3	13.7	15.0	14.6	13.5
New Private Sector Banks	12.1	11.8	12.5	13.5	12.8	10.2	11.2	11.3	11.3
Foreign Banks	13.2	14.1	13.5	14.0	14.7	15.0	14.8	14.9	14.7

* : Annualised to ensure comparability between quarters. ** : Position as at the end of the quarter.

Note : Data for March 2005 and June 2005 are un-audited and provisional.

Source : Off-site supervisory returns submitted by the banks pertaining to their domestic operations.

V.80 SCBs return on total assets, which had shown consistent improvement since 2001-02 and stood at 1.1 per cent at end-March 2004, moderated to 0.9 per cent for the year ended March 2005 (Table 5.7). This was due to a decline in profits from securities trading and higher provisioning for mark-to-market (MTM), coupled with an increase in operating expenses. 42 banks recorded an increase in their operating expenses (as a ratio to total assets) during 2004-05 (Table 5.8). Concomitantly, the return on equity for scheduled commercial banks moderated from 19.3 per cent to 14.0 per cent. Containment of operating costs is imperative to shore up profitability, particularly in view of the fact that the wage revision in the financial sector may put pressures on operating costs.

Table 5.7: Operational Results of Scheduled Commercial Banks - Key Ratios

(Per cent)

Ratio to Total Assets	2004-05	2003-04
1	2	3
Earnings before Provisions and Taxes (EBPT)	2.22	2.71
Profit after Tax	0.92	1.14
Total Income	8.21	9.48
Interest Income	6.72	7.41
Non-Interest Income	1.49	2.07
Total Expenditure	5.98	6.76
Interest Expenses	3.83	4.52
Operating Expenses	2.15	2.24
Provisions and Contingencies	1.30	1.56

Note : 1. Data as on March 31, 2005 are unaudited and provisional.
2. Data relate to domestic operations only.

Sensitivity to Market Risk

Interest Rate Risk

V.81 Given the significant share of investments, especially in Government securities in their asset portfolios, the increase in yields during 2004-05 induced banks to take various steps to immunise the interest rate risk inherent in their investment portfolios. Many banks shifted a significant proportion of investments in SLR securities to held-to-maturity (HTM) category incurring a one-time cost upfront. There was also a conscious effort by some banks to reduce the modified duration of their investments. Also, the modified duration of investments held under HFT and AFS was much lower than at the overall system level. This indicates that the portion of the investment portfolio that is marked-to-market is less sensitive to interest rate risk than the total investment portfolio of banks. At the same time, the potential increase in the core income enabled by a sustained pick-up in credit has compensated, to some extent, the decline in treasury income of banks.

Currency Risk

V.82 Banks often rely on the ‘natural hedge’ available with their customers. The non-availability of complete information on large clients severely impedes the ability of banks to assess the credit risk on account of their unhedged foreign exchange

Table 5.8: Operational Results of Scheduled Commercial Banks – 2004-05

(Number of banks showing increase in ratios during the year)

Ratio to Total Assets	Public Sector Banks		Private Sector Banks		Foreign Banks	All Banks
	SBI Group	Nationalised Banks	Old	New		
1	2	3	4	5	6	7
Earnings before Provisions and Taxes (EBPT)	1	3	0	2	10	16
Profit after Tax	0	3	0	2	9	14
Total Income	0	2	0	4	11	16
Interest Income	0	2	5	2	9	18
Non-Interest Income	0	0	0	3	16	18
Total Expenditure	0	2	3	4	12	20
Interest Expenses	0	2	2	3	9	16
Operating Expenses	3	8	9	6	16	42
Provisions and Contingencies	3	4	7	5	16	35

Note : Data are provisional and relate to domestic operations only.

exposures. In this context, there was considerable intra-month two-way movement in the exchange rate during the year though, overall, the rupee appreciated with respect to the US dollar over 2004-05.

Commodity Risk

V.83 Banks in India generally do not trade in commodities. However, certain banks have been allowed to trade in precious metals, subject to fulfilment of prudential norms. The exposure of the banking system to precious metals, however, remains miniscule.

Equity Risk

V.84 During 2004-05, even as domestic stock markets touched historically high levels, the regulatory ratio of capital market exposure (*i.e.,* as proportion of previous year's advances) for the banking system at 1.9 per cent at end March 2005 was far below the prescribed ceiling of 5 per cent. The regulatory ratio of 3 banks was above 4 per cent but lower than the prescribed ceiling at end-March 2005.

Liquidity

V.85 The ratio of liquid assets to total assets declined to 39.3 per cent at end-March 2005 from 42.7 per cent at end March 2004. The decline may be attributed to the upturn in credit demand. Accordingly, the increase in advances outpaced the increase in SLR investments. The proportion of short-term borrowings to total borrowings for the FIs increased from 5.9 per cent to 8.3 per cent during 2004-05.

V.86 MPIs also include key indicators of the global economic outlook, prospects for the domestic economy, financial markets, corporate profitability and credit offtake. Exposure of banks to retail credit also assumes considerable significance as an MPI. These areas are covered elsewhere in the Report.

V.87 To conclude, the Indian financial sector now operates in a more competitive environment than before and intermediates relatively large volumes of international financial flows. The review of MPIs indicates further consolidation of the financial system and improvement in key banking parameters. In particular, the strength of the macroeconomic outlook, particularly the pick-up in industrial activity, enabled a significant improvement in asset quality, with the net NPA ratio falling below two per cent for scheduled commercial banks.

Outlook

V.88 Financial stability has moved to centre-stage nationally as well as in discussions relating to the future of the global monetary and financial system. Accordingly, financial stability in India is an integral responsibility of the Reserve Bank. Reflecting the various regulatory and supervisory initiatives taken by the Reserve Bank in consonance with the pace and sequencing of financial deepening and benchmarking against international best practices, the Indian banking system is emerging as a well-capitalised financial system even by international standards with low levels of loan delinquency. Domestic financial markets have been orderly and functioning smoothly and the ability of the financial intermediaries to deal in various segments of the financial market spectrum is improving almost continuously.

V.89 The Reserve Bank will continue to strengthen its regulatory and supervisory framework with a view to ensuring a sound, efficient and vibrant financial system in the country. Implementation of Basel II will initially require more capital for banks in India due to the fact that operational risk is not captured under Basel I, and the capital charge for market risk was not prescribed until recently. Given the fact that commercial banks in the country are scheduled to start implementing Basel II with effect from end-March 2007, the Reserve Bank will focus on supervisory capacity-building measures to identify the gaps and to assess as well as quantify the extent of additional capital which may be required to be maintained by such banks. Finally, while recognising the importance of consolidation, competition and risk management to the future of banking, the Reserve Bank will continue to lay stress on corporate governance and financial inclusion.

VI PUBLIC DEBT MANAGEMENT

VI.1 Public debt management by the Reserve Bank in 2004-05 was guided by the twin objectives of minimisation of cost over time and lengthening of the maturity profile of debt for both the Centre and the States in a scenario of upward shifting yield curves. The market borrowing programme of the Central and State Governments was successfully completed in easy liquidity conditions. The weighted average cost of market borrowings of the Centre as well as the States increased marginally after eight years of consecutive decline, reflecting the hardening of interest rates attributable to uncertainty surrounding international oil prices, the upturn in global interest rates, buoyant domestic growth and sharp spikes in domestic inflation. The weighted average maturity of the primary issuances of Centre and States under the market borrowing programme during the year declined marginally. The Central Government did not avail of overdraft during 2004-05. The utilisation of WMA by State Governments was also lower as compared with the previous year. Issuances of Floating Rate Bonds (FRBs) continued as part of the endeavour to provide a diversified pool of instruments to investors and in a scenario of firming yields, they facilitated the hedging of interest rate risk. The proposed re-introduction of the Capital Indexed Bonds (CIBs) in 2005-06 would help to widen the investor base and provide the holders with an inflation risk free return on their investment.

VI.2 This section reviews the Reserve Bank's debt management operations in response to the complexities in market processes, technological requirements for efficient functioning and the ongoing changes in the macroeconomic environment. The review highlights the distinct improvement in the Central Government's fiscal position, reflected in the build-up of surplus cash balances with the Reserve Bank on an enduring basis despite a sharp decline in gross and net borrowings. The overview of States' debt management indicates the emergence of financial discipline, reflecting the impact of institutional measures undertaken in the recent past.

CENTRAL GOVERNMENT

Ways and Means Advances

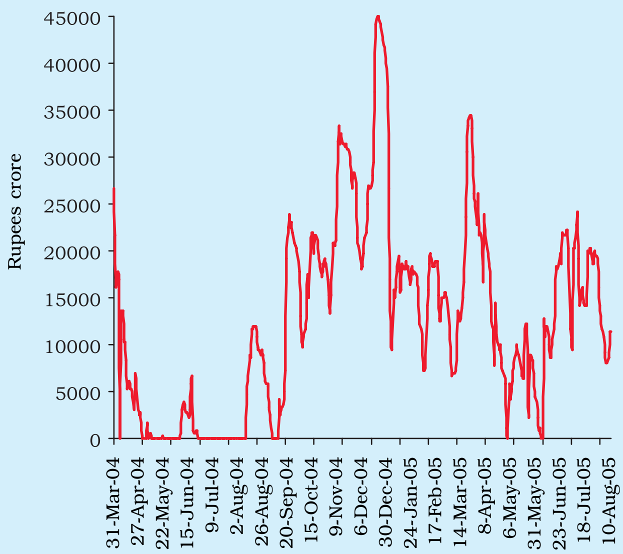
VI.3 The Ways and Means Advances (WMA) limits of the Central Government remained unchanged at Rs.10,000 crore for the first half (April-September) of 2004-05 and Rs.6,000 crore for the second half (October-March). The interest rate on WMA continued to be at the Bank Rate and on overdraft at two percentage points above the Bank Rate. A noteworthy development was that the Central Government did not resort to overdraft in 2004-05 for the first time since the operationalisation of WMA Scheme in April 1997 (Table 6.1).

Table 6.1: Overdraft Position of Central Government

Month	2004-05			2003-04		
	Range of Overdraft (Rupees crore)	No. of Days	No. of Occasions	Range of Overdraft (Rupees crore)	No. of Days	No. of Occasions
1	2	3	4	5	6	7
April	–	–	–	1,642-9,656	15	2
May	–	–	–	900-5,867	9	3
June	–	–	–	875-8,349	5	1
July	–	–	–	383-5,288	14	4
August	–	–	–	–	–	–
September	–	–	–	–	–	–
October	–	–	–	–	–	–
November	–	–	–	–	–	–
December	–	–	–	–	–	–
January	–	–	–	–	–	–
February	–	–	–	–	–	–
March	–	–	–	–	–	–
Total	**–**	**–**	**–**	**0-9,656**	**43**	**10**

VI.4 The Centre maintained surplus cash balances in its current account with the Reserve Bank during most part of the year, mainly due to substantial inflows on account of prepayment of high cost debt by the States under the debt swap scheme (DSS) and other receipts. Investment of the Central Government's surplus cash balances in dated securities was discontinued temporarily from April 8, 2004 in order to shore up the existing stock of securities for the conduct of monetary policy. With the introduction of the Market Stabilisation Scheme (MSS) to absorb liquidity, investment of surplus balances was partially restored for investments up to Rs.10,000 crore from June 12, 2004. This limit was increased to Rs.20,000 crore, effective October 14, 2004. As at end-March 2005, the Central Government's surplus cash balances in the form of investment balance (Rs.20,000 crore) and cash balance (Rs.6,202 crore) amounted to Rs.26,202 crore, almost the same as at end-March 2004 (Rs.26,669 crore) (Chart VI.1). During the fiscal year, the Central Government took recourse to WMA on several occasions till September 9, 2004 but maintained surpluses thereafter.

Chart VI.1: Cash Balances of the Central Government



Treasury Bills

VI.5 The notified amounts of 91-day and 364-day Treasury Bills (TBs) were increased from Rs.500 crore and Rs.1,000 crore to Rs.2,000 crore each in 2004-05, the increase being entirely on account of issuances under the MSS with a view to absorbing surplus liquidity from the system. Scheduled issuances of the MSS portion of 91-day and 364-day TBs during the period from November 10, 2004 to December 1, 2004 and that of 364-day TBs auction of December 22, 2004 were cancelled on account of temporary tightness in liquidity conditions. The weighted average yields of 91-day and 364-day TBs increased by 26 basis points and 48 basis points, respectively, during 2004-05 (Table 6.2 and Appendix Table I.44).

VI.6 Reflecting movements in inflation rates, the primary market yields of both 91-day and 364-day TBs increased by 108 and 135 basis points, respectively, during the year to 5.32 per cent and 5.66 per cent (Chart VI.2).

VI.7 The average implicit yields for both 91-day and 364-day TBs remained stable up to July 2004 but increased sharply to reach intra-year peaks of 5.47 per cent and 5.71 per cent in November 2004. The yields, which were hovering at sub-reverse repo rate levels during April-July 2004, thus rose above the reverse repo rate during August 2004. With easing of headline inflation, the implicit yield declined gradually thereafter. The yield spread between the 91-day and 364-day TBs widened from six basis points in April

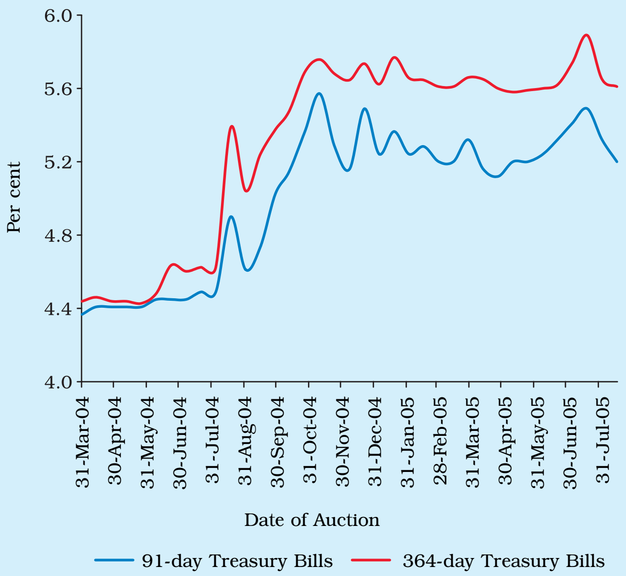
Table 6.2: Treasury Bills - A Profile

(Rupees crore)

Type of Treasury Bill	Weighted Average Cut-off Yield (per cent)		Gross Amount		Net Amount		Outstanding Amount	
	2004-05	2003-04	2004-05*	2003-04	2004-05*	2003-04	2004-05*	2003-04
1	2	3	4	5	6	7	8	9
91-day	4.89	4.63	1,00,592 (67,955)	36,786	20,653 (19,500)	(-) 2,488	27,792 (19,500)	7,139
364-day	5.15	4.67	47,132 (20,981)	26,136	20,997 (20,981)	9	47,132 (20,981)	26,136

* Includes issuances under the MSS.
Note: Figures in parentheses pertain to issuances under the MSS.

Chart VI.2: Primary Yields of Treasury Bills



2004 to 39 basis points in March 2005. The bid-cover ratio in the auctions was generally more than two during 2004-05, reflecting favourable liquidity conditions and market appetite for short term securities (Table 6.3).

VI.8 It was decided in consultation with the Central Government to re-introduce, effective April 6, 2005, fortnightly auctions of 182-day TBs to be conducted on each Wednesday preceding a non-reporting Friday.

Table 6.3: Treasury Bills – Primary Market @

Month	Average Implicit Yield at Minimum Cut-off Price (Per cent)		Bid-Cover Ratio*	
	91-day	364-day	91-day	364-day
1	2	3	4	5
Apr-04	4.38	4.44	2.15	2.47
May-04	4.39	4.33	2.93	2.46
Jun-04	4.44	4.55	2.61	1.28
Jul-04	4.46	4.60	2.39	2.06
Aug-04	4.76	5.00	1.81	3.36
Sep-04	4.72	5.14	2.51	2.83
Oct-04	5.15	5.46	1.82	2.75
Nov-04	5.47	5.71	2.80	2.64
Dec-04	5.30	5.69	2.69	2.81
Jan-05	5.31	5.69	2.19	2.06
Feb-05	5.25	5.65	2.99	2.81
Mar-05	5.24	5.63	2.31	2.74
Apr-05	5.17	5.62	4.03	2.54
May-05	5.19	5.58	3.30	2.29
June-05	5.29	5.61	1.54	1.81
July-05	5.46	5.81	1.21	1.68

@ : As per dates of auction.
* : Ratio of competitive Bids Received (BR) to Notified Amount (NA).

The notified amount of 182-day TBs was fixed at Rs.1,500 crore, including Rs.1,000 crore under the MSS. The notified amounts of both 91-day and 364-day TBs were kept unchanged at Rs.2,000 crore, including Rs.1,500 crore and Rs.1,000 crore, respectively, under the MSS.

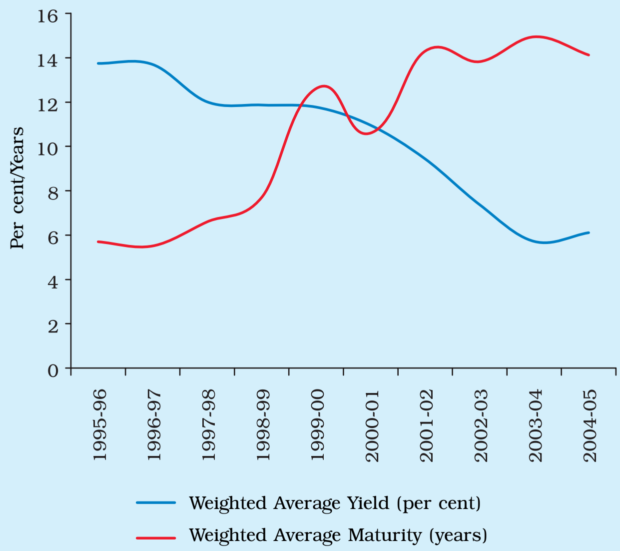
Dated Securities

VI.9 Comfortable liquidity conditions and lower than budgeted market borrowings facilitated a smooth completion of the market borrowing programme of the Central Government. The Central Government raised a gross amount (excluding issuances under the MSS) of Rs.1,06,501 crore (a net amount of Rs.46,050 crore) through the issuance of dated securities and 364-day TBs during the year, significantly lower than Rs.1,47,636 crore (net Rs.88,816 crore) raised during the previous year (excluding Rs.14,434 crore issued under the debt buy back scheme). This was on account of a number of factors. First, the Central Government had privately placed securities amounting to Rs.16,500 crore with the Reserve Bank to prepay relatively high cost external debt during 2003-04; however, no prepayment was effected in 2004-05. Second, the higher amount of market borrowings in 2003-04 resulted in a sharp increase in surplus cash balances to Rs.26,669 crore as at end-March 2004 from Rs.8,905 crore as at end-March 2003; during 2004-05, on the other hand, such cash balances exhibited a marginal decline. Third, investments in 14-day Intermediate TBs emerged as a major source of financing in 2004-05 as compared with 2003-04. Finally, the DSS lowered the Centre's market borrowing requirement both in 2003-04 and in 2004-05. However, while the impact of the DSS was offset by prepayment of external debt and build-up of surplus cash balances during 2003-04, there was no such offsetting factor in 2004-05, resulting in lower market borrowings.

VI.10 During 2004-05, the Central Government raised a total amount of Rs.80,350 crore through dated securities; of this, Rs.80,000 crore was raised through 19 auctions (comprising 13 reissues and six new issues) and Rs.350 crore by way of private placement (new issue) (Appendix Tables I.41 and I.43). The Centre had raised Rs.1,00,000 crore through 22 auctions (6 new issues and 16 reissues) and Rs.21,500 crore through private placement in 2003-04. Two issuances of Floating Rate Bonds (FRBs) devolved partially on the Reserve Bank and Primary Dealers (PDs) amounting to Rs.847 crore and Rs.985 crore, respectively. This was in contrast to the previous year, when there was no devolvement on the Reserve Bank and PDs. During 2004-05, securities amounting to Rs.350 crore were privately placed with the Reserve Bank as against Rs.21,500 crore (including Rs.16,500 crore on account of prepayment of external debt) in the previous year. The Reserve Bank continued to pursue the policy of elongation of the maturity profile of Government debt while keeping in view investor response. Of the 20 primary issuances under the market borrowing programme during 2004-05, eight securities issued were with residual maturity of more than 20 years. The seven new issues included five issues of FRBs.

VI.11 According to the issuance calendar for the first half (April-September) of 2004-05, dated securities for face value of Rs.59,000 crore were to be issued through auctions. As against this, auctions of dated securities amounting to Rs.54,000 crore were conducted; the auction of Rs.5,000 crore scheduled in April 2004 was cancelled. On September 20, 2004, an indicative calendar for issue of dated securities for the second half (October - March) of 2004-05 for Rs.44,000 crore was issued; of this, Rs.26,000 crore were auctioned, while the balance scheduled auctions for Rs.18,000 crore were cancelled. The weighted average yield of the dated securities issued during 2004-05 worked out to 6.11 per cent as compared with 5.71 per cent during the previous year. The weighted average maturity of the dated securities issued during 2004-05 worked out to 14.13 years as compared with 14.94 years during 2003-04 (Chart VI.3).

Chart VI.3: Yield and Maturity of Central Government Dated Securities



VI.12 The weighted average coupon on the outstanding stock of government securities continued to decline during 2004-05. On the other hand, the weighted average maturity of the outstanding securities, which had been rising since 1999-2000, fell marginally to 9.63 years as on March 31, 2005 (Table 6.4).

VI.13 Securities over 10-year maturity constituted the largest share in the outstanding stock of securities as well as in new issuances (Table 6.5). Out of the 121 outstanding marketable securities amounting to

Table 6.4: Central Government's Market Loans - A Profile*

(Yield in per cent/Maturity in years)

Year	YTMs at Primary Issues (%)			Weighted Average Yield	Range of Maturities of New Loans	Weighted Average Maturity	Weighted Average Maturity of outstanding stock	Weighted Average Yield of outstanding stock
	Under 5 years	5-10 years	Over 10 years					
1	2	3	4	5	6	7	8	9
1997-98	10.85-12.14	11.15-13.05	–	12.01	3-10	6.60	6.50	..
1998-99	11.40-11.68	11.10-12.25	12.25-12.60	11.86	2-20	7.70	6.30	..
1999-00	–	10.73-11.99	10.77-12.45	11.77	5-19	12.60	7.10	..
2000-01	9.47-10.95	9.88-11.69	10.47-11.70	10.95	2-20	10.60	7.50	..
2001-02	–	6.98-9.81	7.18-11.00	9.44	5-25	14.30	8.20	10.84
2002-03	–	6.65-8.14	6.84-8.62	7.34	7-30	13.80	8.90	10.44
2003-04	4.69	4.62-5.73	5.18-6.35	5.71	4-30	14.94	9.80	9.30
2004-05	5.90	5.53-7.20	4.49-8.24	6.11	5-30	14.13	9.63	8.79
2005-06 @	–	6.80-7.06	6.91-7.98	7.28	5.29	13.76	9.57	8.75

* : Excludes issuances under MSS. YTM: Yield to Maturity .. : Not available. –: No Issues.

@ : Up to August 12, 2005.

Table 6.5: Maturity Profile of Central Government Securities

(Per cent)

Year (End-March)	Outstanding Stock Under 5 Years	Outstanding Stock 5-10 Years	Outstanding Stock Over 10 Years	Issued during the Year Under 5 Years	Issued during the Year 5-10 Years	Issued during the Year Over 10 Years
1	2	3	4	5	6	7
1997-98	41	41	18	18	82	0
1998-99	41	42	16	18	68	14
1999-00	37	39	24	0	35	65
2000-01	27	47	26	6	41	53
2001-02	31	36	33	2	24	74
2002-03	26	35	39	0	36	64
2003-04	24	32	44	5	15	80
2004-05	27	30	43	11	11	78

Rs.8,95,348 crore as at end-March 2005, 44 securities with minimum outstanding amount of Rs.10,000 crore or more accounted for 67 per cent of the total outstanding amount as compared with 63 per cent at end-March 2004. 29 securities with outstanding amount between Rs,5,000-Rs.10,000 crore accounted for 22 per cent of the total outstanding amount at end-March 2005.

VI.14 The stock of Central Government securities held by the Reserve Bank fell by Rs.7,071 crore during 2004-05 (Table 6.6).

VI.15 The repayment schedule of outstanding market loans of the Central Government as on March 31, 2005 indicates bunching of repayments between 2009-10 and 2015-16 (Table 6.7).

Table 6.6: Reserve Bank's Stock of Central Government Securities

(Rupees crore)

Year (End-March)	Outstanding Dated Securities*	Special Securities Issued in Conversion of *Ad-hoc* Treasury Bills	Total Out-standing*
1	2	3	4
1996-97	6,666	1,21,818	1,28,484
1997-98	31,977	1,01,818	1,33,795
1998-99	42,212	1,01,818	1,44,030
1999-00	35,190	1,01,818	1,37,008
2000-01	41,732	1,01,818	1,43,550
2001-02	40,927	1,01,818	1,42,745
2002-03	55,438	61,818	1,17,256
2003-04	77,397	0	77,397
2004-05	80,770	0	80,770

* Inclusive of securities sold under the LAF.

Table 6.7: Repayment Schedule of Centre's Outstanding Market Loans

(As on March 31, 2005)

Year	Rs. crore
1	2
2005-06	55,631 *
2006-07	44,079 **
2007-08	45,876
2008-09	44,028
2009-10	52,589
2010-11	56,586
2011-12	55,581
2012-13	57,074
2013-14	59,009
2014-15	42,018
2015-16	65,244
2016-17	48,130
2017-18	50,774
2018-19	37,478
2019-20	28,000
2020-21	11,000
2021-22	13,213
2022-23	32,000
2023-24	21,000
2025-26	16,688
2026-27	15,000
2027-28	15,000
2028-29	11,000
2032-33	14,000
2034-35	4,350
Total	**8,95,348**

* : Including repayment of Rs.20,000 crore under the MSS.
** : Including repayment of Rs.5,000 crore under the MSS.

VI.16 The share of securities with coupon at 10 per cent and above continued to fall in keeping with the declining trend of the last five years (Table 6.8).

Table 6.8: Interest Rate Profile of Outstanding Central Government Securities

(As on March 31, 2005)

Interest Rate (Per cent)	Outstanding Amount (Rupees crore)	Share in (Per cent)
1	2	3
4.00-4.99	42,500	4.75
5.00-5.99	96,818	10.81
6.00-6.99	1,51,772	16.95
7.00-7.99	1,34,540	15.03
8.00-8.99	37,638	4.20
9.00.-9.99	56,424	6.30
10.00-10.99	83,537	9.33
11.00-11.99	1,65,646	18.50
12.00-12.99	94,249	10.53
13.00-14.00	32,222	3.60
Total	**8,95,348**	**100.0**

VI.17 For 2005-06, the Union Budget has placed net market borrowings (excluding MSS) of the Central Government at Rs.1,10,295 crore (inclusive of net issuances of 182-day TBs). Including repayments of Rs.68,272 crore (Rs.35,631 crore of dated securities, Rs.26,141 crore of 364-day TBs and Rs.6,500 crore of 182-day TBs), the gross market borrowing is estimated at Rs.1,78,467 crore (Rs.1,39,467 crore through dated securities and Rs.26,000 crore through 364-day TBs and 13,000 crore through 182-day TBs). Thus, the budgeted gross borrowings are significantly higher than the actual amount raised in 2004-05. An indicative issuance calendar for issue of dated securities for the first half of the year 2005-06 was issued in consultation with the Government for an aggregate amount of Rs.83,000 crore (Table 6.9). As in the past, the Reserve Bank will have flexibility to vary issuances of Government securities keeping in view the emerging requirements of the Government. During 2005-06 so far (up to August 19, 2005), gross market borrowing (excluding issuances under the MSS) raised by the Central Government through dated securities, 182-day and 364-day TBs amounted to Rs.89,796 crore (net Rs.54,514 crore) as compared with Rs.55,030 crore (net Rs.18,224 crore) during the corresponding period of the previous year. All issuances were by way of fixed coupon securities as against a share of 59 per cent during the corresponding period of the previous year, reflecting the favourable market appetite for such securities. There has been no devolvement/private placement during the year so far. To facilitate consolidation and impart liquidity to the Government securities market, all the securities were reissuances of securities issued earlier.

VI.18 Instrument diversification has been a key component of the Reserve Bank's initiatives for the development of the Government securities market. As a part of this effort, a capital indexed bond (CIB) was issued for the first time on December 29, 1997. Subsequently, there was no further issuance of CIB mainly due to lack of response of market participants for the instrument. Taking into account the past experience as well as internationally popular structure of CIBs, a modified structure of CIB is proposed to be re-introduced (Box VI.1).

Table 6.9: Issuance Calendar and Actual Borrowings during 2005-06 (April 1, 2005 to September 30, 2005)

Borrowings as per Issuance Auction Calendar			Actual Borrowings*		
Period of auction	Amount (Rupees crore)	Maturity Period of the Security	Date of Auction	Amount (Rupees crore)	Tenor of the Security (Years)
1	2	3	4	5	6
April 4-20, 2005	5,000	a) 10 to 14 year security	April 5, 2005	5,000	6.98
	3,000	b) 20- year and above	April 5, 2005	3,000	27.39
April 19 -10,2005	5,000	a) 10 to 14 year security	April 19, 2005	5,000	11.74
	2,000	b) 20- year and above	April 19, 2005	2,000	27.39
May 2-9, 2005	6,000	a) 5 to 9 year security	May 3, 2005	6,000	5.03
	4,000	b) 20- year and above	May 3, 2005	2,000	29.27
May 16-24, 2005	4,000	a) 15 to 19 year security	May 24, 2005	4,000	16.05
June 1-8, 2005	6,000	a) 5-9 year security	June 6, 2005	6,000	8.86
	4,000	b) 15-19 year and above	June 6, 2005	4,000	15.98
June 16-24, 2005	8,000	a) 10-14 year security	June 23, 2005	5,000	10.81
July 1-8, 2005	6,000	a) 5- 9 year security	July 5, 2005	6,000	8.16
	4,000	b) 15-19 year security	July 5, 2005	4,000	15.90
July 12-18, 2005	5,000	(a) 15-19 year security	July 18, 2005	5,000	15.86
August 5-12, 2005	5,000	(a) 10-14 year security	August 11, 2005	5,000	11.43
	3,000	(b) 20 year and above	August 11, 2005	3,000	28.99
August 16--23, 2005	5,000	(a) 5-9 year security	August 18, 2005	5,000	8.66
	3,000	(b) 20 year and above	August 18, 2005	3,000	28.98
September 2-10, 2005	5,000	(a) 10-14 year security			
	3,000	(b) 20 year and above			
Total	**83,000**			**73,000**	

* Up to August 18, 2005

Box VI.1

Capital Indexed Bonds

Capital Indexed Bonds (CIBs) minimise the inflation risk to the investors and issuers by adjusting both the principal and coupon payments to the changes in inflation. The CIBs are a preferred investment vehicle for investors sensitive to inflation risk. From the issuer's perspective, the CIB helps in reducing cost of borrowing as it eliminates the 'inflation risk' premium.

Co-existence of CIBs and nominal bonds provides useful information on 'inflationary expectations' or 'break even inflation rate' to both the policy makers and the market participants. The 'break-even inflation rate' is defined as the rate of return that equates the real yield of a CIB with the rate of return of a nominal bond of the same tenor if both are held till maturity.

The two most important issues relating to the design of a CIB are: (i) the selection of an inflation index and (ii) the indexation process in the design to deal with indexation lag. Ideally, the CIBs should be linked to an inflation index which is a perfect measure of inflation for all sections of society and is available at high frequency without any lag. In reality, there are several measures of inflation applicable to particular sections of society, but none of them meet the ideal conditions. Indexation lag arises from (a) publication lag and (b) institutional lag. The publication lag arises on account of some delay with which the inflation data are published; the institutional lag, on the other hand, may arise due to arrangements for trading and settlement of bonds between coupon payment dates. For a bond offering semi-annual coupon payments, the indexation lag on account of institutional factor would be six months. As the length of indexation lag has direct relationship with real value certainty or level of inflation protection, it is always desirable to minimise indexation lag.

Internationally, there are two broad designs of indexed bonds - the UK model and the Canadian model. While the UK model takes aggregated length of indexation lag as it is, the Canadian model brings down the length of indexation lag by eliminating institutional lag. Under the Canadian design, the inflation indexed principal can be derived on a daily basis by linear interpolation between the inflation index number applicable for the first day of the month in which the settlement falls and the inflation index number applicable to the first day of month immediately following the settlement date. The uplifted principal over the base thus arrived is used to calculate accrued interest on the CIBs for any particular date with indexation lag limited to the publication lag. Considering the inherent superiority of the Canadian model, many Treasuries the world over have used it to design their inflation indexed securities. Prominent among them are the United States, France, Sweden, South Africa, and New Zealand.

References

1. Sack, B. and Robert Elsasser (2004), "Treasury Inflation-Indexed Debt: A Review of the U.S Experience", *Federal Reserve Bank of New York Economic Policy Review*, May: 47-63.

2. Wilcox, David W. (1998), 'Policy Watch: The Introduction of Indexed Government Debt in the United States', *Journal of Economic Perspectives 12,No.1 (Winter): 219-27.*

VI.19 The Internal Technical Group on Central Government Securities Market had recommended, *inter alia*, introduction of 'When Issued Market' and limited short selling in Government securities. These recommendations would be considered in consultation with the Central Government (Box VI.2).

Box VI.2

When Issued Market

"When, as and if issued" [also known as "when-issued" (WI)] markets in Government securities function somewhat like trading in a futures market in that positions may be taken and covered many times before the actual settlement date. Such trading takes place between the time a new issue is announced and the time it is actually issued. WI trading has certain advantages like facilitating the distribution process for Government securities by stretching the actual distribution period for each issue and allowing the market more time to absorb large issues without disruption. It helps price discovery by reducing uncertainties surrounding auctions by enabling bidders to gauge market demand and price the securities being offered.

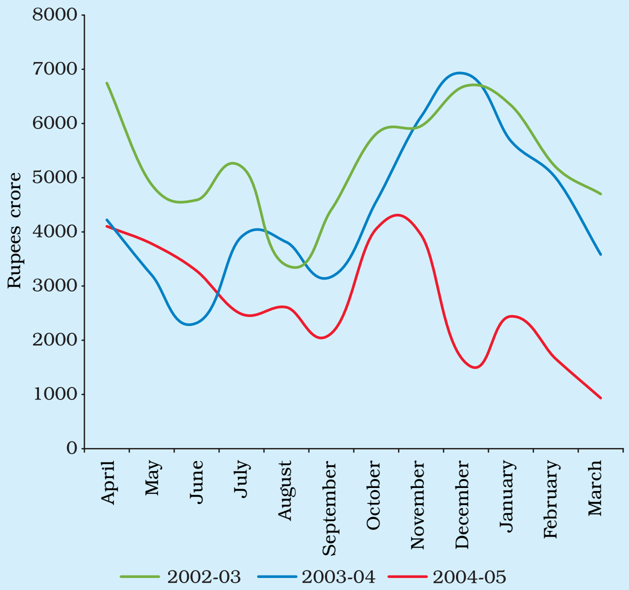
International experience suggests that the estimated aggregate size of outstanding positions in the WI market typically exceeds the quantity of securities to be sold at that auction. Those positions can be taken more cheaply and potentially in greater size (due to the lack of a delivery requirement) during the WI trading than in subsequent trading. Participants normally reduce the size of outstanding positions in the WI market as the issue date approaches. There is, however, the risk of participants overestimating their ability to cover short positions prior to settlement.

II. STATE GOVERNMENTS

Ways and Means Advances

VI.20 During 2004-05, the average utilisation of special WMA, normal WMA and overdrafts by the State Governments was lower than the previous year (Chart VI.4). The improvement in the overall cash position of the States was also reflected in the spurt in investments in 14-day Intermediate Treasury Bills (Table 6.10).

Chart VI.4: Outstanding WMA and Overdrafts to States



VI.21 State Governments, excepting Kerala, Arunachal Pradesh, Mizoram, Nagaland, Tripura and Uttaranchal resorted to WMA for a fewer number of days as compared with 2003-04 (Table 6.11). The recourse to overdrafts by the State Governments also showed improvement over the previous year. As many as 13 States did not avail overdrafts in 2004-05.

VI.22 Effective April 1, 2005 the aggregate normal WMA of the State Governments, which is based on the recommendations of the Ramachandran Committee, was revised upwards by 9.8 per cent. The increase is due to the higher average revenue receipts of the States in the preceding three years. The WMA limit for non-special category States was revised upwards by 9.4 per cent for the year 2005-06. In the case of special category States, there was an increase of 13.5 per cent (Table 6.12). The Advisory Committee on Ways and Means Advances to the State Governments (Ramachandran Committee; January 2003) had recommended that the formula and the limits of WMA to State Governments may be reviewed in totality after receipt of the recommendations of the Twelfth Finance Commission (TFC). Accordingly, an Advisory Committee on Ways and Means Advances to the State Governments was constituted in May 2005.

Table 6.10: WMA/Overdrafts and Investment of State Governments*

(Rupees crore)

Month	Normal WMA		Special WMA		Overdraft		Investment in 14-day Intermediate Treasury Bills	
	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04
1	2	3	4	5	6	7	8	9
April	1,118	989	1,908	2,145	1,075	1,088	5,585	3,894
May	1,044	941	2,177	1,816	560	445	5,917	4,987
June	1,049	937	1,724	1,179	506	204	7,959	6,232
July	863	1,138	1,196	2,160	425	612	7,693	4,095
August	890	968	1,472	2,183	247	658	8,348	5,193
September	856	959	1,258	1,681	14	532	9,887	5,190
October	951	1,150	2,556	2,464	547	946	9,606	3,690
November	933	1,246	2,545	3,829	465	1,053	12,011	3,497
December	601	1,216	827	4,513	152	1,185	14,722	2,820
January	695	1,055	1,530	3,417	216	1,203	12,632	3,716
February	438	1,023	1,110	3,274	107	698	15,039	4,208
March	115	811	631	2,068	188	703	17,337	4,234
Average	**796**	**1,036**	**1,578**	**2,379**	**375**	**777**	**10,561**	**4,313**

* : Average of Friday outstandings.

Table 6.11 State-wise Availment of WMA/Overdraft

(Rupees crore)

State	WMA		Overdraft			
	2004-05	2003-04	2004-05		2003-04	
	Number of days	Number of days	Number of Occasions	Number of days	Number of days	Number of Occasions
1	2	3	4	5	6	7
Non-Special Category States						
1. Andhra Pradesh	0	173	0	0	6	30
2. Bihar	5	92	0	0	0	0
3. Goa	212	270	3	13	9	66
4. Gujarat	116	203	0	0	13	47
5. Haryana	0	24	0	0	4	21
6. Karnataka	7	196	0	0	1	1
7. Kerala	348	328	19	161	28	196
8. Madhya Pradesh	110	261	0	0	22	176
9. Maharashtra	68	207	5	22	17	154
10. Orissa	91	315	0	0	21	189
11. Punjab	268	291	9	115	11	53
12. Rajasthan	21	303	0	0	21	151
13. Tamil Nadu	7	38	0	0	13	73
14. Uttar Pradesh	294	321	13	98	14	79
15. West Bengal	268	362	15	115	28	260
16. Chhattisgarh	0	0	0	0	0	0
17. Jharkhand	0	31	0	0	0	0
Special Category States						
1. Arunachal Pradesh	35	0	3	6	0	0
2. Assam	225	337	13	126	24	315
3. Himachal Pradesh	159	327	4	27	27	181
4. Manipur	149	268	2	118	19	350
5. Meghalaya	0	31	0	0	1	1
6. Mizoram	147	131	1	1	4	24
7. Nagaland	103	12	3	18	19	143
8. Tripura	31	25	0	0	0	0
9. Uttaranchal	95	78	2	16	9	41

Market Borrowings

VI.23 The net market borrowings allocated to the States for 2004-05 amounted to Rs.36,935 crore, including additional allocation of Rs.18,805 crore under the DSS. Taking into account repayments of Rs.5,123 crore, the gross allocation amounted to Rs.42,058 crore in 2004-05. As against this, gross market borrowings during 2004-05 by the State Governments were lower at Rs.39,101 crore. An amount of Rs.16,943 crore was raised under the DSS during 2004-05. The gross borrowing also included an additional amount of Rs.1,387 crore for prepayment of loans from the NABARD under the RIDF Scheme (Table 6.13).

VI.24 Of the total borrowings by States during 2004-05, 98 per cent was through sale of securities on a tap basis (Table 6.14).

VI.25 Borrowings raised by way of auctions aggregated Rs.885 crore accounting for two per cent of total borrowings (Table 6.15).

VI.26 The weighted average yield of State Government securities increased during 2004-05 while the weighted average maturity declined to 10.01 years in 2004-05 from 11.01 years in 2003-04. While the cut-off yield in the auctions ranged between 7.10-7.25 per cent, the coupon of the tap issuances ranged between 5.60 and 7.36 per cent

Table 6.12: Normal WMA Limits of States

(Rupees crore)

State		WMA Limits 1999 (effective March 1, 1999)$	WMA Limits 2001 (effective February 1, 2001)	WMA Limits 2002 (effective April 1, 2002)	WMA Limits 2003 (effective March 3, 2003)*	WMA Limits 2004 (effective April 1, 2004)	WMA Limits 2005 (effective April 1, 2005)
1		2	3	4	5	6	7
Non-Special Category States							
1.	Andhra Pradesh	288	463	520	620	700	770
2.	Bihar	195	220	245	305	340	380
3.	Chhattisgarh	82	91	100	130	155	175
4.	Goa	24	25	50	50	65	65
5.	Gujarat	243	393	445	485	520	575
6.	Jharkhand	51	57	75	105	175	225
7.	Haryana	99	167	180	205	245	280
8.	Karnataka	228	331	375	460	505	570
9.	Kerala	144	215	225	270	315	345
10.	Madhya Pradesh	221	244	275	345	395	420
11.	Maharashtra	483	685	760	905	1,000	1,050
12.	Orissa	141	159	185	215	250	270
13.	Punjab	141	200	235	240	325	360
14.	Rajasthan	202	288	310	365	405	440
15.	Tamil Nadu	281	402	415	570	615	670
16.	Uttar Pradesh	531	559	630	755	835	920
17.	West Bengal	235	295	360	420	480	495
	Sub Total	**3,589**	**4,794**	**5,385**	**6,445**	**7,325**	**8,010**
Special Category States							
1.	Arunachal Pradesh	28	35	50	50	50	50
2.	Assam	114	161	180	210	250	295
3.	Himachal Pradesh	59	92	115	135	140	145
4.	Manipur	25	38	50	50	50	55
5.	Meghalaya	25	30	50	50	50	55
6.	Mizoram	25	28	50	50	50	50
7.	Nagaland	26	40	50	55	60	65
8.	Tripura	31	46	55	60	70	80
9.	Uttaranchal	19	19	50	65	95	130
	Sub Total	**352**	**489**	**650**	**725**	**815**	**925**
	Total	**3,941**	**5,283**	**6,035**	**7,170**	**8,140**	**8,935**

$: Report of the Informal Advisory Committee on WMA to State Governments, November 1998 (Chairman: Shri B. P. R. Vithal).

* : Advisory Committee on WMA to State Governments, January 2003 (Chairman: Shri C. Ramachandran).

(Table 6.16). The investor response to market borrowings by some States was rather lukewarm in 2004-05, reflecting both demand and supply side factors. The response to tap issues held in the year 2004-05 was not encouraging (the tap issues closed with shortfalls except on two occasions), though there was surfeit of liquidity in the system. The spread in the cut-off yields in the auctions also widened. In this context, the need for improving the secondary market liquidity in State Government securities has received increasing attention.

VI.27 At end-March 2005, 60 per cent of the total outstanding debt of State Governments was in the maturity bucket of 6-10 years as compared with 54 per cent as at end-March 2004 (Table 6.17).

VI.28 The maturity profile of outstanding State Government Securities and Power Bonds issued by

Table 6.13: Market Borrowings of State Governments in 2004-05

(Rupees crore)

State		Gross Allocation	Repayment	Net Allocation (=2 - 3)	Gross Amount Raised by Auction	Gross Amount Raised by Tap	Gross Borrowings (=5 + 6)
1		2	3	4	5	6	7
1.	Andhra Pradesh	3,312	438	2,874	–	3,312	3,312
2.	Arunachal Pradesh	22	5	17	–	22	22
3.	Assam	794	162	633	–	794	794
4.	Bihar	1,890	330	1,560	–	1,890	1,890
5.	Chhattisgarh	523	93	430	–	392	392
6.	Goa	133	15	118	–	133	133
7.	Gujarat	2,020	209	1,811	–	2,020	2,020
8.	Haryana	1,039	109	930	–	1,039	1,039
9.	Himachal Pradesh	886	34	851	–	886	886
10.	Jammu & Kashmir	474	58	416	–	474	474
11.	Jharkhand	560	112	448	–	560	560
12.	Karnataka	2,299	182	2,117	–	2,299	2,299
13.	Kerala	1,672	296	1,376	356	1,316	1,672
14.	Madhya Pradesh	1,730	256	1,474	–	1,730	1,730
15.	Maharashtra	4,275	386	3,889	–	4,275	4,275
16.	Manipur	83	14	69	–	83	83
17.	Meghalaya	142	18	125	–	142	142
18.	Mizoram	89	10	79	–	89	89
19.	Nagaland	164	25	139	–	164	164
20.	Orissa	1,199	299	900	–	1,199	1,199
21.	Punjab	1,830	171	1,659	–	1,831	1,831
22.	Rajasthan	2,391	314	2,077	–	2,391	2,391
23.	Sikkim	48	12	36	–	48	48
24.	Tamil Nadu	2,599	350	2,249	270	2,329	2,599
25.	Tripura	251	18	233	–	251	251
26.	Uttar Pradesh	6,887	748	6,139	–	4,060	4,060
27.	Uttaranchal	309	40	269	–	309	309
28.	West Bengal	4,439	421	4,017	259	4,180	4,439
	Total	**42,058**	**5,123**	**36,935**	**885**	**38,217**	**39,101**

State Governments suggests that the repayment burden for State Governments would be very high during the period 2012-13 to 2014-15, reflecting high amount of borrowings during 2002-03 to 2004-05 under the DSS (Table 6.18).

VI.29 The interest rate profile of the outstanding stock of the State Government securities shows that 63 per cent of borrowings was contracted at interest rates ranging from 5.00 per cent to 9.99 per cent. The share of total outstanding stock with interest rate above 10 per cent declined to 37 per cent from 47 per cent in the previous year (Table 6.19).

Working Group to Frame the Model Fiscal Responsibility Legislation at State Level

VI.30 In the twelfth Conference of State Finance Secretaries held on August 1, 2003, it was decided that the Reserve Bank would provide technical assistance in the preparation of a model fiscal responsibility legislation for the State Governments.

Table 6.14: Market Borrowings Raised through Tap Issuance

(Rupees crore)

State		Tap Issue							
		Apr. 11, 2004, 5.60%#	May. 26-27, 2004, 5.70%#	Jul. 28-29, 2004, 6.35%*	Nov.2-3, 2004, 7.36%#	Dec. 7-8, 2004, 7.32% *	Jan.10-11, 2005, 7.02%#	Feb .22-23, 2005 7.17**	Mar. 14-15, 2005 7.20**
1		2	3	4	5	6	7	8	9
1.	Andhra Pradesh	732	591	532	735	321	354	47	0
2.	Arunachal Pradesh	9	0	0	9	5	0	0	0
3.	Assam	220	110	50	137	174	69	34	0
4.	Bihar	359	265	152	266	309	213	327	0
5.	Chhattisgarh	154	107	0	0	132	0	0	0
6.	Goa	67	0	0	39	26	0	0	0
7.	Gujarat	319	740	509	283	169	0	0	0
8.	Haryana	205	271	212	166	99	86	0	0
9.	Himachal Pradesh	208	174	155	158	85	90	16	0
10.	Jammu & Kashmir	54	107	65	42	36	45	125	0
11.	Jharkhand	125	130	98	75	117	16	0	0
12.	Karnataka	550	435	392	365	296	261	0	0
13.	Kerala	330	396	221	0	0	42	327	0
14.	Madhya Pradesh	350	247	401	342	290	100	0	0
15.	Maharashtra	611	1,145	701	427	348	137	520	386
16.	Manipur	34	0	0	44	0	2	3	0
17.	Meghalaya	41	0	0	47	0	3	52	0
18.	Mizoram	16	0	0	17	10	0	0	47
19.	Nagaland	62	0	43	34	21	2	2	0
20.	Orissa	313	175	133	169	218	0	191	0
21.	Punjab	211	512	596	0	0	293	219	0
22.	Rajasthan	513	495	393	505	217	268	0	0
23.	Sikkim	6	0	0	11	6	0	25	0
24.	Tamil Nadu	581	723	443	450	0	133	0	0
25.	Tripura	42	0	0	40	22	2	146	0
26.	Uttar Pradesh	775	735	514	367	1,144	492	32	0
27.	Uttaranchal	209	0	0	67	33	0	0	0
28.	West Bengal	406	1,113	681	289	183	542	966	0
	Total	**7,500**	**8,471**	**9,288**	**5,084**	**4,261**	**3,148**	**3,031**	**433**

*: Tenor : 9 years. **: Tenor :12 years. #: Tenor : 10 years.

Accordingly, a Group was constituted in October 2003 with select Finance Secretaries of State Governments and a representative of the Government of India, Ministry of Finance, as members. The Report of the Group was submitted on January 22, 2005. As decided in the 14th

Table 6.15: Market Borrowings Raised in Auctions

(Amount in Rs. Crore/rate in per cent)

Sr. No.	State	Date of Auction	Notified Amount	Market Rate*	No. of Bids Received	Amount Offered	Amount Raised	Weighted Average Yield (%)	Cut-off Rate (%)	Spread (Col. 5 - Col. 10)
1	2	3	4	5	6	7	8	9	10	11
1	Kerala	24.08.04	356	6.32	24	485.35	355.66	7.16	7.25	0.93
2	Tamil Nadu	24.08.04	450	6.32	38	757.85	270.00	7.05	7.10	0.78
3	West Bengal	24.08.04	380	6.32	31	599.0	259.00	7.08	7.15	0.83

* : Yield on Central Government 10-year dated security.

Table 6.16: Weighted Average Yield of State Government Securities

(per cent per annum)

Year	Range	Weighted Average
1	2	3
1995-96	14.00	14.00
1996-97	13.75-13.85	13.83
1997-98	12.30-13.05	12.82
1998-99	12.15-12.50	12.35
1999-00	11.00-12.25	11.89
2000-01	10.50-12.00	10.99
2001-02	7.80-10.53	9.20
2002-03	6.60-8.00	7.49
2003-04	5.78-6.40	6.13
2004-05	5.60-7.36	6.44
2005-06 (up to Aug. 12, 05)	7.32-7.77	7.66

Conference of State Finance Secretaries held on August 13, 2004 the Report of the Group has been placed on the Reserve Bank's website.

Table 6.17: Maturity Profile of Outstanding State Government Securities (At end-March 2005)

State	Percentage to total amount outstanding			Total Amount Outstanding (Rs. crore)
	0-5 years	6-10 years	Above 10 years	
1	2	3	4	5
1. Andhra Pradesh	29.7	64.9	5.4	19,964
2. Arunachal Pradesh	15.0	48.1	36.9	279
3. Assam	30.7	59.1	10.3	5,129
4. Bihar	32.2	55.4	12.3	11,803
5. Chhattisgarh	–	72.1	27.9	1,744
6. Goa	27.1	59.2	13.6	961
7. Gujarat	22.4	65.3	12.3	12,657
8. Himachal Pradesh	15.2	72.8	12.0	3,690
9. Harayana	26.3	62.1	11.6	4,755
10. Jammu & Kashmir	21.4	66.5	12.1	2,693
11. Jharkhand	–	86.9	13.1	1,971
12. Karnataka	23.8	62.8	13.4	11,762
13. Kerala	33.0	56.1	11.0	9597
14. Maharashtra	21.3	57.8	20.9	17,544
15. Madhya Pradesh	32.3	54.4	13.3	10,341
16. Manipur	27.8	47.3	24.9	598
17. Meghalya	33.3	46.7	20.0	825
18. Mizoram	24.9	51.7	23.3	501
19. Nagaland	32.5	54.9	12.6	1,237
20. Orissa	34.0	50.0	16.1	9,581
21. Punjab	23.4	62.0	14.6	7,718
22. Rajasthan	29.0	60.7	10.3	14,358
23. Sikkim	50.0	28.9	21.1	332
24. Tripura	26.8	44.1	29.1	1,025
25. Tamil Nadu	26.8	64.3	8.9	13,786
26. Uttaranchal	–	78.6	21.4	2,812
27. Uttar Pradesh	34.9	52.7	12.4	27,051
28. West Bengal	21.5	58.7	19.8	18,728
Total	**27.0**	**59.6**	**13.4**	**2,13,443**

Table 6.18: Maturity Profile of Outstanding State Government Securities and Power Bonds (At end-March 2005)

(Rupees crore)

Year	State Loans	Power Bonds	Total Outstanding
1	2	3	4
2005-06	6,274	0	6,274
2006-07	6,551	1,494	8,045
2007-08	11,555	2,989	14,544
2008-09	14,400	2,989	17,389
2009-10	16,511	2,989	19,500
2010-11	15,870	2,989	18,859
2011-12	22,032	2,989	25,021
2012-13	30,628	2,989	33,617
2013-14	32,078	2,989	35,067
2014-15	33,385	2,989	36,373
2015-16	13,462	2,989	16,451
2016-17	10,697	1,494	12,191
Total	**2,13,443**	**29,886**	**2,43,329**

Conference of State Finance Secretaries

VI.31 During 2004-05, the 14th and 15th conferences were held on August 13, 2004 and January 24, 2005 respectively. In the 14th Conference, issues relating to market and other borrowings of State Governments, policy for identifying durable surplus for investment, improving secondary market liquidity of State Government Securities and draft Report of the Working Group on the Model Fiscal Responsibility Legislation at State Level were discussed. It was also decided in the Conference to form two Working Groups with representatives from select State Governments for (i) improving secondary market liquidity of State Development Loans and (ii) devising a methodology of compilation of data on various types of debt liabilities of the States.

Table 6.19: Interest Rate Profile of Outstanding State Government Securities (At end-March 2005)

Range of Interest Rate (per cent)	Outstanding Amount (Rupees crore)	Percentage to Total
1	2	3
1. 5.00-5.99	34,612	16.22
2. 6.00-6.99	58,563	27.44
3. 7.00-7.99	27,872	13.06
4. 8.00-8.99	8,004	3.75
5. 9.00-9.99	5,412	2.54
6. 10.00-10.99	14,563	6.82
7. 11.00-11.99	17,062	7.99
8. 12.00-12.99	25,362	11.88
9. 13.00-13.99	15,720	7.37
10. 14.00	6,274	2.94
Total	**2,13,443**	**100**

VI.32 In the 15th Conference held on January 24, 2005 the deliberations focused on issues such as market borrowings of State Governments, presentation on the Working Group on State Government Liabilities and review of the working of the State Finance Secretaries' Conferences. An interface with the Indian Banks' Association was also organised to deliberate upon the issues relating to default and restructuring/unilateral alteration in the financial terms of SLR State Government guaranteed bonds issued by State Government entities.

VI.33 The 16th Conference of State Finance Secretaries was organised on April 8, 2005 to deliberate exclusively on the recommendations of the Twelfth Finance Commission (TFC) and operational issues emanating therefrom. Dr. C. Rangarajan, Chairman, TFC and Chairman, Economic Advisory Council to the Prime Minister, delivered the inaugural address.

Technical Advisory Committee

VI.34 During 2004-05, three meetings of the Technical Advisory Committee (TAC) on Money, Foreign Exchange and Government Securities Markets were held. In the meeting held on May 31, 2004 issues such as liquidity aspects of State Government securities, eligibility of corporates in the repo market, permission to banks to trade in exchange traded derivatives and operational issues of Delivery *versus* Payment (DvP) III were discussed. In the meeting held on September 17, 2004, the future course of action on OTC derivatives, permission to banks to trade in exchange traded derivatives and issues for further development in the commercial paper market were discussed. It was also decided to constitute two Sub-Groups. The Group under the chairmanship of Shri D. N. Ghosh was set up to recommend the steps to be taken in order to allow banks to trade in Interest Rate Futures (IRFs) and to harmonise regulatory norms between Over the Counter (OTC)/exchange traded derivatives and also between rupee denominated/cross currency derivatives involving rupee in one leg. A Working Group on Liquidity of State Government Securities was set up to examine the modalities of improving the secondary market liquidity of State Development Loans. In the 21st meeting of the TAC held on January 18, 2005 recommendations of the Sub-Group on Primary Dealers System in India - Issues and Prospects were discussed. A review of benchmark in regard to prudential limits in call/ notice money market and of the system of liquidity support to gilt mutual funds was also undertaken. In the 22nd meeting of the TAC held on April 12, 2005 draft reports of the Technical Groups on Money Market, Central Government Securities Market, and Forex Markets were discussed. These reports have been placed on the Bank's website.

Outlook

VI.35 The market borrowing programme of the Central Government during 2005-06 is budgeted to be much higher than in the previous year. Furthermore, the interest rate cycle is turning up internationally. The Reserve Bank expects to conduct debt management within the monetary projections set out in the Annual Policy Statement for 2005-06 consistent with the objectives of minimisation of cost and rollover risk. The reintroduction of capital indexed bonds is expected to widen the choice for investors while lowering the cost of borrowings to the Government in the long run. The initiatives by the Reserve Bank towards further deepening and widening the Government securities market with innovative instruments and new participants would pave the way for healthy and smooth conduct of debt management and borrowing requirements. The steps taken towards improving the liquidity of State Government loans are expected to ease hurdles encountered by State Governments in their access to the market. State Governments' efforts towards ensuring sustainability of debt position will be an abiding concern of the Reserve Bank in the conduct of public debt management operations in 2005-06.

VII CURRENCY MANAGEMENT

VII.1 The Reserve Bank's currency management operations pursued the objectives of ensuring adequate availability of banknotes and coins, improving the quality of banknotes in circulation and upgrading customer service, including public awareness. Steps were taken during 2004-05 towards progressive mechanisation of verification, processing and sorting of banknotes at currency chests and, in general, enhancing efficiency of all underlying processes constituting the currency management function. This enabled the Reserve Bank to reduce annual expenditure on security printing. As part of anti-counterfeiting measures during 2005, banknotes with additional/new security features will be issued in a phased manner. The Reserve Bank's Monetary Museum was inaugurated by the President of India on November 18, 2004, and opened to the public on January 1, 2005.

VII.2 This Section reviews currency management operations during 2004-05 covering the currency chest network, issue of new banknotes and coins, distribution strategies and the growing modernisation in cash and banking requirements of the public. Besides the various initiatives taken to ensure the quality of banknotes in circulation, this Section sets out the initiatives undertaken to expand the use of computerisation in currency management as part of the overall drive to upgrade customer service. The Monetary Museum and the *Bharatiya* Reserve Bank Note Mudran Pvt. Ltd. are also covered in this Section.

Currency Operations

VII.3 The currency operations are performed by the Reserve Bank through its 20 regional offices/sub-offices and a wide network of currency chests and small coin depots spread across the country. The total number of currency chests increased marginally during the year ended June 2005. Currency chests with Treasuries fell consequent upon the implementation of the policy to progressively convert and/or close currency chests held with the State Treasuries. Commercial banks including foreign and private banks expanded their currency chest operations. The State Bank Group dominates the currency chest system with about 72 per cent of total currency chests (Table 7.1).

Table 7.1: Currency Chests

Category	No. of Currency Chests	
	June 30, 2005	June 30, 2004
1	2	3
Treasuries	149	214
State Bank of India	2,198	2,173
SBI Associate Banks	1,008	1,004
Nationalised Banks	983	943
Private Sector Banks	72	58
Co-operative Banks	1	1
Foreign Banks	4	4
Reserve Bank	20	20
Total	**4,435**	**4,417**

BANKNOTES IN CIRCULATION

VII.4 During 2004-05, the value of banknotes in circulation registered a growth of 12.2 per cent as compared with 15.8 per cent during the previous year. In terms of volume, however, there was a reduction of around four per cent, mainly due to change in denomination-wise mix of banknotes based on region-wise and currency chest-wise demand, increasing number of automated teller machines and a gradual rise in the number of users of e-banking. The ratio of currency to broad money (M_3) increased marginally (15.7 per cent) from its level in the previous year (Chart VII.1).

Chart VII.1: Share of Currency in Broad Money (End-March)

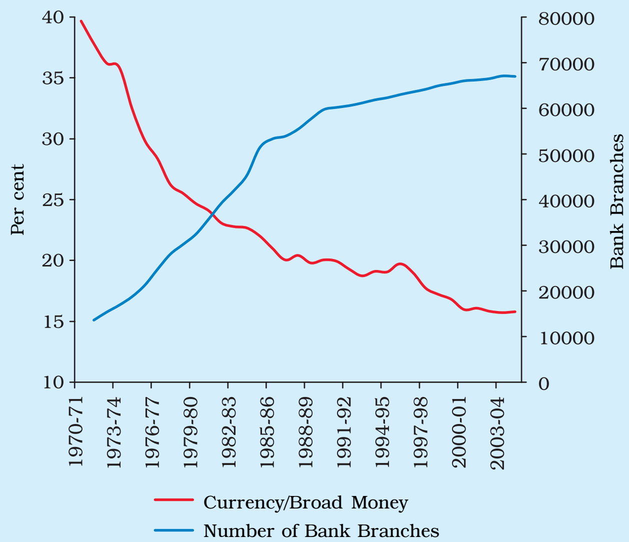


Table 7.2: Fresh Banknotes and Coins in 2004-05

	Bank notes		Coins	
	Pieces (in Million)	Amount (Rupees crore)	Pieces (in Million)	Amount (Rupees crore)
1	2	3	4	5
Indent	14,855	1,78,530	2,500	6,00
Supply	12,593	1,43,102	896	193

VII.5 Banknotes and coins supplied during the year constituted 85 per cent and 35 per cent, respectively, of the indent (Table 7.2). Accordingly, steps were taken to ensure that the available supplies are distributed judiciously to meet demand.

VII.6 In the case of banknotes, the shortfall between indent and supply during 2004-05 was bridged by retrieval and recirculation of good quality banknotes out of remittances received from currency chests. In terms of value, the largest share in circulation was of Rs.500 denominations. Banknotes of Rs.100 denomination had the largest share in terms of volume. Banknotes of Rs.100 and Rs.500 denominations together accounted for 76.4 per cent of the total circulation in terms of value (Table 7.3).

VII.7 There has been a consistent shift from lower denomination notes to higher denomination notes. The demand for Rs.500 denomination notes has increased sharply mainly due to the growing network of Automated Teller Machines (ATMs) (Box VII.1).

VII.8 The total value of coins in circulation declined by about two per cent during 2004-05 as against an increase of 3.8 per cent in 2003-04, mainly due to falling demand for small coins (Chart VII.2). The demand for Rs.5 coins recorded subdued growth due to the parallel issue of banknotes of Rs.5 denomination. The coins of smaller denominations such as 5 paise, 10 paise and 20 paise are no more in demand. Consequently, it has been decided to phase out from circulation all coins of lower denomination *i.e.*, of 5 paise, 10 paise and 20 paise - irrespective of their metal composition - and cupro-nickel coins of 25 paise, 50 paise and one rupee denomination. Banks have been directed to accept and remit these coins to the Government Mints.

Table 7.3: Circulation of Banknotes and Coins (end-March 2005)

	Value		Volume	
Denomination	Rupees crore	Share (percent)	Million Pieces	Share (percent)
1	2	3	4	5
Banknotes				
Rs.2 & Rs.5	2,548	0.7	6,484	17.5
Rs.10	6,770	1.9	6,770	18.3
Rs.20	3,876	1.1	1,938	5.2
Rs.50	29,941	8.3	5,988	16.2
Rs.100	1,23,282	34.1	12,328	33.3
Rs.500	1,52,728	42.3	3,055	8.3
Rs.1000	42,082	11.6	421	1.1
Total	**3,61,229**	**100.0**	**36,984**	**100.0**
Coins				
Small Coins	1353	19.2	54,051	64.8
Re coins	1,790	25.4	17,896	21.5
Rs.2	1,290	18.3	6,449	7.7
Rs.5	2,619	37.1	5,238	6.3
Total	**7,052**	**100.0**	**83,631**	**100.0**

Box VII.1

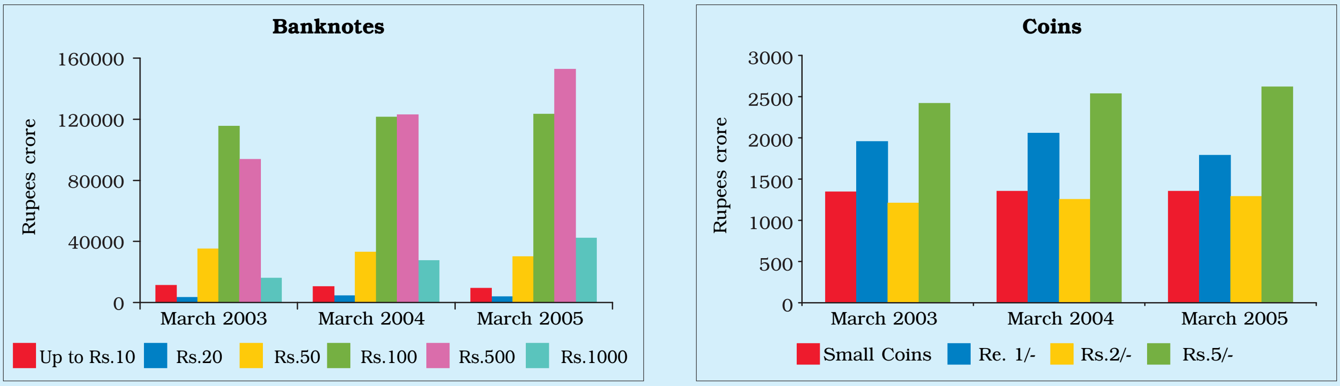
Growth of ATMs and Demand for Higher Denomination Banknotes

Ever since the first automated teller machine (ATM) was introduced in the late 1960s, the usage of ATM has grown exponentially. The cash dispenser and the ATMs have gradually become the electronic face of banking. It is estimated that there are 49 billion cash withdrawals worldwide through ATMs in a year.

Foreign banks in India were the first to introduce experimental ATMs in 1988. Usage picked up in the 1990s. Although a number of services are offered through fully functional ATMs, about 98 per cent people use the ATM primarily for withdrawing cash. Banks have devised competitive strategies around the ATMs, recognising that ATMs can be a potent source of value added service to consumers through access to banking services at any time and at a large number of outlets, thereby increasing customer convenience as well as cost effectiveness in banking functions.

With the increase in the usage of ATMs, a shift has taken place towards stocking higher denomination banknotes - particularly Rs.100 and Rs.500 denominations - as banks do not find it commercially viable to stock the machines with all denominations of banknotes. Lower denomination banknotes run out sooner and increase both capital cost and operating costs. The Reserve Bank has accordingly been facing an increasing demand for fresh banknotes in Rs.500 and Rs.100 denominations. In the context of the increased demand for ATM-fit banknotes, emphasis has been laid on banks using desktop sorters to salvage good quality banknotes for use in ATMs.

Chart VII.2: Value of Banknotes and Coins in Circulation



VII.9 There was a reverse flow of coins during the year (442 million pieces), which compensated for the shortfall in supply relative to the indent. In response to complaints from public regarding non-acceptance of coins at bank branches, the Reserve Bank advised all the banks to accept coins of all denominations and also made arrangements with the Government of India Mints to take back coins in excess of public demand.

CLEAN NOTE POLICY

VII.10 There has been a marked improvement in the quality of banknotes in circulation due to various measures initiated by the Reserve Bank and the Government of India. These measures include speedier disposal of soiled banknotes; discontinuance of the practice of stapling of banknote packets; appeal to the members of the public not to fold and write on the banknotes; gradual phasing out of *Ashoka* Pillar series banknotes from circulation; mopping up of soiled and mutilated banknotes of lower denominations; increased mechanised processing capacity at the Reserve Bank offices; progressive mechanisation in the currency chests; regular removal of soiled banknotes from the currency chests; and regular supply of adequate quantity of fresh banknotes on a timely basis.

Disposal of Soiled Banknotes

VII.11 During 2004-05, Rs.100 denomination banknotes constituted the largest share of soiled banknotes that were processed and disposed off, followed by Rs.10 and Rs.50 denominations (Table 7.4).

Mechanisation

VII.12 Mechanisation of verification, processing, sorting and disposal of soiled banknotes through on-

Table 7.4: Disposal of Soiled Banknotes in 2004-05

Denomination	Million pieces	As percentage to total
1	2	3
Rs.1000	5	0.0
Rs.500	257	2.2
Rs.100	4,324	36.8
Rs.50	2,490	21.2
Rs.20	485	4.1
Rs.10	3,716	31.6
Up to Rs.5	475	4.0
Total	**11,752**	**100.0**

line shredding has been a thrust area in currency management. With a view to augmenting banknote processing capacity, six Currency Verification and Processing Systems (CVPS) machines and one Shredding and Briquetting Systems (SBS) are proposed to be installed at Lucknow in addition to the existing 48 CVPS and 27 SBSs installed at 18 Issue Offices. In contrast to the conventional furnaces (used earlier in the Reserve Bank's offices for disposal of non-issuable banknotes) which caused environmental pollution, SBS machines provide shredding, granulation and briquetting of soiled currency banknotes in a secured and eco-friendly manner. The banknotes processed on these machines increased from 3,290 million pieces during 2003-04 to 5,672 million pieces in 2004-05 through better utilisation of these machines by the Reserve Bank offices by diversion of soiled banknotes from offices with higher accumulation to offices having spare capacity and extended hours of CVPS operations, achieving and even exceeding the rated capacity of these machines and by judicious distribution of soiled banknotes among Regional Offices of the Reserve Bank so as to avoid both accumulation of soiled banknotes and underutilisation of CVPS machines.

Table 7.5: Counterfeit Banknotes Detected

Denomination	2004-05			2003-04		
	No. of pieces	Value (in Rs.)	Counterfeit banknotes (per million pieces in circulation)	No. of pieces	Value (in Rs.)	Counterfeit banknotes (per million pieces in circulation)
1	2	3	4	5	6	7
Rs.1000	759	7,59,000	1.8	248	2,48,000	0.9
Rs.500	14,400	72,00,000	4.7	17,783	88,91,500	7.2
Rs.100	161,797	1,61,79,700	13.1	182,361	1,82,36,100	15.0
Rs.50	4,737	2,36,850	0.8	4,701	2,35,050	0.7
Rs.20	156	3,120	0.1	56	1,120	0.0
Rs.10	79	790	0.0	77	770	0.0
Total	**1,81,928**	**2,43,79,460**		**2,05,266**	**2,76,12,540**	

Counterfeit Banknotes

VII.13 The value of counterfeit banknotes detected during 2004-05 declined marginally in relation to 2003-04. The number of counterfeit banknotes detected in Rs.500 and Rs.100 denominations declined considerably. On the other hand, there was an increase in detection of Rs.1000 denomination banknotes (Table 7.5).

VII.14 Banks were advised to install note sorting machines capable of detecting counterfeit banknotes at currency chests. Banks with less than 100 currency chests were given time up to the end of May, 2005 for installing such sorting machines in each of the currency chests. Banks with 100 or more currency chests were given time up to November, 2005.

VII.15 The Reserve Bank's Regional Offices were advised to publicise the security features of Indian banknotes in local languages by using electronic and print media. The security features of Indian banknotes were also placed on the website of the Reserve Bank. The Reserve Bank continued to provide training on detection of counterfeit banknotes to the officials of bank branches, Government departments, police and para military forces.

Additional/New Security Features of Indian Banknotes

VII.16 Security features of banknotes are reviewed continuously and updated from time to time in order to take advantage of latest innovations and with the objective of making counterfeiting difficult. Mahatma Gandhi series banknotes in denominations of Rs.100 and Rs.10 with enhanced security features were introduced in 1996, followed by Rs.50 and Rs.500 in 1997, Rs.1000 in the year 2000 and Rs.20 and Rs.5 in 2001. Introduction of additional/improved/new security features is envisaged for denominations of Rs.50, Rs.100, Rs.500 and Rs.1000 to be put into circulation during 2005-06. The changes in security features, *inter alia*, include: increase in grammage; reduction in font size of numerals and shift in colour from new green to new blue optically variable ink (OVI) font in Rs.500 and Rs.1000 denominations; one-side Intaglio printing; electrolyte watermark in addition to Mahatma Gandhi portrait watermark; colour shift magnetic machine readable security thread for denominations of Rs.100 and above; and dual coloured fluorescent fibres in banknotes of all denominations (Box VII.2).

Computerisation of Currency Management

VII.17 The Reserve Bank has taken up the task of putting in place an Integrated Computerised Currency Operations and Management System (ICCOMS) with a view to ushering in greater operational efficiency, improved customer service and providing decision support tools for policy making in the area of currency management. The project includes computerisation and networking of the currency chests with the Reserve Bank's offices to facilitate prompt, efficient and error-free reporting and accounting of the currency chest transactions in a secure manner. The system will provide a uniform computing platform across all the Regional Offices for transaction processing, accounting and management information systems relating to currency. It would lead to migration from the existing computer systems used for the Issue accounting functions.

Box VII.2
Security Features in Banknotes

In the wake of increasing circulation of high value counterfeit banknotes, particularly Rs.100 and Rs.500 denominations, the Government of India appointed a High Level Committee in February, 2000. The Committee, *inter alia*, recommended incorporation of Additional/new security features and improvement of certain existing security features in banknotes. The proposed security features to be incorporated in banknotes are as under:

Feature	Denomination	Proposed specification/ Security feature
Paper	All	*Grammage* 90 GSM (±3) for Rs.10 to Rs.1000 *Caliper thickness* 110 microns (±5) for Rs.10 to Rs.1000
Security thread	Rs.1000 Rs.500 Rs.100	Machine-readable windowed demetalised clear text magnetic security thread with inscriptions '*Bharat*' (in Hindi) and RBI on notes of Rs.100 and Rs 500, and additionally 1000 for Rs 1000 with exclusive colour shift. Colour of the thread shall shift from green to blue when viewed from different angles. It will fluoresce in yellow on the reverse and the text will fluoresce on the obverse under UV light. Width: 3 mm for Rs.1000 and Rs.500 2 mm for Rs.100
	Rs.50 and below	Machine readable windowed demetalised clear text magnetic security thread with inscriptions '*Bharat*' (in Hindi) and RBI which fluoresces in yellow on both sides under U.V. light (Generic). Width: 1.4 mm
Electrolyte watermark	All	Highlight watermark of denominational numeral to be located alongside Mahatma Gandhi watermark.
Omron anti photocopying feature	Rs.50 and above	To be included in Rs.100 and Rs.50 also.
Year of printing	All	Year of printing to be incorporated at the printing stage on the reverse of the bank note.
Optically variable ink (OVI)	Rs.500 and Rs.1000	Reduced size of font for numerals and revised colour shift from new green to new blue. Rs.500: 12mmx27.5mm(330 sq mm). Rs.1000: 12mmx34mm(408 sq mm).
See through effect	All	Existing security features will continue with improvement.
Latent image	Rs.20 and above	Existing security features will continue with improvement.
Intaglio printing	Rs.20 and above	Intaglio effect to be made more prominent with 130 microns in plate making stage only on the obverse of the notes. Notes of Rs.500 and Rs.1000 also will have intaglio printing only on the obverse.
Identification mark	Rs.20 and above	Engraving depth to be increased from 83 microns to 160 microns.
Optical fibres	All	Dual coloured optical fibres.

Customer Service

VII.18 During the year, the Reserve Bank stepped up efforts for improvement of customer services in matters relating to issue of coins, acceptance of coins from the public and exchange of soiled and mutilated banknotes. Scheduled commercial banks were directed to issue coins, accept coins and soiled banknotes in transactions or for exchange without any restriction. Efforts were continued to provide timely and efficient customer service not only at the Reserve Bank Offices but also at bank branches. The Reserve Bank revised the Citizens' Charter and placed it on the website. All Issue offices have implemented the major recommendations of the Committee on Procedures and Performance Audit on Public Services (Chairman: Shri S.S. Tarapore) on services relating to individuals on currency management.

VII.19 The Reserve Bank decided to opt for ISO certification of currency management. Accordingly, a Core Group has been set up to ensure smooth implementation of the ISO standards. Kolkata and Hyderabad offices have been identified for the pilot project. All the Regional Offices have been advised to initiate necessary steps towards achieving international standards in customer service in currency management.

Reserve Bank Monetary Museum

VII.20 The President of India Dr. A.P.J. Abdul Kalam inaugurated the Reserve Bank of India Monetary Museum on November 18, 2004. The President noted in the visitor's book, " It is a beautiful idea and well presented. Hearty congratulations." The Reserve Bank's Monetary Museum aims at documenting, preserving and presenting India's monetary heritage. The Museum was opened to the public from January 1, 2005. The Museum is the first of its kind in the country and aims at depicting the history of currency and the evolution of money in India. The Museum exhibits collections of Indian coinage, paper currency as well as financial instruments and curiosities down the ages. The exhibits on display have been selected so as to give a feel of the objects that have served as money at various points of time. The main exhibit sections of the Museum relate to concepts, ideas and curiosities; coinage; from coins to banknotes and advent of banking in India; paper currency; financial instruments; the Reserve Bank's functions; and currency management.

Issue Department Manual

VII.21 Revised and updated version of the Issue Departmental manual was brought out during 2004. The manual was first brought out in 1937 and subsequently revised/ updated in 1952 and in 1972.

The Bharatiya Reserve Bank Note Mudran Pvt. Ltd.

VII.22 The Bharatiya Reserve Bank Note Mudran Pvt. Ltd. (BRBNMPL), incorporated as a wholly owned subsidiary of the Reserve Bank, was set up in 1996 to take over the work of the new Note Press Project. It operates the single business of printing banknote form in its two printing presses at Mysore (Karnataka) and Salboni (West Bengal). The Presses put together have an installed capacity of 8,400 million pieces of banknotes per annum in a single shift depending on the mix of denominations. The total production of banknotes by the two presses increased by 9.4 per cent to 8,625 million pieces during 2004-05. The Company achieved a net profit of Rs.135 crore during 2003-04 as compared with Rs.274 crore during 2002-03. The Company has been re-certified as being fully compliant with the requirement of ISO 9001:2000 for a further period of three years. Smt. K.J. Udeshi, Deputy Governor, was appointed ex-officio chairperson of the BRBNMPL from April 1, 2005. A Board-level Strategic Planning and Technology Implementation Committee has been set up to study the scope for further technology absorption and to monitor research and development efforts on an ongoing basis.

Outlook

VII.23 The Reserve Bank would continue to conduct its currency management operations with a view to ensuring optimal customer service through an adequate supply of good quality and secure banknotes and coins in the country. Clean banknotes and intensified anti-counterfeiting measures will be a concurrent objective, alongside continuous upgradation of security features. The Reserve Bank intends to implement the Integrated Computerised Currency Operations and Management System (ICCOMS) in all its offices and major currency chests during 2005-06. It is expected that the modernisation of the technological infrastructure, the diffusion of IT initiatives in computerisation of bank branch operations and the advances in the communication facilities will improve customer satisfaction and create the necessary environment for ongoing improvements in currency management.

VII.24 The Reserve Bank will continue to ensure production and circulation of high quality banknotes and coins, to influence banknote circulation to meet the needs of the consumers, and to contribute to the integrity and security of the banknotes. Efforts will continue to ensure availability of coins and banknotes to the consumers in their day-to-day cash transactions; to minimise the risk of counterfeits; to withdraw, authenticate and sort banknotes which are not fit to be re-issued; to examine the existing technological options as well as innovations to increase the circulation life of banknotes; to ensure printing of banknotes to very strict quality rules/ standards; to make currency operations ISO accredited; to review the banknotes and coins handling practices including recycling of banknotes and coins; to adopt/develop improved banknote security features, and to contribute to the integrity and security of the banknotes by providing regular training in this area to the professional handlers of cash, by promoting the security features to consumers through the public information materials, and by processing lodgement of higher denomination banknotes within the shortest possible time to help improve counterfeit detection. Strategic plans that are in place will be continuously reviewed as part of an on-going process to take the Reserve Bank's currency management to a level to meet the ISO requirements and specifications.

VIII PAYMENT AND SETTLEMENT SYSTEMS AND INFORMATION TECHNOLOGY IN THE RESERVE BANK

VIII.1 A key element of financial sector reforms in India has been building the appropriate technological infrastructure for the smooth functioning of the financial system. At the core of this drive is the development of a sound and efficient payment and settlement system. During 2004-05, the thrust of the Reserve Bank's policy initiatives was on widening the range of electronic payment products and building a sound institutional framework for regulation and supervision. The stabilisation of the Real Time Gross Settlement (RTGS) system was a significant development. The establishment of the National Financial Switch by the Institute for Development and Research in Banking Technology (IDRBT) was another noteworthy development. A Payment and Settlement System Vision Document was released in May 2005 for charting the direction for the medium term.

VIII.2 This Section profiles the initiatives taken by the Reserve Bank during 2004-05 in its endeavour to provide a safe, secure, efficient and integrated payment and settlement system benchmarked to international standards. This Section also describes implementation of Information Technology (IT) in the Reserve Bank and the developments in the Indian Financial Network (INFINET).

PAYMENT SYSTEMS

VIII.3 The overall turnover of various payment and settlement systems rose by 27.4 per cent during 2004-05. The turnover in respect of RTGS transactions increased sharply. In terms of value, turnover in RTGS now constitutes the largest item, followed by foreign exchange clearing and high value clearing among the Systematically Important Payment Systems (SIPS) (Table 8.1).

Table 8.1: Payment System Indicators: Annual Turnover in 2004-05

Component	Volume (000s)	Value (Rupees crore)	Remarks
1	2	3	4
Systemically Important Payment Systems (SIPS)			
1. Inter-bank Clearing*	808 (1,142)	9,91,436 (30,46,666)	
2. High Value Clearing	12,648 (13,172)	45,22,323 (30,23,290)	Cheques of Rs.1 lakh and above
3. NDS	185 (265)	26,92,126 (25,18,323)	Settlement through CCIL
4. Forex Clearing	466 (331)	40,42,435 (23,18,530)	Settlement through CCIL
5. RTGS@	460 (67)	40,66,184 (1,965)	
Total SIPS (1 to 5)	**14,568** **(14,977)**	**1,63,14,504** **(1,09,08,774)**	
Others			
6. MICR Clearing	820,743 (624,360)	41,15,176 (20,35,934)	At 40 centres
7. Non-MICR Clearing	290,400 (334,039)	14,18,117 (30,05,139)	Includes all other paper based Clearings
8. Electronic Clearings	57,072 (31,352)	79,476 (29,606)	Comprises ECS, EFT and SEFT
9. Cards	362,040 (188,275)	77,120 (36,265)	Includes credit, debit and smart cards
Total Others (6 to 9)	**1,530,255** **(1,178,026)**	**56,89,889** **(51,06,944)**	
Grand Total	**1,544,823** **(1,193,003)**	**2,20,04,393** **(1,60,15,718)**	

* : Paper-based inter-bank clearing was closed at Mumbai with effect from November 1, 2004 and subsequently at other centres in phases. Inter-bank transactions are now settled through RTGS system.

@ : RTGS became operational on 26th March, 2004.

Note : Figures in parentheses are data for 2003-04.

VIII.4 A substantial increase in repo transactions (outside the Reserve Bank's LAF) and transactions in foreign exchange clearing conducted by the Clearing Corporation of India Limited (CCIL) resulted in a sizeable expansion in the value of turnover under the Negotiated Dealing System (NDS) and the foreign exchange clearing system. The Reserve Bank has taken a number of steps in the recent period to strengthen the institutional, technological and procedural framework for the payment and settlement systems. The Vision Document for Payment and Settlement Systems (2005-08) encapsulates these initiatives and lays out a road map for the future (Box VIII.1).

Retail Payment Systems

VIII.5 Retail payment systems recorded considerable increase in volume and value during 2004-05. These systems include the cheque clearing

Box VIII.1

Vision Document for Payment and Settlement Systems (2005-08)

The Vision Document released in May 2005 lists the achievements in the area of payment systems during the preceding three years and details the action plan with definite milestones to be reached in the next three years.

The key themes identified in the action plan are safety, security, soundness and efficiency (Triple-S and E). While safety in payment and settlement systems relates to risk reduction measures, security pertains to confidence in the integrity of the payment systems. All payment systems are envisaged to be on a sound footing with adequate legal support for operational procedures and transparency norms. Efficiency enhancements are envisaged by leveraging the benefits of technology for cost effective solutions.

The roadmap for implementing the vision for payment and settlement systems within the next three years is indicated below:

2005-06

- Pursuing with the Indian Banks' Association (IBA) and major banks for setting up of a national level entity which will operate all retail payment systems in the country;
- Operationalisation of the National Settlement system for all clearings at four metropolitan centres by December 2005;
- Finalisation of the proposed EFT Regulations;
- Implementing Stage-2 of the RTGS system, *i.e.*, Integrated Accounting System (IAS)-RTGS rollout during which all inter-bank transactions at all major centres would be settled on RTGS platform. Paper-based inter-bank clearing would be discontinued;
- Pursuing with RTGS participants to cover all their net-worked branches under RTGS framework, paving the way for RTGS-based customer related transactions at about ten thousand branches in the country;
- Implementation of image-based Cheque Truncation System (CTS) at the National Capital Region on a pilot basis;
- Minimum standards of operational efficiency at MICR cheque processing centres to be prepared;
- Electronic funds transfer facility at 500 capital market intensive centres as identified by Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) with a combination of RTGS/Special Electronic Funds Transfer (SEFT)/National Electronic Funds Transfer (NEFT)/ NEFT (Extended) schemes;
- Customer Facilitation Centre (CFC) at the Reserve Bank for various segments of national payment systems (RTGS, G-Sec Clearing, Forex Clearing, MICR Clearing, ECS and EFT);
- Each payment service provider to disclose its standards, terms and conditions under which the payment will be effected and compensation policy and procedure for any deficiency in services including setting up of CFC;
- Drafting the Red Book on Payment Systems in India;
- Drafting comprehensive legislation on payment system by way of a Payment System Bill.

2006-07

- Extension of National Settlement to all major clearing centres;
- Redbook of Payment Systems in India to be published by the Bank for International Settlements (BIS);
- Extension of Magnetic Character Ink Recognition (MICR) clearing to 14 additional identified centres;
- Every cheque issued to follow MICR standards;
- EFT systems to be implemented at a national level through a new retail payment institution;
- Making all payment systems in India compliant to the Core Principles for Systemically Important Payment Systems (SIPS);
- Increasing the reach of payment services by means of tie-up and collaboration with other large coverage entities such as the Post Offices;
- Government payments and receipts to be facilitated through electronic mode.

2007-08

- Creation of off-city back-up arrangements for large value national payment systems such as RTGS system and Government securities clearing;
- New organisation for retail payment systems to be fully functional with all retail payment systems under its umbrella;
- Regulation of various payment systems through the proposed Payment Systems Act;
- Cheque truncation-based clearing at Mumbai, Chennai and Kolkata;
- National Settlement System to cover all major clearing houses/ clearing organisations in the country.

Reference

1. Reserve Bank of India (2005), 'Payment and Settlement System Vision 2005-08', May.

system - the predominant mode for retail-payments (both the MICR and Non-MICR clearings)-electronic systems *i.e.*, the Electronic Clearing Service (ECS - Debit and Credit), Electronic Funds Transfer (EFT), the Special EFT (SEFT) and card-based systems (credit, debit, ATM and smart cards). ECS is now

Table 8.2: Retail Electronic Payment Transactions in 2004-05

Type	Volume of transactions (000's)	Growth in volume (%)	Value of transactions (Rupees crore)	Growth in value (%)
1	2	3	4	5
ECS-Credit	40,001 (22,654)	76.6	20,310 (10,228)	98.6
ECS-Debit	15,299 (7,897)	93.7	4,466 (2,253)	98.2
EFT	1,365 (719)	89.9	49,123 (14,820)	231.5
SEFT	407 (82)	396.3	5,577 (2,305)	142.0

Note : Figures in brackets are data for 2003-04.

available at 44 centres. In order to facilitate electronic modes of payment, banks are providing innovative products to their customers by developing new products and integrating them with ECS/EFT/SEFT/ RTGS at the back-end for settlement (Table 8.2).

VIII.6 With a view to achieving faster settlement of capital market transactions, a Working Group on Electronic Funds Transfer for Capital Markets (Chairman: Shri R. Gandhi) was constituted. The Group, *inter alia*, recommended that RTGS for capital market transactions should be extended up to 8 P.M. (Box VIII.2).

National Electronics Funds Transfer System

VIII.7 The Electronic Funds Transfer (EFT) System has been in existence since 1997 covering 15 centres where the Reserve Bank manages the clearing houses. In order to increase the coverage of the scheme and to provide for funds transfers in a quicker manner, a variant of EFT called the Special EFT (SEFT) scheme was introduced with effect from April 1, 2003. SEFT is available across branches of banks that are computerised and connected through a network so that electronic messages can travel to the receiving branch in a straight through manner. In the case of EFT, all branches of banks in the 15 locations are part of the scheme irrespective of whether they are networked or not. Therefore, in EFT there are last mile issues impacting its efficiency. In order to broad base the facilities of EFT and to provide for integration with the Structured Financial Messaging Solution (SFMS) of the Indian Financial Network (INFINET), it was decided to implement a new variant of the EFT called the National EFT (NEFT). The NEFT uses SFMS for EFT message creation and transmission from a branch to the bank's Gateway and to the NEFT Centre, considerably enhancing the security in funds transfer operations.

VIII.8 The commencement of NEFT would lead to discontinuation of SEFT. With the SFMS facility, the bank branches can participate in both the RTGS System and the NEFT System. While RTGS is an electronic real time gross settlement funds transfer product, NEFT would be an electronic deferred net settlement funds transfer product. In order to increase the coverage of NEFT to a wider section of bank customers in semi-urban and rural areas, an enhancement of the NEFT called the NEFT-X [National EFT (Extended)] is now proposed where

Box VIII.2
Working Group on Electronic Funds Transfer for Capital Markets

Capital markets have been moving towards more efficient and quick settlement cycles. Since efficiency improvements in this segment are directly related to the settlement of funds, faster funds movement by the banking system in an electronic manner is crucial for facilitating migration to T+1 settlement from the existing T+2 settlement. These issues were examined by the Working Group on Electronic Funds Transfer for Capital Market (Chairman: Shri R.Gandhi). The major recommendations of the Group are:

(i) A wide spread awareness campaign/publicity for various electronic funds transfer facilities;

(ii) Expanding EFT/SEFT/NEFT/RTGS to more centres, especially where capital market transactions take place;

(iii) System of penalty for delayed credit to beneficiary banks;

(iv) Straight Through Processing (STP) for electronic funds transfer;

(v) Internet banking services;

(vi) RTGS for capital market transfers and settlements at least up to 8 P.M.;

(vii) First settlement for EFT / SEFT earlier than the current 12 noon time;

(viii) Banks which have rolled out centralised Core Banking Solutions (CBS) to be a part of clearing banks for the Stock Exchanges must necessarily offer RTGS services besides EFT/SEFT/NEFT. Core/critical branches to be brought under CBS.

Reference

1. Reserve Bank of India (2004), Working Group On Electronic Funds Transfer for Capital Markets, November.

the last leg connectivity would continue to be either through electronic mode or paper based. The testing of the NEFT involving six banks is in progress. The plan is to roll out NEFT by December 2005.

VIII.9 The popularity of card based transactions, especially debit cards, has increased significantly in recent years (Table 8.3). The increased use of cards and their growing share in the payment system turnover highlights the need for introduction of suitable regulatory measures. Such measures would have to ensure that rules, regulations, standards and practices of card issue are in alignment with the best customer practices. The measures should also include a setting up of a grievances redressal mechanism. In order to address these issues, a Working Group on Regulatory Mechanism for Cards (Chairman: Shri. R. Gandhi) was constituted (Box VIII.3). The Working Group classified its recommendations regarding customer grievances/rights protection under three heads, *viz.*, transparency and disclosure, customer rights protection and code of conduct.

Table 8.3: Card-based Payments in 2004-05

Type	No. of transactions (in 000s)	Growth in transactions (%)	Value (Rs.crore)	Growth in value (%)
1	2	3	4	5
Credit Cards	129,975 (100,179)	29.7	25,682 (17,663)	45.4
Debit Cards	230,480 (86,379)	166.8	51,226 (18,513)	176.7
Smart Cards	1,585 (1,717)	-7.7	212 (89)	138.2

Note: Figures in brackets are data for 2003-04.

Box VIII.3

Working Group on Regulatory Mechanism for Cards

Plastic cards (credit, debit and smart cards) have increasingly become an important mode of payment in the country in recent years. The number of cards issued by banks increased from 2.69 crore as on December 31, 2003 to 4.33 crore as on December 31, 2004. Accordingly, issues relating to the regulation of this mode of payment as well as those relating to customer protection have assumed considerable importance. The Reserve Bank's Working Group on Regulatory Mechanism for Cards recommended that the present eligibility criteria for issue of credit cards are appropriate and do not warrant allowing access to non-banking entities in this business. On issues relating to customer services, the Group made the following recommendations:

Transparency and Disclosure

(i) Communication of terms and conditions by card issuing banks to customers should be in simple language;

(ii) Separate communication of Most Important Terms and Conditions (MITC);

(iii) Card issuing banks should mention interest charges on an annual basis;

(iv) Persons entrusted with product marketing to have high degree of professionalism and integrity;

(v) Direct Selling Agents (DSA) / Direct Marketing Agents (DMA) work to be entrusted to well known firms on whom due diligence has been carried out and in case of cards issued through DSAs/DMAs, KYC norms laid down by the Reserve Bank to be scrupulously followed; and

(vi) DSA/DMA staff should be properly trained and briefed and card issuing banks should formulate a code of conduct for them.

Customer Rights Protection

(i) Card issuing banks should take specific approval of card holders before releasing customer information;

(ii) Customer information can be released in compliance with court order, statutory compliance or to Credit Information Bureau. In case of default, only required information to be released to collection/ recovery agent;

(iii) 'Do Not Call' registry to be maintained by card issuing banks and the IBA for telephone and cell phone number of customers and non-customers who do not wish to be disturbed by marketing calls;

(iv) Banking Ombudsman should arbitrate in disputes between card issuing banks and cardholders;

(v) Unsolicited cards activated without approval of recipient would lead to payment of penalty by the bank concerned; and

(vi) Insurance cover for card outstanding to be introduced to cover dues in case of demise of the cardholder.

Code of Conduct

Card issuing banks should set up a self regulatory body to deliberate on important issues and card issuing banks should adopt and conform to the IBA's Code of Conduct for card issuing banks.

Reference

1. Reserve Bank of India (2005), 'Working Group on Regulatory Mechanism for Cards', March 2005.

SETTLEMENT SYSTEMS

Paper Based Clearing

VIII.10 The paper-based clearing remains the most important retail settlement system in terms of volume with a share of 66 per cent in the total transactions recorded during 2004-05. MICR-based clearing operations have emerged as an efficient method of processing paper-based instruments. During 2004-05, one more centre (Dehradun) commenced MICR based clearing using state-of-the-art reader sorter-based processing capabilities, taking the total number of MICR centres to 40. These centres account for about 70 per cent of the total cheque volumes and value. In view of the criticality of the MICR clearing, back-up centres have been set up by the State Bank of India at each of the four metropolitan centres where the Reserve Bank is managing and operating the clearing houses. The MICR Cheque Processing Centre (CPC), set up by banks at other centres, have been advised to identify nearby CPCs to operate as back-up centres.

VIII.11 In order to increase efficiency in the existing paper-based instruments, the Cheque Truncation System (CTS) has been undertaken in the National Capital region on a pilot basis. The technical evaluation phase of the project is over and the commercial evaluation is in progress. The work relating to preparation of site and drafting of the procedural guidelines for cheque processing on image basis has also been undertaken. The CTS would enable the realisation of cheques on the same day, thereby improving the operational efficiency of the clearing process. It would also be a more cost efficient mode of settlement than manual and MICR clearings.

Financial Switch

VIII.12 The National Financial Switch (NFS) to facilitate apex level connectivity of other ATM switches has been set up by the Institute for Development and Research in Banking Technology (IDRBT). The NFS started operation from August 28, 2004. The NFS enables customers of banks connected to it to withdraw cash and obtain information from ATMs of any of those banks (Box VIII.4).

RTGS System

VIII.13 The implementation of RTGS has made it possible for large value payments to be transacted in a faster, efficient, and secure manner. After the stabilisation of RTGS, the need for continuing the deferred net settlement (DNS) based inter-bank clearing was examined and it was decided that the inter-bank clearing should be done away with. Accordingly, the inter-bank clearing was discontinued in Mumbai in November 2004, followed by other centres. The RTGS facility was being provided by 95 banks, including the Reserve Bank, at over 4300 branches in 400 centres by end-March 2005. As at end-July 2005, the number of branches providing this facility has touched 8200 at 418 centres. The growth of transactions under RTGS registered a substantial increase during 2004-05 covering both inter-bank and customer originated funds transfers (Table 8.4).

VIII.14 Integration of RTGS system with the internal accounting system of the Reserve Bank is in progress. The test run has commenced. The integrated full fledged system, when fully implemented by September 2005, would provide additional functionalities:

Box VIII.4

National Financial Switch

In recent years, plastic cards (credit, debit and smart cards) have gained greater acceptance and momentum as a medium of financial transactions. The volume and value of transactions undertaken using these cards have increased significantly. A noteworthy feature is the proliferation and increasing usage of debit cards as compared to the growth of credit cards. Automated Teller Machine (ATM) cards are steadily on the rise, highlighting the need for optimising investments made by banks. Banks were, therefore, advised to share their ATMs and many banks have joined together in small clusters to share their ATM networks.

In order to facilitate inter-operability among these switches/clusters at national level, the Institute for Development and Research in Banking Technology (IDRBT), Hyderabad, has set up a National Financial Switch (NFS) to facilitate apex level connectivity of other switches established by banks. The National Financial Switch was inaugurated by the Governor at the IDRBT on August 27, 2004. The settlement arrived at by the NFS is routed through the CCIL and effected in the books of account of member banks maintained at the Deposits Account Department (DAD), Mumbai. At present, 15 banks are members of the NFS.

Table 8.4: Month-wise RTGS Transactions - 2004-05

(Value in Rs. crore)

Months	No. of Participants	Inter-bank		Customer		Total	
		Volume	Value	Volume	Value	Volume (3+5)	Value (4+6)
1	2	3	4	5	6	7	8
2004							
April	5	495	7,987	17	81	512	8,068
May	30	8,780	81,400	255	666	9,035	82,066
June	48	14,721	1,16,418	683	2,623	15,404	1,19,041
July	66	23,449	1,35,275	869	5,439	24,318	1,40,714
August	78	29,907	2,45,287	1,836	10,096	31,743	2,55,383
September	87	33,388	3,33,428	3,553	13,613	36,941	3,47,041
October	93	38,424	4,07,918	4,645	16,890	43,069	4,24,808
November	94	42,430	4,03,790	6,241	19,627	48,671	4,23,417
December	109	49,369	5,34,967	9,569	30,816	58,938	5,65,783
2005							
January	109	49,389	5,23,134	10,348	33,180	59,737	5,56,314
February	109	49,989	5,20,214	13,050	40,768	63,039	5,60,982
March	109	51,590	5,06,704	17,426	75,863	69,016	5,82,567
Total (2004-05)		**391,931**	**38,16,522**	**68,492**	**2,49,662**	**460,423**	**40,66,184**
April	109	53,165	5,27,315	15,901	57,415	69,066	5,84,730
May	109	71,622	5,71,514	22,925	59,043	94,547	6,30,557
June	109	79,503	7,40,482	28,678	90,338	1,08,181	8,30,820
July	109	82,422	7,16,966	31,479	95,696	1,13,901	8,12,662

- Automated Start-of-Day Funding of the RTGS Settlement Account (*i.e.*, transfer of funds on the basis of standing instruction from the current account to the settlement account);
- Automated End-of-Day Flushing of the RTGS Settlement Account (*i.e.*, transfer of funds from the settlement account to the current account to make the settlement account zero);
- Message based Own Account Transfer (OAT) between the RTGS Settlement Account and the current account in IAS or two current accounts in IAS in DAD, Reserve Bank, Mumbai;
- Multilateral Net Settlement Batch-Settlement of the Net Clearing Batches such as MICR, EFT, ECS from NCC, G-sec, Forex, CBLO and NFS-ATM from CCIL and the net clearing batches originating from BSE and NSE;
- Automated Intra-day Liquidity (IDL) facility including automated request for grant of IDL, automated reversal of outstanding IDL with incoming credits, intra-day addition/withdrawal of un-encumbered securities, offered for IDL availment; and
- Gridlock Resolution Mechanism.

High Value Clearing

VIII.15 High Value Clearing is a value added service where select branches located in close proximity to the clearing house/service branch/central business/ commercial district present instruments with value of Rs.1 lakh and above deposited by their customers within the specified cut-off time to the clearing house. High Value Clearing at some centres has been extended to cover the entire jurisdiction of the clearing house. The settlement is carried out through the Magnetic Media Based Clearing System (MMBCS). The return clearing is also held on the same day which results in the final settlement being concluded on that day.

VIII.16 High Value Clearing is a Deferred Net Settlement (DNS) system. In order to provide for a mechanism for addressing the risks in such DNS systems, a Working Group on Risk Mitigation Mechanism (Chairman: Shri R. Gandhi) was set up during 2004-05. The Group, *inter alia*, recommended that a contributory guarantee fund be created for the high value clearing system (Box VIII.5).

Box VIII.5

Working Group on Risk Mitigation Mechanism for the Indian Retail Payment System

Retail payment systems typically function on a deferred net settlement (DNS) basis. In the retail payment system, no specific risk mitigation mechanism exists apart from resorting to unwinding in case of failure of any bank in fulfilling its obligation. The risks in retail payments are on account of customer transactions as the banks are not in a position to predict with a degree of certainty the value and volume of cheques (drawn on other banks) their customers will deposit with them for collection in clearing. Therefore, tracking such risks is difficult as they depend on changing patterns of customer behaviour/transactions. In order to examine the option of risk mitigation, a Working Group on Risk Mitigation Mechanism for the Indian Retail Payment System (Chairman: Shri R. Gandhi) was constituted by the Reserve Bank.

The Group recommended that it is best to limit the number of banks participating in the clearing system to a very few and low risk banks (others can participate as sub-members). In the short to medium term, risk mitigation measures may be introduced pragmatically in phases. The Group felt that all high value cheques should be presented in high value clearings twice or more a day or expand the geographical jurisdiction of high value clearing to make it co-terminus with the full or substantial part of the clearing house. The Group also felt that on an immediate basis, high value clearing needs to be made more secure. Accordingly, the Group recommended that a guarantee fund be introduced at a centralised location for the high value clearing systems. The contribution to the guarantee fund would be based on the risk profile of the member bank, *viz.*, the higher the risk profile of the bank, the greater would be its contribution in the guarantee fund. In the case of a settlement failure in the high value clearing system, recourse to the guarantee fund would be made on the principle of 'Defaulter's Pay' system, whereby the contribution of the defaulter(s) would primarily be taken up for settlement of claims and thereafter the residual amount, if any, would be neutralised through 'unwinding'. The Reserve Bank, in consultation with the banks, would decide about the mode and the amount of contribution to the guarantee fund.

Reference

1. Reserve Bank of India (2004), 'Working Group on Risk Mitigation Mechanism for Indian Retail Payment System', December.

INFORMATION TECHNOLOGY IN THE RESERVE BANK

VIII.17 Information technology (IT) has brought about a fundamental change in the way businesses function the world over. The financial sector has undergone a metamorphosis in its operations, driven primarily by information technology. The Reserve Bank has had a significant role to play in large scale IT implementation in the banking sector. Within the Reserve Bank, initial efforts aimed at mechanisation of activities in the 1980s expanded in the 1990s into computerisation of critical operations of the Reserve Bank. The year 2004-05 marked a phase of consolidation, with renewed thrust towards putting in place comprehensive systems following the Generic Architecture within the Reserve Bank and providing solutions to enhance the efficiency of the payment and settlement systems in India.

VIII.18 In order to provide clarity of the direction followed by the Reserve Bank in implementation of IT initiatives, two major publications were released during the year. The first document, Strategic Information Technology Plan (SITP), is for internal use of the Reserve Bank, while the second, the Financial Sector Technology Vision Document, enumerates the initiatives to be undertaken by the Reserve Bank in the medium term for the financial sector.

Approach Towards Implementation

VIII.19 The broad approach followed in implementation of IT initiatives centres around the need for having homogenous IT systems catering to the varied processing requirements of the Reserve Bank and to provide for seamless integration across the various applications, wherever feasible. Recognising the need for distributed computing across the various locations of the Reserve Bank and to take advantage of the benefits of centralised processing in an IT environment, the approach adopted during the year was 'Centralised Processing with Decentralised Access'. This approach has greatly benefited the processing requirements of the Reserve Bank's internal house keeping and establishment related functions.

VIII.20 An Information Technology Advisory Committee (ITAC) was constituted in 2004-05 to develop an appropriate IT vision for the Reserve Bank and recommend a draft IT vision document detailing a Master Plan with milestones and timelines for a holistic use of information and communication technology architecture; to review and monitor progress of implementation of the various IT projects; and evaluate customer satisfaction and the performance of the IDRBT periodically and vet the institution's future plans. The Committee held three meetings during the year and has provided directions on matters relating to IT implementation, Information Security (IS) and the approach towards setting up of the Reserve Bank's Data Centre.

Status of IT in the Reserve Bank

VIII.21 IT has become a tool deeply embedded in the day-to-day processing of the Reserve Bank's activities. This has necessitated that all the functional units comprising the Regional Offices and the Central Office Departments of the Reserve Bank are fully computerised and that they use IT to a substantial extent. A review of the level of usage of IT by these units in respect of the critical implementation factors reveals a high level of achievement (Table 8.5)

VIII.22 Connectivity of all the departments and all locations of the Reserve Bank has been completed and all users can operate in a networked environment. The large scale use of corporate e-mail services for official communication has encouraged migration towards a centralised processing environment. Towards this end, the first set of applications which were made operational during the year is the Centralised Public Debt Office (CPDO) System. The system is being implemented in stages and is expected to be fully operational as at the end of September 2005. Another important application which is currently under implementation is the Integrated Establishment Section (IES) which is poised to take care of the requirements of staff related processing for all establishment functions. Both the software applications are based on a centralised system for data storage and processing; facilities for localised access and localised processing have also been in-built in the software.

VIII.23 The Integrated Accounting System (IAS) is a state-of-the-art system for the Deposit Accounts Department (DAD) of the Reserve Bank. This system takes care of the entire processing requirements relating to accounts maintained by the constituents apart from taking care of the internal accounting requirements of the Reserve Bank. This system is being tested with a view to implementing it in 2005.

Networks and Network-based IT Usage

VIII.24 In order to provide for increased availability of telecommunication capabilities, the bandwidth of the inter-city telecommunication links which are part of the INFINET was upgraded during the year. This has resulted in the existence of 2 mega bytes per second (mbps) links across all the offices of the Reserve Bank, which would enable larger communication traffic flows. The dark fibre optic cable based link, which links the main production and backup sites of the critical payment systems processing centres, is used extensively for on-line replication of data so that there is minimal down time in the event of any disruption of services at any one of the centres. Periodical testing of the systems at the backup centre was also undertaken during the year.

Standards in IT

VIII.25 With rapid computerisation across different financial sector entities, it becomes essential that various institutions including the central bank adopt international best practices and standards. In order to ensure this and to facilitate Straight Through Processing (STP), the Reserve Bank is taking steps towards getting ISO (International Standards Organisation) and BS7799 certification in respect of certain critical applications and systems (Box VIII.6).

Delivery Channels for Banks

VIII.26 With newer delivery channels being facilitated by IT, customers of banks have the choice of a variety of delivery channels. While the Reserve Bank does not specify the nature of the delivery channels which a bank may choose to offer to its

Table 8.5: Critical IT Implementation Factors – 2004-05

Critical Requirement Factor	Performance Yardstick	Progress during 2004-05
1	2	3
Standardisation	Across all departments	40% completed; 40% under progress; 20% being started
Integrated Application Systems	For all functional units	50% completed; 38% under progress; 12% being started
Server Consolidation	At all locations	25% completed; 50% under progress; 25% being started
Connectivity	Across all offices and all locations	100% completed
Productivity Tools	For all critical mainframe applications	95% completed
Corporate e-mail	For all users at all locations	100% demand met
IS Security	For all information systems	75-80% completed

Box VIII.6

Standards and Certification – BS7799 Certification

With the Reserve Bank using information technology in every area of work, standardisation assumes importance. The Reserve Bank has been taking steps towards standardising on the operating system, database and messaging platform. The Reserve Bank had also constituted a Committee on IS Audit and IS Security (Chairman: Dr. R.B.Barman) in 2001. The Group has given comprehensive guidelines for adopting standards and procedures on a wide range of Information Security (IS) audit and security issues for the banking and financial sector.

In order to give a level of comfort to the users of IT and also the financial sector in general, the Reserve Bank has decided to go in for BS7799 Certification and the process is on. BS7799 is a standard setting out the requirements for an Information Security Management System. It helps identify, manage and minimise the range of threats to which information is regularly subjected. The initial action for getting certification for the critical applications viz., Clearing House, Establishment and Current Account has been undertaken.

customers, guidelines relating to IT based delivery channels from the perspective of conforming to critical minimum requirements are issued by the Reserve Bank. At the root of all the new delivery channels is the need for banks - especially the public sector banks - to migrate towards the use of core banking solutions, which facilitate all centralised offerings by the banks. During the year, the Reserve Bank took steps to ensure that banks migrate from their current systems to core banking systems. Out of the 27 public sector banks, 8 have already implemented core banking solutions while 12 are at various stages of implementation.

Other Initiatives

VIII.27 In order to facilitate data capture for the collection of direct taxes using the Online Tax Accounting System (OLTAS) in respect of the Government, the necessary software for the Reserve Bank was developed and deployed. The Centralised Public Accounts Department system with a centralised database and decentralised access is being outsourced for development. These initiatives have facilitated speedier accounting of Government transactions and for providing accounting related information pertaining to funds availability to Government departments on an almost real time basis.

VIII.28 The secured website for receipt and dissemination of data/information was operationalised. The Central Accounts Section data and clearing data of the National Clearing Cells are being made available through this secured mode accessible through the internet. The enhanced Centralised Database Management System Internet (CDBMSi) has also been made available through the secured website. An Enterprise Knowledge Management System (EKMS) has been envisaged for the Reserve Bank and will be implemented in stages(Box VIII.7).

Box VIII.7

Enterprise Knowledge Management System

The Reserve Bank has information - both structured as well as unstructured - in different forms. The Reserve Bank is moving towards an information accumulation mechanism to systematically leverage this scattered knowledge for efficient and effective use. Focusing on creating, gathering, organising and disseminating an organisation's 'knowledge' in knowledge repository is the key idea behind the Enterprise Knowledge Management System (EKMS). The proposed EKMS for the Reserve Bank has been initiated for designing a system to enable the users to reach to the knowledge base, whenever and wherever required, for the purpose of decision making. Various applications could form an integral part of the EKMS. Of these, following have been identified as building blocks for the Knowledge Management System:

- Document and Content Management System - to help organise the document and content for faster retrieval whenever required;
- Workflow Automation System - to automate the organisational processes for faster action, better management and for reducing paper;
- Collaboration Techniques - to help exchange ideas and important information among all;
- Intranet - to help departments display the information for specific purpose of the users within the department/LAN; and
- Knowledge Portal - front-end to display information in the form of customisable portals, keeping in view the specific requirement of the users.

The challenge for the Reserve Bank is to put in a place a culture of sharing individuals' knowledge assets within the organisation.

VIII.29 With the growing use of technology within the Reserve Bank, a need for a Business Continuity Plan (BCP) assumes importance. Disaster Recovery is the core of an effective BCP. The Bank is setting up Data Centres in zones with different seismic classifications.

Outlook

VIII.30 During 2005-06, the priority of the Reserve Bank would be the strengthening of institutional framework for regulation and supervision of payment and settlement systems. As a part of this initiative, the Reserve Bank has constituted the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) as a Committee of its Central Board. The functions and powers of BPSS include policy formulation relating to the regulation and supervision of all types of payment and settlement systems, setting standards for existing and future systems, authorisation of the payment and settlement systems and determination of criteria for membership to these systems. A new department called Department of Payment and Settlement System (DPSS) has also been constituted in the Reserve Bank. The National Payments Council, functioning since 1999, received recognition of a Technical Advisory Committee to the BPSS.

VIII.31 The direction provided in the Vision Document would provide a road map for streamlining and refining the payment systems in the medium-term. The definitive role of IT in the functioning of the Reserve Bank as also for the entities comprising the financial sector is gaining greater significance. Technology would bridge the gaps in terms of reach and coverage of systems and will also enable better decision making based on accurate information, reduced costs and overall improvement in operational efficiency. IT based initiatives would focus on meeting the three pronged objective of better house keeping, improved customer service and overall systemic efficiency.

IX HUMAN RESOURCE DEVELOPMENT AND ORGANISATIONAL MATTERS

IX.1 The function of human resource development in the Reserve Bank is driven by the goal of enhancing the efficiency of the organisation by nurturing a motivated staff in an organisational culture that facilitates a congruence between personal goals with those of the institution, thereby fostering a sense of pride and belonging. During 2004-05, the Reserve Bank continued with its efforts to upgrade its human resources (HR) to face the challenges arising out of globalisation and advances in technology. Human resource development initiatives in the Reserve Bank focused primarily on designing appropriate HR systems, processes and practices, capacity building to bridge HR gaps in functional areas, developing skills, fostering personal and professional growth and drawing out qualities of leadership and team building. Concomitant measures were initiated to ensure transparency in operations and to improve customer service.

IX.2 This Section describes the approach of the Reserve Bank towards human capital management and various initiatives undertaken thereunder. It also covers various measures taken to improve the quality of customer service and the interface with the general public, including information dissemination and database services. Finally, the Section presents an overview of the meetings of the Central Board and its Committees, appointment/retirement of executives and visits of important Committees and foreign dignitaries to the Reserve Bank.

TRAINING AND SKILLS ENHANCEMENT

IX.3 Three training colleges of the Reserve Bank, *viz.*, the Bankers' Training College (BTC), Mumbai, the Reserve Bank Staff College (RBSC), Chennai and the College of Agricultural Banking (CAB), Pune cater to the training needs of the officers of the Reserve Bank and the banking industry. The BTC was established to train the personnel of commercial banks and other financial institutions in India. The College caters mainly to the training requirements of middle and senior level officers. The RBSC was established to impart training to the Reserve Bank's own officers in junior and middle management cadres and specialised development of officers in the senior management cadre. The CAB was originally set up with a focus on training the senior and middle level officers of rural and co-operative credit sectors. In recent years, the CAB has diversified into areas relating to non-banking financial companies, human resource management and Information Technology (IT). An In-house Working Group was constituted during the year to review the overall functioning of the three training colleges, their target groups and other related matters with a view to enhancing the utility of the training programmes, avoiding unnecessary costs and bringing about improvements in their functioning.

IX.4 The four Zonal Training Centres (ZTCs) focus exclusively on training of Class III and IV staff of the Reserve Bank. The total number of participants in programmes conducted by all the Colleges and ZTCs increased during 2004-05 (Table 9.1)

Bankers Training College, Mumbai

IX.5 The Bankers' Training College is a premier training institution in the field of banking. It imparts high quality training to a large pool of professionals

Table 9.1: Reserve Bank Training Establishments

Colleges	2004-05		2003-04		2002-03		2001-02		2000-01	
	No. of Prog.	No. of Part.	No. of Prog.	No. of Part.	No. of Prog.	No. of Part.	No. of Prog.	No. of Part.	No. of Prog.	No. of Part.
1	2	3	4	5	6	7	8	9	8	9
BTC, Mumbai	153	3287	171	3204	160	3735	115	2532	113	2436
RBSC, Chennai	133	2895	144	2874	139	3013	125	2795	140	2949
CAB, Pune	146	3364	147 *	3138 *	173	3461	179	3777	153	3179
ZTCs (Class III)	245	5442	187	3652	153	2991	131	2576	100	2013
ZTCs (Class IV)	40	1295	56	958	31	535	26	470	17	313

*Includes 10 outstation programmes conducted at the initiative of Regional Offices involving 384 participants.
Prog. : Programmes. Part. : Participants.

from the financial sector. The endeavour of the BTC is to position itself as a training institute for senior bankers and to provide a forum for top executives of the financial sector to exchange views and ideas. The College conducted fifteen new programmes/ conferences/seminars/workshops during the year. The new programmes covered marketing strategies for banking products, system auditors and information system security managers, strategic management and balance sheet of banks, financing of services and small and medium enterprises (SMEs), issues in infrastructure financing, international banking and IT-oriented management information systems (MIS). The College conducted three collaborative programmes with the Kenya School of Monetary Studies at Nairobi in the areas of information security, business continuity planning and disaster recovery, audit of computerised accounting systems and dealership and foreign exchange operations for 63 officers of central banking authorities of Tanzania, Zambia, Malawi and Kenya. The College conducted four programmes in collaboration with the Indian Institute of Bank Management (IIBM), Guwahati on investment in Government securities, credit risk and NPA management, motivation, leadership, team building and risk based approach to internal audit. The College also conducted in-company programmes for officers of the National Bank of Agriculture and Rural Development (NABARD) and the Small Industries Development Bank of India (SIDBI), Indian Foreign Service (IFS) probationers, UCO Bank, Corporation Bank and ICICI Bank. In all, 70 foreign participants from Sri Lanka, Bhutan, Uganda, Iran, Bangladesh and Nepal attended 20 training programmes at the College. The College has entered its Golden Jubilee year in 2005.

Reserve Bank Staff College, Chennai

IX.6 The Reserve Bank Staff College caters primarily to the training and development needs of officers of the Reserve Bank. The College has played a crucial role in updating the skills of officers to face the challenges of regime changes and introduction of new technologies. This has assumed an added significance in the post Optional Early Retirement Scheme (OERS) scenario. The focus of the RBSC continues to be on programmes for probationers and middle level officers. As per the direction of the College Advisory Committee (CAC), a Committee was constituted to review course design, coverage and methodology of the Induction Programme for direct recruits in Grade B (Chairman : Shri V.K. Sharma). On the basis of the recommendations of the Committee, a HR-oriented training structure for the probationary officers has been put in place. A Committee comprising two Executive Directors and a Chief General Manager was also constituted to review the performance of the College and monitor the implementation of the decisions taken by the CAC in a time bound manner.

IX.7 The College started its own website, enabling distance learning through an interactive process of questions and answers on central banking and related areas. The College also started a quarterly newsletter ‘RBSC News and Views’ for circulation amongst the participants of the various programmes at the College and the first issue was released by the Governor on July 7, 2004. Faculty members of the College extended support to various institutions, *viz.*, Indian Bank Management Academy (IMAGE), Chennai, Indian Institute of Technology (IIT), Chennai, Agricultural Cooperative Staff Training Institute (ACSTI), Chennai, Indian Overseas Bank (IOB) Staff College, Chennai, and University of Madras. Five foreign participants from the central banks of Bhutan, Tanzania and Nepal attended three training programmes at the College. A team of 18 international participants from 14 countries attending the International Training Programme on Training Methods and Skills for Managers at the National Institute of Small Industries Extension Training (NISIET), Hyderabad paid a visit to the College to observe the academic and organisational aspects of training in the Reserve Bank.

College of Agricultural Banking, Pune

IX.8 The College of Agricultural Banking conducted training and interactive sessions in areas such as non-banking financial sector, human resources management and information technology, besides its ‘niche’ areas of agriculture and rural banking. The College conducted 12 new programmes on risk management, regulatory compliance for urban co-operative banks (UCBs), customer relationship management, financing small and medium enterprises (SMEs), workshop for State Level Bankers Committee (SLBC) conveners of commercial banks, financing of export oriented agriculture, emotional intelligence, infrastructural financing, understanding rural customers, issues and concerns in retail banking, investment management and legal issues for bankers. The College has been selected by the United Nations Development Programme (UNDP) to conduct a series of 21 programmes on Human Development and State Finances and the first of such programmes was conducted in April 2005. The

College conducted four customised training programmes for officers of the Khadi and Village Industries Corporation, one for the National Institute of Financial Management, one for officers of Bihar Co-operative Bank Ltd. and one for General Electrical (G.E) Countrywide at Gurgaon as per their specific requirements.

IX.9 The College also conducted collaborative programmes with EXIM Bank, Regional Training Centre of NABARD and Bankers' Institute for Rural Development (BIRD) and one outstation programme with the IIBM. It undertook a study on cost of funds and lending rates of UCBs at the instance of Urban Banks Department of the Reserve Bank. The College also extended faculty support to institutions such as the National Institute of Bank Management (NIBM), Pune and Vaikunth Mehta National Institute of Co-operative Management (VAMNICOM). The college conducted 14 programmes on off-site surveillance application package for officers of UCBs in Gujarat, Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu and Kerala. Ten foreign participants from Zimbabwe, Sri Lanka, the Philippines and Nepal attended various training programmes conducted at the College during the year.

Zonal Training Centres

IX.10 Zonal Training Centres (ZTCs) conduct programmes on functional areas, information technology and behavioural areas for Class III and IV employees of the Reserve Bank. Apart from regular programmes at their premises, ZTCs also conducted off-site programmes on noting and drafting, basic computers and customer service. A programme on Self Development through Neuro Linguistic Programme (NLP) was organised at ZTC, Belapur and the participants were drawn from the Reserve Bank's offices throughout India. ZTCs added out-bound segments as part of their curricula in a number of programmes to encourage team spirit and group learning. ZTCs also extended their services to the staff outside the Reserve Bank. Six staff members of the Royal Monetary Authority of Bhutan attended a programme on currency management and seven more staff attended the programme on Effective Management Office Life conducted by ZTC, Kolkata. The NABARD has been deputing its Class III and IV employees for the investment and retirement planning programme conducted by ZTCs on a cost basis. ZTC, Kolkata conducted a base level induction programme for participants from Bihar State Co-operative Bank at Patna on a consolidated cost basis. The programme was designed and developed in consultation with the CAB, Pune. All regional offices and central office departments were advised to put in place a system of assessment of the impact of the training on the work situation in respect of Class III employees who underwent training at the ZTCs.

Deputation of Officers for Training in India and Abroad

IX.11 During 2004-05, 521 officers were deputed by the Reserve Bank to participate in training programmes, seminars and conferences organised by external management/banking institutions in India (Table 9.2). The areas of training included human resources management, risk management, security, international banking, foreign trade, labour laws and micro finance. The Reserve Bank deputed 171 officers to attend training courses, seminars, conferences and workshops conducted by banking and financial institutions and multilateral institutions in 26 countries. The areas of training covered, *inter alia*, banking supervision, derivatives, risk management, financial programming and policies, central bank accounting, monetary policy and operations, finance for agriculture, rural development and macroeconomic management.

IX.12 Four officers were selected in 2004-05 under the Golden Jubilee Scholarship Scheme for higher studies abroad - one officer for pursuing post doctoral studies as a visiting scholar in the Department of Economics at MIT, Massachusetts; two officers for pursuing studies towards Masters in Policy Management and Finance at the Georgetown University and George Washington University, Washington, respectively; and, one officer for undertaking research on macroeconomics of banking at the University of California, Riverside, USA on an exchange visitor programme. In all, 79 officers have been selected under this scheme since its inception in 1986.

Table 9.2: Number of Officers Trained in External Training Institutions in India and Abroad

Year	No of officers trained in India	No of officers trained abroad
1	2	3
2000-01	444	122
2001-02	355	137
2002-03	452	208
2003-04	433	242
2004-05	521	171

IX.13 Thirteen officers availed the benefit of different schemes for pursuing higher studies during the year. Besides, one officer completed research under the Bank for International Settlements (BIS) Visiting Fellowship Programme - 2004. Another officer has taken up an assignment at the BIS to undertake research project on Central Bank Governance.

Deputation of Class III and IV Staff to External Institutions in India

IX.14 The Reserve Bank introduced a scheme for deputation of Class III and IV staff for training in external institutions in India in human resource development areas such as self development, motivation, behavioural aspects and time management.

Training in Computer Technology

IX.15 The Reserve Bank continued to provide incentives to staff members to acquire qualifications in the field of computers. In order to improve the skills of officers in the use of computers, 64 officers were imparted training at institutions such as National Institute of Bank Management (NIBM), Pune; Management Development Institute (MDI), Gurgaon; Xavier Labour Relations Institute (XLRI), Jamshedpur; and Institute for Development and Research in Banking Technology (IDRBT), Hyderabad.

Training Attachments and Interface Sessions

IX.16 During 2004-05, nine officials from Sri Lanka, Thailand, Nigeria, Bhutan and Uganda were provided study attachments at the Reserve Bank's Central Office departments. Interface sessions were held with senior officers of the Central Office departments for the participants of Long Defence Management Course conducted by the College of Defence Management, Secunderabad; participants of the International Programme in Banking and Finance organised by NIBM, Pune; participants of Naval Higher Command Course conducted by College of Naval Warfare, Mumbai; senior defence officials on Economy, Science and Technology Tour under the aegis of the National Defence College, New Delhi; and MBA students from the University of Texas, Austin. As a part of the orientation programme of the Federation of Indian Chamber of Commerce and Industry (FICCI), youth interns visited the Reserve Bank on the eve of *Pravasi Bhartiya Divas*. 30 officials from key public institutions in Singapore visited the Reserve Bank for discussion on financial sector reforms.

IX.17 To enable employees to enrich their knowledge and skill base *vis-à-vis* their job requirements and to facilitate their career progression, a liberal incentive scheme that covers a large variety of professional courses/qualifications which are of relevance to the Reserve Bank's functions was introduced in November 2004.

Summer Placement

IX.18 A total of 27 students were selected for summer placements in the Reserve Bank during the year. These summer interns were drawn from diverse disciplines such as commerce, management, science, engineering and IT. The interns were placed predominantly in the Reserve Bank's Central Office at Mumbai, while some were assigned to select Regional Offices. A number of students in specialised areas were also accommodated in different departments of the Reserve Bank outside the Scheme. From the current year, it has been decided to select a few students engaged in higher studies in universities abroad for summer placement in the Reserve Bank.

Promotion of Hindi

IX.19 In order to create awareness of Hindi among employees, training programmes in various fields under the Official Language Policy were intensified. The annual programme on use of Hindi formulated by the Government of India as well as recommendations of Hindi *Salahkar Samiti* of the Ministry of Finance, Government of India were implemented. Workshops were organised for senior officers in various Regional Offices. Workshops are also organised regularly for imparting training on bilingual computerisation to the Reserve Bank's staff.

IX.20 In pursuance of the recommendations of the Committee on Style and Usage, Hindi templates were prepared and forwarded to all Regional Offices. The Hindi version of the Reserve Bank website was updated. The Rajbhasha Department launched an Intranet website which has a variety of Rajbhasha-related information. The Reserve Bank continued to publish its major publications bilingually. The Bankers' Training College's quarterly magazine entitled *"Banking Chintan Anuchintan"* has been able to carve out a niche for itself in banking circles. With a view to filling the gap in banking related Hindi publications, three books titled "*Jokhim Prabandhan*", "*Bank mein Labhpradta*" and "*Bank mein Corporate Governance*" were published and were well received. A booklet entitled "Major provisions regarding

Official Language for use of Heads of Departments, Regional Directors and Senior Management" was published. A Committee was set up to review the booklet entitled '*Banking Glossary (English-Hindi)*' published by the Reserve Bank.

IX.21 The Reserve Bank continued with its efforts to increase the use of Hindi in public sector banks (PSBs) and all-India financial institutions (FIs). Their progress was reviewed in the quarterly meetings of the Official Language Implementation Committee. The Reserve Bank organised bilingual and *Hindi Griha Patrika* competitions for PSBs and FIs during the year. An Inter-bank essay competition in Hindi was organised for employees of various banks. The Reserve Bank provided secretarial assistance to the Government of India, Ministry of Home Affairs in preparing results for the Indira Gandhi Official Language Award Scheme for the PSBs and FIs.

Industrial Relations

IX.22 Industrial relations in the Reserve Bank remained, by and large, peaceful during 2004-05. Meetings were held with the recognised Associations/ Federation of employees and officers on wage revision and on various other matters. The Associations/ Federation of employees helped in coordinating contributions from employees amounting to Rs.1.88 crore towards aid and rehabilitation of *Tsunami*-affected people which were remitted to the Prime Minister's National Relief Fund.

Recruitment

IX.23 During 2004 (January-December), the Reserve Bank recruited 141 employees. Of this, 39 were in Scheduled Castes (SCs) and Scheduled Tribes (STs) categories, constituting 27.7 per cent of total recruitment (Table 9.3)

IX.24 The total staff strength as on December 31, 2004 was 22,727 as compared with 24,994 a year ago. Of the total staff, 20.3 per cent belonged to Scheduled Castes and 8.6 per cent belonged to Scheduled Tribes (Table 9.4).

Table 9.3: Recruitment by the Reserve Bank - 2004*

Category	Total recruitment	of which		Percentage	
		SC	ST	SC	ST
1	2	3	4	5	6
Class I	88	19	4	21.59	4.55
Class III	9	–	1	–	11.11
Class IV					
(a) Sweepers	14	1	1	7.14	7.14
(b) Others	30	12	1	40.00	3.33
Total	**141**	**32**	**7**	**22.70**	**4.96**

* : January-December

IX.25 During 2004 (January-December), the Reserve Bank's Liaison Officer for Scheduled Caste/ Scheduled Tribe employees conducted inspection of reservation rosters maintained at two offices, *viz*., Hyderabad and Jammu. Meetings between the Management and the representatives of the All India Reserve Bank Scheduled Castes/Scheduled Tribes and the Buddhist Federation were held on three occasions during the year to discuss issues relating to the implementation of reservation policy in the Reserve Bank. In accordance with the Central Government's policy, the Reserve Bank provided reservation to Other Backward Classes (OBCs) effective September 8, 1993. The representation of OBCs (recruited after September 1993) in the Reserve Bank as on December 31, 2004 stood at 644. Of these, 152 were in Class I, 103 in Class III and 389 in Class IV.

IX.26 The total strength of ex-servicemen in the Reserve Bank at end-December 2004 stood at 135 in Class I, 416 in Class III and 915 in Class IV. The total number of physically handicapped employees in Class I, Class III and Class IV cadres in the Reserve Bank stood at 62, 267 and 130, respectively, at end-December 2004.

Table 9.4: Staff Strength of the Reserve Bank

Category	Total Strength		SC		ST		Per cent to Total Strength	
							SC	ST
	December 31, 2004	December 31, 2003	December 31, 2004	December 31, 2003	December 31, 2004	December 31, 2003	December 31, 2004	
1	2	3	4	5	6	7	8	9
Class I	5,208	6,128	790	862	306	305	15.2	5.9
Class III	9,810	10,644	1,327	1,572	917	960	13.5	9.3
Class IV	7,709	8,222	2,502	2,594	734	761	32.5	9.5
Total	**22,727**	**24,994**	**4,619**	**5,028**	**1,957**	**2,026**	**20.3**	**8.6**

Table 9.5: Category-wise Actual Staff Strength (As on December 31, 2004)

Class	Actual Strength
1	2
Class I	
1. Senior Officers in Grade F	83
2. Senior Officers in Grade E	230
3. Senior Officers in Grade D	349
4. Officers in Grade C	827
5. Officers in Grade B	1,234
6. Officers in Grade A	2,082
7. Treasurers	16
8. Deputy Treasurers	60
9. Assistant Treasurers	327
Total Strength in Class I	**5,208**
Class III	
1. Clerks Gr. I	2,614
2. Clerks Gr.II	5,358
3. Stenographers	271
4. Typists	568
5. Tellers	371
6. Class III (Others)	628
Total Strength in Class III	**9,810**
Class IV	
1. Peons	1,537
2. Mazdoors	2, 047
3. Class IV (Others)	4, 125
Total Strength in Class IV	**7,709**
Total Strength in the Reserve Bank	**22,727**

IX.27 Of the total staff 22.9 per cent was in Class I, 43.2 per cent in Class III and the remaining 33.9 per cent in Class IV (Table 9.5).

IX.28 The Department-wise deployment of the staff strength in the Reserve Bank in both Central and Regional Offices is given in Table 9.6.

IX.29 The Office-wise deployment of officers and staff reveals a concentration in Mumbai due to location of Central Office departments (Table 9.7).

Complaints Redressal Mechanism – Prevention of Sexual Harassment of Women at Workplace

IX.30 Pursuant to the guidelines laid down in the Supreme Court Judgment [Vishaka and Others V/s State of Rajasthan (1997) 6 SCC 241], a complaints redressal mechanism for prevention of sexual harassment of women at workplaces was put in place in the Reserve Bank in 1998. Under the system, a Central Complaints Committee (CCC) headed by a lady officer in Grade 'F' is functional at the Central Office level. The CCC acts as focal point for the Regional Complaints Committees (RCCs) constituted at twenty centres of the Reserve Bank. The RCCs are headed by senior lady officers. The CCC and RCCs, besides having a member from an NGO, have more than 50 per cent women members. During the period from April 2004 to March 2005 three complaints were received by these committees. While one complaint has been disposed off, the remaining two are at the final stage of disposal.

Premises Department

IX.31 In tune with the changing environment as well as policies and procedures in the Reserve Bank, the Premises Department focused on the twin goals of providing and maintaining modern infrastructural systems and enhancing customer service. Accordingly, re-engineering of procedures and decentralisation of powers was taken forward. Upgradation/enhancement of amenities in the Bank's residential quarters was assigned priority. The Department consolidated and relocated various offices. Three leased office premises in Mumbai were surrendered, thereby saving lease rent. The Department has offered the Reserve Bank's surplus properties at New Delhi for outright sale to the Government of Karnataka. The work relating to the construction of Class IV colony at Bahadurpur, Patna, and Officers' colony at Dadar-Parel, Mumbai was completed and the flats were allotted. The work relating to renovation and refurbishing of office/ residential buildings was taken up in a phased manner in Chennai, Ahmedabad, New Delhi and Mumbai. Rehabilitation of old buildings was also undertaken in various colonies at various centres. During the year, the installation of electrical distribution systems was completed in Chennai and Nagpur whereas it is under various stages of completion in other offices. The installation of fire/ smoke detection systems which was completed at Chandigarh, is in various stages of implementation at other offices. Upgradation of IT system/backbone system was completed at Kolkata. An expenditure of Rs.41 crore was incurred to complete these projects during the year.

Inspection of Offices/Departments in the Reserve Bank

IX.32 The Management Audit and Systems Inspection (MASI) of the Reserve Bank's Offices/ Departments continues to focus on adherence to the prescribed systems and procedures and efficiency and economy in operations. The MASI of 12 Regional Offices (ROs), 10 Central Office Departments (CODs) and one Training Establishment of the Bank was

Table 9.6: Reserve Bank's Department-Wise Strength of Staff as on December 31, 2004

Sr. No.	Department/Office	Class I C.O	Class I R.O	Class I Total	Class III C.O	Class III R.O	Class III Total	Class IV C.O	Class IV R.O	Class IV Total	Grand Total
1	2	3	4	5	6	7	8	9	10	11	12
1.	Department of Administration and Personnel Management (DAPM)	70	590	660	93	1244	1337	47	2723	2770	4767
2.	Department of Banking Operations and Development (DBOD)	112	19	131	113	55	168	82	16	98	397
3.	Department of Banking Supervision (DBS)	114	441	555	38	235	273	22	104	126	954
4.	Department of Currency Management (DCM)	34	918	952	27	3043	3070	18	2259	2277	6299
5.	Department of Economic Analysis and Policy (DEAP)	167	31	198	197	41	238	73	19	92	528
6.	Department of Expenditure and Budgetary Control (DEBC)	45	160	205	99	586	685	32	82	114	1004
7.	Department of External Investment and Operations (DEIO)	50	–	50	31	–	31	13	–	13	94
8.	Department of Statistical Analysis and Computer Services (DESACS)	142	12	154	153	37	190	82	11	93	437
9.	Department of Government and Bank Accounts (DGBA)	48	603	651	71	1774	1845	24	508	532	3028
10.	Department of Information Technology (DIT)	62	36	98	18	18	36	14	2	16	150
11.	Department of Non-Banking Supervision (DNBS)	50	188	238	12	142	154	9	67	76	468
12.	Foreign Exchange Department (FED)	60	124	184	133	468	601	50	183	233	1018
13.	Human Resources Development Department (HRDD)	41	2	43	60	8	68	27	2	29	140
	13A. Bankers Training College, Mumbai	–	32	32	–	36	36	–	90	90	158
	13B. Reserve Bank Staff College, Chennai	–	33	33	–	26	26	–	38	38	97
	13C. Zonal Training Colleges	–	14	14	–	11	11	–	5	5	30
	13D. College of Agricultural Banking, Pune	–	38	38	–	37	37	–	77	77	152
14.	Internal Debt Management Department (IDMD)	26	–	26	12	–	12	8	–	8	46
15.	Inspection Department (ID)	40	–	40	19	–	19	9	–	9	68
16.	Legal Department (LD)	39	4	43	18	6	24	16	2	18	85
17.	Press Relations Division (PRD)	6	–	6	7	–	7	5	–	5	18
18.	Premises Department (PD)	41	180	221	45	356	401	47	666	713	1335
19.	Rural Planning and Credit Department (RPCD)	52	184	236	44	146	190	36	68	104	530
20.	Secretary's Department	39	–	39	21	–	21	36	–	36	96
21.	Urban Banks Department (UBD)	61	232	293	33	184	217	38	59	97	607
22.	Rajbhasha Department	–	26	26	–	48	48	–	8	8	82
23.	Deposit Insurance and Credit Guarantee Corporation	–	28	28	–	50	50	–	25	25	103
24.	Reserve Bank Services Board	14	–	14	15	–	15	7	–	7	36
Total		**1313**	**3895**	**5208**	**1259**	**8551**	**9810**	**695**	**7014**	**7709**	**22727**

Note : 1. C.O - Central Office. R.O - Regional Office.

2. The staff in Monetary Policy Department (MPD) are not shown separately since the staff are drawn from five Departments, *viz.*, DEAP, DESACS, DBOD, RPCD and DAPM. The staff strength of MPD in different categories as on December 31, 2004 was 36 in Class I, 22 in Class III and 17 in Class IV.
3. The staff shown against DCM is inclusive of staff employed in Issue Departments.
4. The staff shown against DGBA is inclusive of staff employed in Banking Department , *i.e.*, Public Accounts Department and Public Debt Offices.

Table 9.7: Office-wise Strength of Staff (As on December 31, 2004)

Office	Class I	Class III	Class IV
1	2	3	4
1. Ahmedabad	221	430	319
2. Bangalore	269	502	325
3. Belapur	73	227	259
4. Bhopal	113	92	105
5. Bhubaneswar	125	206	224
6. Chandigarh	147	99	115
7. Chennai	326	716	620
8. Guwahati	135	307	229
9. Hyderabad	196	372	337
10. Jaipur	170	340	280
11. Jammu	60	30	44
12. Kanpur	145	527	447
13. Kochi	20	85	50
14. Kolkata	408	1194	830
15. Lucknow	117	219	129
16. Mumbai	1867	2440	1962
17. Nagpur	145	513	329
18. New Delhi	303	848	515
19. Panaji, Goa	05	08	02
20. Patna	174	391	308
21. Pune (CAB and CRDC)	44	38	85
22. Thiruvananthapuram	145	226	195
Total	**5,208**	**9,810**	**7,709**

CRDC : Central Records and Documentation Centre.

conducted during the period July 2004–June 2005. Consequent upon closure of Regional Audit/Central Audit Cells (RACs/CACs) with effect from July 1, 2004 and based on the acceptance of the recommendations of an internal Committee by the Bank's Top Management, an Audit Monitoring Cell (AMC) has been set up. The system of Control Self Assessment Audit (CSAA), to be conducted by the ROs/CODs themselves, has been reinforced. The system of Concurrent Audit, with well-defined scope and responsibilities, has also been strengthened. Snap Audits of 7 CODs and 3 ROs were conducted during the year. The IS Audit continues to be an integral part of the MASI. The compliance with the major findings of MASI Reports is monitored by the Executive Directors' Committee under the overall supervision and guidance of the Inspection and Audit Sub-Committee (IASC) of the Central Board. During the period July 2004–June, 2005, 4 meetings of the IASC and 6 meetings of the Executive Directors' Committee were held.

IX.33 In keeping with the recommendations of the Committee on Procedures and Performance Audit on Public Services (CPPAPS), it was decided to take up the ISO 9001-2000 Certification Process in phases, beginning with the Regional Offices at Kolkata and Hyderabad. The Banking and Issue Departments at these offices will be taken up for Certification. The BS7799 Standard Certification for Information Security will be initially implemented in respect of two Departments *viz.*, Department of External Investment and Operations (DEIO) and Internal Debt Management Department (IDMD) at the Central Office. Consultants have been appointed and it is expected that the respective ROs/CODs will be ready for Certification Audit within 16-18 weeks from the date the consultants commence their work.

Library

IX.34 The Central Library of the Reserve Bank, attached to the Department of Economic Analysis and Policy (DEAP), plays an important role in the collection, storage, and dissemination of information. The Library has a comprehensive collection of books, journals, working papers, reports, CD-ROMs and other documents. The Library maintains electronic databases of all these documents (OPAC – Online Public Access Catalogue), which can be accessed through Intranet from the Central Office building and from all other offices of the Reserve Bank. Through its home page, the Library offers access to various online databases such as ECONLIT, Proquest Business Periodicals Database (covering 2,842 journals), India Business Insight Database, Prowess, Internet Securities, World Bank, and Elsevier Science Direct.

IX.35 The Library database has 100,423 records which cover books and other documents. The Library receives 534 technical journals. The Library provides Current Awareness Services for all new documents added in the Library as well as select articles from professional journals through Intranet on a regular basis. The Library also provides information services and support to training colleges and libraries in other offices of the Reserve Bank.

Dissemination Policy

IX.36 The Reserve Bank continued to disseminate information through media, press releases, publications, notifications, frequently asked questions and advertisements. It organised meetings, workshops and seminars for interacting with special audiences. Sales counters were opened at the entrances of the Banking Halls of most of the Regional Offices to disseminate the Reserve Bank's publications to the public in general and universities, researchers and media, in particular. The Reserve Bank's website continued to remain a major source of information. Over 6,500 users registered themselves for receiving information through e-mail. As many as 29,588 visitors used the personalised service to access information available on the Reserve Bank's website. During the year, the Reserve Bank issued 1,392 press releases and added 1.92 giga-bytes (GBs) of material to its website, taking the volume of information available on the website to 13 GBs. The e-mail helpdesks continued to furnish replies to the queries raised by the general public. Members of the public send their queries relating to foreign exchange, banking and economy through e-mail/telephone/fax to the helpdesks set up in various operational departments/ Regional Offices.

Customer Service Measures

IX.37 Efforts were made to introduce innovative measures for better customer service in the fields of currency management, foreign exchange, banking matters, clearing mechanism and in evaluation of customer satisfaction. To assess the quality of currency in circulation, officials of some regional offices paid *incognito* visits to major market localities and interacted with shopkeepers, vegetable vendors, cashiers in departmental stores/restaurants, post offices and a few non-currency chest branches of banks. Meetings were also held with senior officials of banks maintaining currency chests. Problems of forged notes, reverse flow of coins and exchange facility to the public were some of the other issues discussed during such meetings. Commercial banks were advised to open special counters for exchange of soiled and mutilated notes on Sundays and holidays and accept coins of all denominations tendered through their counters either for exchange or for deposit in accounts.

IX.38 Training programmes/workshops were conducted to educate the officials of various banking and non-banking organisations such as anti-economic offences cells of state Crime Investigation Departments (CIDs), urban co-operative banks' federations, frontline staff of various Government departments such as electricity boards, police, regional transport, central railway and post offices regarding the features of genuine notes and difference between forged notes and genuine notes. Some Regional Offices launched education campaigns on currency management related issues, such as security features of genuine notes and availability of exchange facility for currency notes and coins, through issue of press releases, advertisements, display of banners, distribution of handouts and interviews in the local electronic media for awareness of the general public. Jammu Regional Office imparted training to the officials of *Shri Mata Vaishno Devi* regarding detection of forged notes, which was appreciated by the Shrine's Board authorities. As a measure to eliminate middlemen and also to obviate the need for carrying back large amounts of cash, Kanpur regional office commenced, effective July 2004, crediting the exchange value of coins exchanged by bulk quantity users through ECS.

IX.39 Several Regional Offices organised seminars/workshops to familiarise and sensitise authorised dealers (ADs) with the extant regulations/ directions relating to export, import and miscellaneous remittances. ADs were also briefed about the rationale behind the recent liberalisation measures on current account based on the recommendations of the Committee on Procedures and Performance Audit on Public Services (CPPAPS) and their role as facilitators to ensure that the fruits of liberalisation reach the resident individuals. In order to inform the general public of the availability of hassle free drawal facility for foreign exchange for private/business visits, study abroad, overseas medical treatment and remittance for miscellaneous purposes on the basis of self-declaration without reference to the Reserve Bank, a few Regional Offices issued press releases indicating the names of ADs in their respective States and the procedure for release of foreign exchange. Thiruvananthapuram Regional Office also conducted workshops for ADs at major cities with concentration of foreign exchange users. Through workshops and interactive sessions, some Regional Offices attempted to educate bank officials dealing directly with individual customers as also the faculty of banks' training centres about the various liberalised remittance facilities available to individuals under the Foreign Exchange Management Act.

IX.40 Regional offices of the Reserve Bank also remained sensitive to the needs of bankers and took measures to enhance services to banks. The Bhubaneswar Bankers' Clearing House, for instance, commenced return clearing on Saturdays from December, 2004 and Kanpur office incorporated a link to its intranet website to facilitate download of day-end settlement statements including high value, high value return and MICR return by clearing house/

INFINET member banks. The Kolkata office installed a user-friendly browser based software called Knowledge Management Tools which provides a complete database of instructions/circulars issued by the Reserve Bank and other regulators of the financial sector. The package also contains various committee reports, action taken reports on the committees' recommendations and banking related statutes.

IX.41 With a view to reviewing the implementation of the recommendations of the CPPAPS, several Regional Offices held meetings with the zonal-in-charge of banks to discuss the findings of the customer satisfaction surveys conducted through interactions with customers, general public and shopkeepers and the *incognito* visits to bank branches to get direct feedback on the quality of service provided by banks to customers in the areas of note/coin/defective notes exchange facility, foreign exchange facility and other banking services.

IX.42 Other customer friendly measures included revised time norms in Public Debt Offices to deposit bonds for redemption, even after banking hours and creating additional operating sessions in the real time gross settlement (RTGS) system with a view to encouraging primary dealers to join the RTGS live environment.

Department of Economic Analysis and Policy

IX.43 The Department of Economic Analysis and Policy (DEAP) continued to provide analytical research on various facets of the Indian economy in the Reserve Bank's headline publications for the purpose of enhancing the public's appreciation of the dynamics of policy formulation. Some of the important publications prepared in the Department and released during the year included the Reserve Bank's *Annual Report*, 2003-04, the *Report on Trend and Progress of Banking in India*, 2003-04 and the *Study on Finances of State Governments*. The *Report on Currency and Finance*, 2003-04 with the theme as "Monetary Policy", *Handbook of Statistics of Indian Economy, 2003-04* and a new publication *Handbook of Statistics on State Government Finances* were also released during the year. Documents entitled *Macroeconomic and Monetary Developments in 2004-05* and *Macroeconomic and Monetary Developments: First Quarter Review 2005-06* were released along with the Annual Policy Statement for 2005-06 and the First Quarter Review of the Annual Statement on Monetary Policy for 2005-06, respectively. The Department also disseminated information on key parameters of the Indian economy in the Reserve Bank's Monthly Bulletin and its Weekly Statistical Supplement.

IX.44 The Reserve Bank of India Occasional Papers continued to publish analytical studies in the areas concerning the Indian economy.

IX.45 The Department also provided technical inputs to other Departments and participated in several Inter-Departmental Groups. The Department coordinated the work relating to Article IV consultations with the staff of the IMF. The Department conducted the 1st Brahmananda Memorial Lecture, which was delivered by Professor Lord Meghnad Desai on September 20, 2004. The Department organised a series of seminars/lectures by foreign dignitaries and experts from India.

IX.46 The Development Research Group (DRG), constituted in the Reserve Bank in November 1991, continued to serve as a forum for collaborative research efforts between professional economists and officers of the Bank. The DRG has published 24 studies since its inception on a wide range of subjects relating to monetary, fiscal, banking and external areas besides real and social sectors. One more study on 'Transmission of Monetary Policy and the Bank Lending Channel: Analysis and Evidence for India' is being published shortly. During 2004-05, eight studies were initiated under the DRG: 1) Multilateral Trade Disciplines and Foreign Banks in India: Theoretical Issues and Empirical Analysis; 2) Inequalities in Cooperative Agricultural Credit: A Case Study of Maharashtra; 3) Credit Risk of Banks in India: Modelling and Measurement; 4) Role of Divisia Monetary Indices in Monetary Policy Making; 5) Municipal Finances; 6) Comparative Study of Dutch Disease Infliction in Eight Countries; 7) Relation Between the Initiation of Vigilance Case against a Bank and the Change in its Lending Activity; and 8) Competitiveness, Efficiency and Productivity in the Indian Manufacturing Sector. Since March 2001, the DRG has been entrusted with the work relating to the Bank's Endowment Scheme under which the financial support is provided to various institutions for the purpose of research and training in areas of interest to the Reserve Bank.

Department of Statistical Analysis and Computer Services

IX.47 The Reserve Bank had established an Enterprise-wide Data Warehouse - christened the Central Database Management System (CDBMS) -

for its internal use in December 2002. As announced by the Governor in the Mid-term Review of Monetary and Credit Policy for the year 2003-04, the Reserve Bank appointed, in January 2004, an Expert Group chaired by Prof. A. Vaidyanathan to guide the process of placing relevant data in CDBMS in the public domain and to dovetail it to the data requirements of the user community outside the Reserve Bank within the overall framework of data dissemination. The Group submitted its report to the Reserve Bank in September 2004 and the recommendations were put on the Reserve Bank's website. Accordingly, the 'Database on Indian Economy' (DBIE) was launched in November 2004. It has been created to provide public with access to published data series with additional details on some series as available in the CDBMS. This is an advanced mode of information dissemination through which long term time series data can be downloaded in a user-friendly manner. Users can also view the related data definitions and concepts. The time series data placed in the DBIE relate to the financial sector, the real sector, financial markets and the external sector. The data in DBIE can be accessed through two modes *viz.*, Reports and Data Query. Data Query allows creation of user-defined reports as per the user's selection of variables and time period. Both Reports and Data Query templates are classified as per the subject areas as well as frequency of data. The list of the data series will be progressively enlarged on the basis of feedback received and availability of relevant data series in the Reserve Bank's data warehouse. The site receives, on an average, over 6000 visitors every month.

Banking Ombudsman Scheme

IX.48 Fifteen offices of the Banking Ombudsmen administer the Banking Ombudsman Scheme, 2002. 10,560 complaints were received during the year 2004-05. These complaints related, *inter alia,* to deficiency in services relating to loans and advances, deposit accounts and collection of cheques/bills. During the period 2000-01 to 2004-05, 98 per cent of the complaints disposed off were by mutual settlements, and awards were passed in respect of the remaining two per cent. The scope of the scheme is proposed to be enlarged to cover additional banking services.

CENTRAL BOARD AND ITS COMMITTEES

IX.49 Eight meetings of the Central Board were held during the year ended June 30, 2005 of which five meetings were held at traditional centres, *viz.*, New Delhi (two), Kolkata, Chennai and Mumbai and three were held at non-traditional centres, *viz.*, Jaipur, Bhubaneswar and Srinagar. Forty-five weekly meetings of the Committee of the Central Board were held during the year at Mumbai. The Committee of the Central Board attends to the current business of the Bank, including approval of the Reserve Bank's weekly accounts pertaining to the Issue and the Banking Departments. The discussions at the meetings of the Central Board broadly covered matters pertaining to general superintendence and direction of the Reserve Bank's affairs. Directors, with their vast experience in diverse fields, actively contributed to important decisions pertaining to currency management, information technology, human resource development, banking supervision, monetary and credit policy, the Reserve Bank's accounting policy and Internal Debt Management policy. The deliberations of the Board were focused on a critical assessment of the percolation of benefits of growth to the poor sections of society and on agriculture and rural areas, in general. The Central Board and its Committees continued to review the functioning of Local Boards with a view to facilitating their advisory role.

IX.50 In addition, one meeting of the Staff Sub-Committee, four meetings of the IASC and five meetings of the Building Sub-Committee were held during the year. These Sub-Committees of the Central Board have been constituted to assist the Central Board in direction of the affairs of the Reserve Bank. The IASC oversees and reviews the various mechanisms put in place in respect of inspections and internal audits and house-keeping in the Reserve Bank with a view to giving a sharper focus and maximising the efficacy of the internal control systems in the Bank. It also deliberates and advises on the appropriate accounting policies/ standards to be adopted by the Reserve Bank. The Building Sub-Committee advised on various matters including construction of staff quarters, renovation of office and residential buildings. The Committee also reviewed the utilisation of the capital budget for the year 2004-05. The Staff Sub-Committee reviewed manpower planning in the Reserve Bank.

Directors / Members of the Central Board / Local Boards

IX.51 Shri V. Leeladhar and Smt. Shyamala Gopinath joined the Central Board after taking over as Deputy Governors with effect from September 21, 2004.

IX.52 Dr. Rakesh Mohan was reappointed as Deputy Governor of the Bank with effect from July 2, 2005. Earlier he had demitted the office on October 31, 2004 consequent upon his appointment as Secretary (Economic Affairs), Government of India, Ministry of Finance. During the interregnum he was on the Central Board as Government Official Director under Section 8(1) (d) of the Reserve Bank of India Act, 1934.

IX.53 Shri Ashok K. Jha, Secretary, Department of Economic Affairs, Ministry of Finance, Government of India was nominated as Director on the Central Board under Section 8(1)(d) of the Reserve Bank of India Act, 1934, with effect from July 14, 2005 *vice* Dr. Rakesh Mohan.

IX.54 Shri D.C. Gupta, Finance Secretary, Government of India ceased to be Director of the Central Board on his retirement from Government on October 30, 2004.

IX.55 Prof. C.N.R. Rao, an eminent scientist and Honorary President of Jawaharlal Nehru Centre for Advanced Scientific Research resigned from the Central Board with effect from May 25, 2005 due to his commitments in frontline areas of research.

IX.56 Shri R.K. Kaul, former Deputy Governor of the Bank (October 1, 1983 to September 30, 1986), passed away on April 22, 2005.

IX.57 Shri P.D.Chitlangia, member of the Local Board (Eastern Area) since May 24, 2001 passed away on June 10, 2005.

IX.58 On the 70th anniversary of the Reserve Bank, the Central Board at its meeting held on March 5, 2005 at New Delhi, honoured the presence of its oldest living former Director Shri Satya Pal Virmani aged 93 who was invited to meet the Board members after the meeting.

Appointment/Retirement of Executives

IX.59 Shri V.K. Sharma, who was earlier Regional Director, was appointed as Executive Director with effect from September 22, 2004.

Parliamentary Committee

IX.60 The Parliamentary Standing Committee on Finance, headed by Maj. Gen. (Retd.) B. C. Khanduri, M.P and consisting of 25 members and 5 officials visited Mumbai from October 25, 2004 to October 30, 2004 in connection with their study tour for examination of subjects dealt with by the Ministry of Finance.

Foreign Dignitaries

IX.61 Mr.Joschka Fischer, German Foreign Minister accompanied by 4 top officials of his administration had a meeting with the Governor, Deputy Governors and Executive Directors on July 21, 2004.

IX.62 Mr. Alan Larson, Under Secretary of State for Economic and Business Affairs and Mr David Mulford, Ambassador of the United States had a meeting with the Governor, Executive Directors, and other senior officials of the Bank on September 16, 2004.

IX.63 The first Dr. Brahmananda memorial lecture in honour of the late economist instituted by the Bank was delivered by Lord Meghnad Desai, Director, Centre for the Study of Global Governance, London School of Economics & Political Science, London on September 20, 2004. Lord Desai also visited the central office of the Bank and held a press conference.

IX.64 Mr. John Palmer, Deputy Managing Director of the Monetary Authority of Singapore had a meeting with Dr. Rakesh Mohan, Deputy Governor on September 13, 2004 and met the Governor on September 16, 2004.

IX.65 Mr. David Burton, Director, Asia & Pacific Department, International Monetary Fund had a meeting with Dr. Rakesh Mohan, Deputy Governor on October 21, 2004.

IX.66 Sir Andrew Large, Deputy Governor, Bank of England had discussions with Governor, Deputy Governors, Executive Directors and senior officials of the Bank on December 1, 2004.

IX.67 A delegation led by Mr. John B. Taylor, US Under Secretary for International Economic Affairs had an interactive meeting with Governor, Deputy Governors, Executive Directors and senior officials of the Bank on December 8, 2004.

IX.68 A delegation led by Mr. Francois Loos, French Minister for Trade and Commerce had an interactive meeting with Governor, Deputy Governors, Executive Directors and senior officials of the Bank on December 8, 2004.

IX.69 Smt. K.J. Udeshi, Deputy Governor, hosted a luncheon for Dr. Richard C. Levin, President, Yale University and distinguished guests from the industry on January 7, 2005.

IX.70 A delegation led by H.E. Mr. Tharman Shanmugaratnam, Minister for Education and

Chairman of the Monetary Authority of Singapore had a meeting with Governor, Deputy Governors, Executive Directors and senior officials of the Bank on January 8, 2005.

IX.71 Governor hosted a luncheon meeting with Mr. Malcolm Knight, General Manager, Bank for International Settlements on January 31, 2005. Deputy Governors and select list of invitees participated. Mr Knight also had a post-lunch meeting with Deputy Governors and Executive Directors followed by a one to one meeting with Governor.

IX.72 Dr. Ronald Koch, Minister President of Hessen, Germany along with a delegation had a meeting with Deputy Governors, Executive Directors and senior officials on February 7, 2005.

IX.73 Smt. K. J. Udeshi, Deputy Governor, chaired a meeting with a delegation from the Deposit Insurance Corporation of Japan, led by Mr. Hajime Shinohara, Deputy Governor, on February 17, 2005.

IX.74 A delegation from Bank Austria Creditanstalt, Austria led by Dr. Angelo Rizzuti, Executive Director and Mr. Aung, Divisional Adviser had a meeting with Shri V. K. Sharma, Executive Director and senior officials on February 21, 2005.

IX.75 A delegation from Bank of Japan led by Mr. Shin Nakahara, Member of the Policy Board, had a meeting with Smt. Shyamala Gopinath, Deputy Governor, Executive Directors and senior officials on February 25, 2005.

IX.76 Mr. Rodrigo de Rato, Managing Director, IMF along with a delegation of officials had a meeting with Governor and Deputy Governors followed by luncheon attended by prominent industrialists and bankers on March 17, 2005. He also addressed a select audience in the Bank.

IX.77 Mr. Noorulah Delawari, Governor, Da Afghanistan Bank had a luncheon meeting with the Governor, Deputy Governors and senior officials on March 21, 2005.

IX.78 The 8th Bank for International Settlements Working Party on Monetary Policy in Asia was hosted by the Reserve Bank on June 6-7, 2005 at the Central Office, Mumbai. The meeting was attended by 23 senior executives from different central banks and top executives of the Bank.

Auditors

IX.79 The accounts of the Reserve Bank were audited by M/s. J. L. Sengupta & Co., Kolkata; M/s. S. N. Nanda & Co., New Delhi; M/s. Khimji Kunverji & Co., Mumbai; M/s. Ford Rhodes Parks & Co, Mumbai; M/s. Rajendra K. Goel & Co., New Delhi; M/s. M.K. Dandekar & Co., Chennai. While the first five audit firms were re-appointed the last one has been appointed for the first time by the Central Government.

X THE RESERVE BANK'S ACCOUNTS FOR 2004-05

10.1 The key financial results of the Reserve Bank's operations during the year are presented in this Section.

INCOME AND EXPENDITURE

10.2 The gross income, expenditure, appropriations and net disposable income of the Reserve Bank have been evolving over the last five years (Table 10.1).

Table 10.1: Trends in Gross Income, Expenditure and Net Disposable Income

(Rupees crore)

Item	2004-05	2003-04	2002-03	2001-02	2000-01
1	2	3	4	5	6
Total Income (Gross)	19,028.28	14,323.70	23,185.64	24,690.34	21,848.87
Less transfer to:					
(i) Contingency Reserve	6,125.92	969.47	6,733.92	6,996.04	6,202.57
(ii) Asset Development Reserve	687.09	188.09	890.31	827.91	704.78
Total (i + ii)	6,813.01	1,157.56	7,624.23	7,823.95	6,907.35
Total Income (Net)	12,215.27	13,166.14	15,561.41	16,866.39	14,941.52
Total Expenditure	6,811.27	7,762.14	6,723.41	6,542.39	5,587.52
Net Disposable Income	5,404.00	5,404.00	8,838.00	10,324.00	9,354.00
Less : Transfer to Funds *	4.00	4.00	4.00	4.00	4.00
Surplus transfer to the Government	5,400.00	5,400.00	8,834.00	10,320.00	9,350.00

* : An amount of Rupees one crore each transferred to the National Industrial Credit (Long Term Operations) Fund, National Rural Credit (Long Term Operations) Fund, National Rural Credit (Stabilisation) Fund and National Housing Credit (Long Term Operations) Fund during each of the five years.

Surplus Transferable to Government of India

10.3 The surplus transferable to the Central Government for the year 2004-05 amounted to Rs.5,400.00 crore, inclusive of Rs.2,494.00 crore towards interest differential on special securities converted into marketable securities. The transfer on account of interest differential is intended to compensate the Government for the difference in interest expenditure which the Government had to bear consequent on the conversion.

INCOME

10.4 The gross income of the Reserve Bank for the year 2004-05 was Rs.19,028.28 crore, which was higher by Rs.4,704.58 crore (32.8 per cent) than the previous year's total income of Rs.14,323.70 crore. There was an increase in income from foreign sources while income from domestic sources declined during the year (Table 10.2 and Chart X.1).

Table 10.2: Gross Income

(Rupees crore)

Item	2004-05	2003-04	2002-03	2001-02	2000-01
1	2	3	4	5	6
A. Foreign Sources					
Interest, Discount, Exchange	16,979.47	9,103.50	9,826.65	9,986.46	10,086.08
B. Domestic Sources					
Interest	1,607.34	4,872.41	13,064.77	14,492.14	11,314.12
Other Earnings	441.47	347.79	294.22	211.74	448.67
Total: Domestic	2,048.81	5,220.20	13,358.99	14,703.88	11,762.79
C. Total Income (Gross) (A+B)	**19,028.28**	**14,323.70**	**23,185.64**	**24,690.34**	**21,848.87**

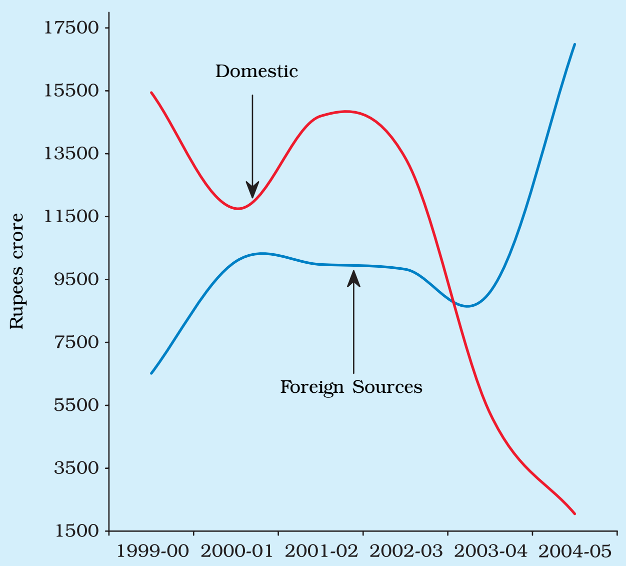
Table 10.3: Contingency and Asset Development Reserves and Surplus Transfer to the Government

(Rupees crore)

Item	2004-05	2003-04	2002-03	2001-02	2000-01
1	2	3	4	5	6
Total Income (Gross)	19,028.28	14,323.70	23,185.64	24,690.34	21,848.87
Transfer to Contingency Reserve	6,125.92	969.47	6,733.92	6,996.04	6,202.57
	(32.2)	(6.8)	(29.0)	(28.3)	(28.4)
Asset Development Reserve	687.09	188.09	890.31	827.91	704.78
	(3.6)	(1.3)	(3.8)	(3.4)	(3.2)
Surplus transfer to the Government	5,400.00	5,400.00	8,834.00	10,320.00	9,350.00
	(28.4)	(37.7)	(38.1)	(41.8)	(42.8)

Note: Figures in parentheses indicate proportion to total income.

Chart X.1: Sources of Income



10.5 The share of transfer to Contingency Reserve, Asset Development Reserve and surplus transferred to Government as a percentage to total income is given in Table 10.3.

Earnings from Foreign Sources

10.6 The Reserve Bank's earnings from the deployment of foreign currency assets and gold increased by Rs.7,875.97 crore (86.5 per cent) from Rs.9,103.50 crore in 2003-04 to Rs.16,979.47 crore in 2004-05 (Table 10.4). This was mainly on account of increase in the level of foreign currency assets, hardening of short term interest rates in the USA and lower mark-to-market depreciation on securities. Before accounting for mark-to-market depreciation on securities, the rate of earnings on foreign currency assets and gold was 3.2 per cent in 2004-05 as against 2.8 per cent in 2003-04. The rate of earnings on foreign currency assets and gold, after accounting for depreciation, increased from 2.1 per cent in 2003-04 to 3.1 per cent in 2004-05.

Table 10.4: Earnings from Foreign Sources

(Rupees crore)

Item	As on		Variation	
	June 30, 2005	June 30, 2004	Absolute	Per cent
1	2	3	4	5
Foreign Currency Assets (FCA)	5,75,863.66	5,24,865.01	50,998.65	9.7
Gold	19,375.10	18,655.48	719.62	3.9
Special Drawing Rights (SDR)	18.35	8.42	9.93	117.9
Reserve Position in the IMF **	6,791.43	5,980.47	810.96	13.6
Total Foreign Exchange Reserves (FER)	6,02,048.54	5,49,509.38	52,539.16	9.6
Average FCA	5,51,659.54	4,38,958.40	1,12,701.14	25.7
Earnings (Interest, Discount, Exchange gain/loss, Capital gain / loss on Securities)	17,889.74	12,415.99	5,473.75	44.1
Depreciation on Securities	(-) 910.27	(-) 3,312.49	2,402.22	(-)72.5
Earnings Net of Depreciation	16,979.47	9,103.50	7,875.97	86.5
Memo Items:				
Unrealised appreciation on Securities	900.14	330.31	569.83	172.5
Earnings as percentage of Average FCA	3.2	2.8		
Earnings (net of depreciation) as percentage of Average FCA	3.1	2.1		

** : Reserve Position in the International Monetary Fund (IMF), which was shown as a memo item from May 23, 2003 to March 26, 2004 has been included in the reserves from the week ended April 2, 2004.

Table 10.5: Earnings from Domestic Sources

(Rupees crore)

Item	As on		Variation	
	June 30, 2005	June 30, 2004	Absolute	Percentage
1	2	3	4	5
Domestic Assets	106,952.94	84,872.74	22,080.20	26
Weekly Average of Domestic Assets	99,977.76	88,288.77	11,688.99	13.2
Earnings	**2,048.81**	**5,220.20**	**(-)3,171.39**	**(-) 60.8**
	(8,143.92)	(2,744.69)		
of which:				
Interest	**1,607.34**	**4,872.41**	**(-)3,265.07**	**(-) 67.0**
(i) Profit on Sale of Securities	4,220.52	2,322.62	1,897.90	81.7
(ii) Interest on Securities	(-) 3,272.08	1,938.28	(-)5,210.36	(-)268.8
(iii) Interest on Loans and Advances	367.35	376.64	(-) 9.29	(-)2.5
(iv) Other Interest Receipts	291.55	234.87	56.68	24.1
Other earnings	**441.47**	**347.79**	**93.68**	**26.9**
(i) Discount	0.01	0.01	–	–
(ii) Exchange	0.04	0.07	(-)0.03	(-)42.9
(iii) Commission	381.36	335.05	46.31	13.8
(iv) Rent realised and others	60.06	12.66	47.40	374.4
Memo Items:				
Earnings in percentage terms (on average domestic assets)	2.0	5.9		
Earnings in percentage terms (excluding profit on sale of Securities)	(-) 2.2	3.3		

Note : Figures in parentheses are depreciation on securities.

Income from Domestic Sources

10.7 Domestic income decreased by Rs.3,171.39 crore (60.8 per cent) from Rs.5,220.20 crore in 2003-04 to Rs.2,048.81 crore in 2004-05. The decline in income was mainly on account of (a) booking of substantially higher depreciation in the value of rupee securities as the yields hardened during the year, (b) lower availment of WMA by Central Government and State Governments, (c) investment of Government of India surplus balances in rupee securities from Bank's portfolio and (d) earmarking of certain securities to cover the liabilities in Provident Fund, Superannuation Fund and Encashment of Ordinary Leave Fund. The net interest income on rupee securities was negative on account of higher depreciation during the year (Table 10.5).

10.8 Profits booked on sale of securities amounted to Rs.4,220.52 crore in 2004-05, representing an increase of Rs.1,897.90 crore over the previous year. The interest income on ways and means advances declined by Rs.196.42 crore from Rs.370.52 crore in 2003-04 to Rs.174.10 crore in 2004-05, reflecting decreased recourse to this facility by the Central Government and State Governments during 2004-05.

EXPENDITURE

10.9 Total expenditure of the Reserve Bank declined by Rs.950.87 crore (12.3 per cent) from Rs.7,762.14 crore in 2003-04 to Rs.6,811.27 crore in 2004-05 (Table 10.6 and Chart X.2).

Interest Payment

10.10 Interest payment decreased by Rs.422.20 crore (23.3 per cent) from Rs.1,808.48 crore in 2003-04 to Rs.1,386.28 crore in 2004-05. During the year, the Bank earmarked certain Government securities from its Investment Account in order to cover the liabilities in Provident Fund, Superannuation Fund and Encashment of Ordinary Leave Fund. Consequently, interest payments on these funds (Rs.403.8 crore) have been made from the interest earned on these earmarked securities and hence do not form part of interest payments.

Establishment Expenditure

10.11 Establishment expenditure declined by Rs.579.82 crore (26 per cent) from Rs.2,232.99 crore in 2003-04 to Rs.1,653.17 crore in 2004-05 as a result

Table 10.6: Expenditure

(Rupees crore)

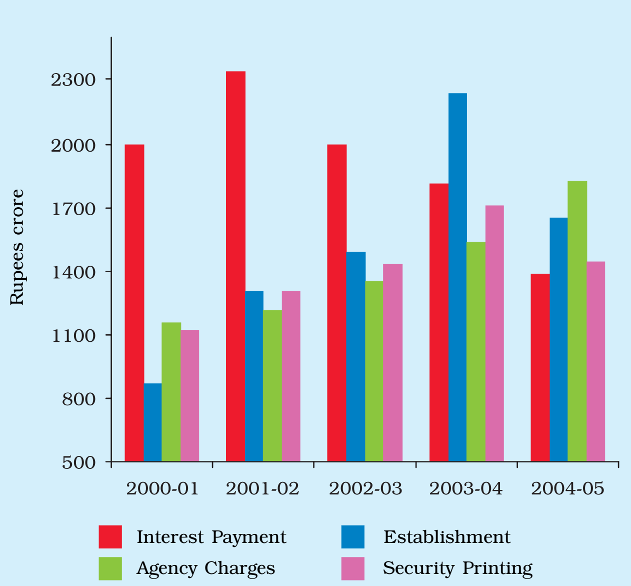
Item	2004-05	2003-04	2002-03	2001-02	2000-01
1	2	3	4	5	6
I. Interest Payment	**1,386.28**	**1,808.48**	**1,990.09**	**2,334.99**	**1,994.80**
of which:					
Scheduled Banks	1,276.83	1,323.23	1,483.02	1,838.57	1,660.83
II. Establishment	**1,653.17**	**2,232.99**	**1,488.86**	**1,304.36**	**870.85**
III Non-Establishment	**3,771.82**	**3,720.67**	**3,244.46**	**2,903.04**	**2,721.87**
of which:					
a) Agency charges	1,824.17	1,539.12	1,352.41	1,207.84	1,160.70
b) Security printing	1,443.57	1,709.56	1,433.09	1,304.49	1,122.78
Total [I+II+III]	**6,811.27**	**7,762.14**	**6,723.41**	**6,542.39**	**5,587.52**

of lower provisioning required in respect of gratuity and superannuation funds. As per the actuarial valuation, the appropriation to the Gratuity and Superannuation Fund was to the extent of Rs.228.06 crore as against Rs.1,010.00 crore during the previous year. The establishment expenditure during 2004-05 comprised of salary (17.3 per cent), allowances (15.5 per cent), funds (46.8 per cent) and miscellaneous expenditures (20.4 per cent).

Non-Establishment Expenditure

10.12 Expenditure on security printing comprising, *inter alia*, cost of printing currency notes and cheque forms decreased by Rs.265.99 crore (15.6 per cent) from Rs.1,709.56 crore in 2003-04 to Rs.1,443.57 crore in 2004-05 mainly due to reduction in the cost of printing banknotes and lower supply of notes by 172.3 crore pieces. The expenditure incurred for security printing includes a sum of Rs.209.24 crore paid for banknotes supplied during the previous years.

Chart X.2: Major Expenditure Items



BALANCE SHEET

LIABILITIES

National Industrial Credit (Long Term Operations) Fund

10.13 There were no operations in the National Industrial Credit (Long Term Operations) Fund (established under Section 46 C of the Reserve Bank of India Act, 1934) during 2004-05 except the credit of Rs.1.00 crore to the Fund out of the Reserve Bank's income.

National Housing Credit (Long Term Operations) Fund

10.14 The National Housing Credit (Long Term Operations) Fund was established by the Reserve Bank in terms of Section 46 D(1) of the Reserve Bank of India Act, 1934 in January 1989. A token contribution of Rs.1.00 crore was made to the Fund out of the Reserve Bank's income during 2004-05.

Deposits - Banks

10.15 'Deposits - Banks' represent balances maintained by banks in current account with the Reserve Bank mainly for maintaining Cash Reserve Ratio (CRR) and as working funds for clearing adjustments.

Deposits - Others

10.16 'Deposits - Others' include deposits from financial institutions, employees' provident fund deposits, surplus earmarked pending transfer to the Government and sundry deposits.

Other Liabilities

10.17 'Other Liabilities' include the internal reserves and provisions of the Reserve Bank and net credit balance in the RBI General Account. These liabilities have declined by Rs.29,573.22 crore (22.8 per cent) from Rs.1,29,929.49 crore as on June 30, 2004 to Rs.1,00,356.27 crore as on June 30, 2005 mainly on account of decrease in the levels of Currency and Gold Revaluation Account (CGRA).

10.18 The reserves, viz. Contingency Reserve, Asset Development Reserve, Currency and Gold Revaluation Account and Exchange Equalisation Account reflected in 'Other Liabilities' are in addition to the 'Reserve Fund' of Rs.6,500.00 crore held by the Reserve Bank as a distinct balance sheet head.

Currency and Gold Revaluation Account (CGRA) and Exchange Equalisation Account (EEA)

10.19 Gains/losses on valuation of foreign currency assets and gold due to movements in the exchange rates and/or prices of gold are not taken to Profit and Loss Account but instead booked under a balance sheet head named as CGRA. The balance represents accumulated net gain on valuation of foreign currency assets and gold. During 2004-05, there was a depletion of Rs.35,376.83 crore in CGRA, thus decreasing its balance from Rs.62,283.04 crore as on June 30, 2004 to Rs.26,906.21 crore as on June 30, 2005. The balance in CGRA at the end of June 2005 was equivalent to 4.5 per cent of foreign currency assets and gold holdings of the Reserve Bank as compared with 11.5 per cent at the end of June 2004. The decline was mainly on account of increase in the level of foreign currency assets during 2004-05, on the one hand and appreciation of the rupee against the US dollar and US dollar against other currencies, on the other. The balance in EEA represents provision made for exchange losses arising out of forward commitments. The balance in the EEA as on June 30, 2005 stood at Rs.0.50 crore. The balances in CGRA and EEA are grouped under 'Other Liabilities' in the balance sheet (Table 10.7).

Table 10.7: Balances in Currency and Gold Revaluation Account and Exchange Equalisation Account

(Rupees crore)

As on June 30	Currency and Gold Revaluation Account	Exchange Equalisation Account
1	2	3
2001	29,124.44	49.46
2002	51,010.77	51.50
2003	51,276.41	567.25
2004	62,283.04	5.65
2005	26,906.21	0.50

Contingency Reserve and Asset Development Reserve

10.20 The Reserve Bank maintains a Contingency Reserve (CR) to enable it to absorb unexpected and unforeseen contingencies. The balance in CR has increased from Rs.56,218.76 crore as on June 30, 2004 to Rs.62,344.68 crore as on June 30, 2005. A transfer of Rs.6,125.92 crore was made to CR during 2004-05 from the Reserve Bank's income. The balance in CR is sufficient to meet contingent liabilities.

10.21 In order to meet the internal capital expenditure and make investments in its subsidiaries and associate institutions, the Reserve Bank had created a separate Asset Development Reserve (ADR) in 1997-98, with the aim of reaching one per cent of the Reserve Bank's total assets within the overall indicative target of 12 per cent set for CR. In the year 2004-05, an amount of Rs.687.09 crore was transferred from income to ADR raising its level from Rs.5,778.94 crore as on June 30, 2004 to Rs.6,466.03 crore as on June 30, 2005. CR and ADR together constituted 10.1 per cent of total assets of the Bank as on June 30, 2005 (Table 10.8).

Table 10.8 : Balances in 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
2001	36,514.13	3,872.63	40,386.76	9.9
2002	48,434.17	4,700.54	53,134.71	11.7
2003	55,249.29	5,590.85	60,840.14	11.7
2004	56,218.76	5,778.94	61,997.70	10.2
2005	62,344.68	6,466.03	68,810.71	10.1

ASSETS

Foreign Currency Assets

10.22 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 rose from Rs.5,24,865.01 crore as on June 30, 2004 to Rs.5,75,863.66 crore as on June 30, 2005. The

Table 10.9: Outstanding Foreign Currency and Domestic Assets

(Rupees crore)

As on June 30	Foreign Currency Assets	Domestic Assets
1	2	3
2001	1,91,226.06	2,16,246.37
2002	2,67,333.18	1,86,226.62
2003	3,65,000.98	1,54,812.91
2004	5,24,865.01	84,872.74
2005	5,75,863.66	1,06,952.94

increase in the level of foreign currency assets was mainly on account of net purchases of US dollars from the market and interest and discount received, net of revaluation losses (Table 10.9 and Chart X.3).

Investment in Government of India Rupee Securities

10.23 Investment in Government of India rupee securities, which was Rs.40,179.74 crore as on June 30, 2004 increased by Rs.28,296.74 crore (70.4 per cent) to Rs.68,476.48 crore as on June 30, 2005.

Chart X.3: Trends in Foreign Currency and Domestic Assets

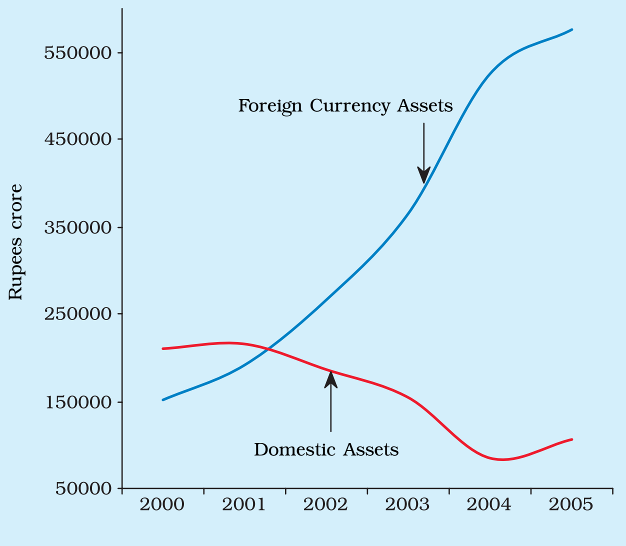


Table 10.10: Investments in Shares of Subsidiaries/Associate Institutions

(Rupees crore)

Institution	Book value of shares held as on June 30, 2005	Book value of shares held as on June 30, 2004
1	2	3
1. Deposit Insurance and Credit Guarantee Corporation	50.00	50.00
2. National Bank for Agriculture and Rural Development	1,450.00	1,450.00
3. State Bank of India	1,222.73	1,222.73
4. National Housing Bank	450.00	450.00
5. Bharatiya Reserve Bank Note Mudran (Pvt.) Ltd.	800.00	800.00
6. Infrastructure Development Finance Co. Ltd.	–	150.00
Total	**3,972.73**	**4,122.73**

Investments in Shares of Subsidiaries and Associate Institutions

10.24. The Reserve Bank transferred its shareholding in Infrastructure Development Finance Co. Ltd. to the Central Government in 2004-05. There was no other change in the Reserve Bank's investments in the shares of its subsidiaries and associate institutions during 2004-05 (Table 10.10).

Other Assets

10.25 'Other Assets' comprise mainly fixed assets, gold holdings in the Banking Department, amounts spent on projects pending completion and staff advances. The level of 'Other Assets' has declined by Rs.56.20 crore (0.4 per cent) from Rs.14,459.77 crore as on June 30, 2004 to Rs.14,403.57 crore as on June 30, 2005.

Auditors

10.26 The accounts of the Reserve Bank for the year 2004-05 were audited by M/s. Khimji Kunverji & Co., Mumbai, M/s. J.L. Sengupta & Co., Kolkata, M/s. S.N. Nanda & Co., New Delhi, M/s Rajendra K. Goel & Co., New Delhi, M/s. Ford, Rhodes, Parks & Co., Mumbai and M/s M.K.Dandeker & Co., Chennai appointed by the Central Government.

RESERVE BANK OF INDIA
BALANCE SHEET AS AT 30TH JUNE 2005

ISSUE DEPARTMENT

(Rupees Thousands)

2003-04	LIABILITIES		2004-05	2003-04	ASSETS		2004-05
	Notes held in the				**Gold Coin and Bullion:**		
23,89,70	**Banking Department**	**12,97,72**		15240,39,42	(a) Held in India	**15828,39,88**	
332654,21,56	**Notes in circulation**	**378467,68,09**		–	(b) Held outside India	**–**	
				313709,35,44	**Foreign Securities**	**361033,08,40**	
332678,11,26	**Total Notes issued**		**378480,65,81**	328949,74,86	**Total**		**376861,48,28**
				261,59,80	**Rupee Coin**		**101,94,35**
				3466,76,60	**Government of India Rupee Securities**		**1517,23,18**
				–	**Internal Bills of Exchange and other Commercial Paper**		**–**
332678,11,26	**Total Liabilities**		**378480,65,81**	332678,11,26	**Total Assets**		**378480,65,81**

BANKING DEPARTMENT

2003-04	LIABILITIES	2004-05	2003-04	ASSETS	2004-05
5,00,00	**Capital paid-up**	**5,00,00**	23,89,70	**Notes**	**12,97,72**
6500,00,00	**Reserve Fund**	**6500,00,00**	6,94	**Rupee Coin**	**4,33**
	National Industrial Credit		2,21,73	**Small Coin**	**2,97,93**
13,00,00	**(Long Term Operations) Fund**	**14,00,00**			
	National Housing Credit			**Bills Purchased and Discounted :**	
187,00,00	**(Long Term Operations) Fund**	**188,00,00**	–	(a) Internal	–
			–	(b) External	–
			–	(c) Government Treasury Bills	–
	Deposits		194673,18,21	**Balances Held Abroad**	**195675,14,64**
	(a) Government				
37912,22,37	(i) Central Government	**72080,93,54**			
41,15,30	(ii) State Governments	**41,16,97**			
	(b) Banks		57668,22,25	**Investments**	**90087,46,43**
80069,04,70	(i) Scheduled Commercial Banks	**101361,60,23**			
2034,54,55	(ii) Scheduled State Co-operative Banks	**1938,60,16**			
1667,74,11	(iii) Other Scheduled Co-operative Banks	**1953,58,90**			
81,83,91	(iv) Non-Scheduled State Co-operative Banks	**61,36,38**			
3043,39,61	(v) Other Banks	**3548,97,15**			
15521,74,89	**(c) Others**	**15920,99,91**		**Loans and Advances to :**	
			3272,00,00	(i) Central Government	–
			4159,80,49	(ii) State Governments	**345,02,00**
77,34,78	**Bills Payable**	**378,41,96**		**Loans and Advances to:**	
			–	(i) Scheduled Commercial Banks	**100,00,00**
			2,78,00	(ii) Scheduled State Co-operative Banks	**1,90,00**
			–	(iii) Other Scheduled Co-operative Banks	–
			–	(iv) Non-Scheduled State Co-operative Banks	–
			2732,09,05	(v) NABARD	**3632,95,77**
			39,50,00	(vi) Others	**36,86,50**
129929,49,45	**Other Liabilities**	**100356,27,02**		**Loans, Advances and Investments from National Industrial Credit (Long Term Operations) Fund:**	
				(a) Loans and Advances to:	
			–	(i) Industrial Development Bank of India	**–**
			–	(ii) Export Import Bank of India	**–**
			–	(iii) Industrial Investment Bank of India Ltd.	**–**
			–	(iv) Others	**–**
				(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:	
			50,00,00	(a) Loans and Advances to National Housing Bank	**50,00,00**
			–	(b) Investments in bonds/ debentures issued by National Housing Bank	**–**
			14459,77,30	**Other Assets**	**14403,56,90**
277083,53,67	**Total Liabilities**	**304348,92,22**	277083,53,67	**Total Assets**	**304348,92,22**

Significant Accounting Policies and Notes to the Accounts as per Annex.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2005

(Rupees Thousands)

2003-04	INCOME		2004-05
13166,13,55	**Interest, Discount, Exchange, Commission *etc.* [1]**		**12215,26,71**
13166,13,55	**Total**		**12215,26,71**
	EXPENDITURE		
1808,48,34	**Interest**		**1386,27,61**
2232,99,22	**Establishment**		**1653,16,59**
93,14	**Directors' and Local Board Members' Fees and Expenses**		**1,29,73**
21,09,23	**Remittance of Treasure**		**17,16,62**
1539,12,19	**Agency Charges**		**1824,16,88**
1709,56,01	**Security Printing (Cheque, Note forms etc.)**		**1443,56,51**
51,81,29	**Printing and Stationery**		**15,68,62**
23,01,90	**Postage and Telecommunication Charges**		**28,48,40**
58,80,81	**Rent, Taxes, Insurance, Lighting etc.**		**55,27,60**
1,28,87	**Auditors' Fees and Expenses**		**1,73,14**
1,90,60	**Law Charges**		**1,49,05**
154,34,33	**Depreciation and Repairs to Bank's Property**		**166,87,97**
158,77,62	**Miscellaneous Expenses**		**216,07,99**
7762,13,55	**Total**		**6811,26,71**
5404,00,00	**Available Balance**		**5404,00,00**
	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**
5400,00,00	**Surplus Payable to Central Government**		**5400,00,00**

1. After making the usual or necessary provisions in terms of Section 47 of the Reserve Bank of India Act, 1934 amounting to Rs.6813,00,61 thousands (2003-04 - Rs. 1157,56,46 thousands).
2. These funds are maintained by National Bank for Agriculture and Rural Development (NABARD).

A. Narayana Rao	**Shyamala Gopinath**	**V. Leeladhar**	**K. J. Udeshi**	**Rakesh Mohan**	**Y. V. Reddy**
Chief General Manager	Deputy Governor	Deputy Governor	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 June 30, 2005 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 June 30, 2005 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.

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion and according to the best of our information and explanations given to us and as shown by the books of account 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, in conformity with the accounting principles generally accepted in India.

Shivji K. Vikamsey	S. N. Nanda	S.R.Ananathakrishnan	R. K. Goel	A. D. Shenoy	S.Neelakantan
(M. No. 2242)	(M. No. 5909)	(M. No. 18073)	(M. No. 6154)	(M. No. 11549)	(M. No.18961)
Khimji Kunverji & Co.,	**S. N. Nanda & Co.,**	**J. L. Sengupta & Co.,**	**Rajendra K.Goel & Co.,**	**Ford, Rhodes, Parks & Co.,**	**M. K. Dandeker & Co.,**
Chartered Accountants	Chartered Accountants	Chartered Accountants	Chartered Accountants	Chartered Accountants	Chartered Accountants

Dated August 11, 2005

ANNEX

RESERVE BANK OF INDIA

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS FOR 2004-05

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 and are based on historical cost, except where it is modified to reflect revaluation.

The accounting practices and policies followed in the statements are consistent with those followed in the previous year, unless otherwise stated.

2. REVENUE RECOGNITION

Income and expenditure are recognised on accrual basis except penal interest and dividend, which are accounted for on receipt basis. Only realised gains are recognised. Provision for outstanding expenditure is made for unpaid bills in respect of cases 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 Reserve Bank's income. Claims in this respect are considered and charged against the Reserve Bank's income as and when paid.

Income and expenditure in foreign currency are recorded at the 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 exchange rate prevailing on the last business day of the month. Unrealised gains/ losses are adjusted to the Currency and Gold Revaluation Account (CGRA).

(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 other than Treasury Bills 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. Foreign Treasury Bills are valued at cost. 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 Currency and Gold Revaluation Account and remain adjusted therein.

4. RUPEE SECURITIES

Rupee securities, other than Treasury Bills, held in the Issue and Banking Departments, are valued at lower of book value or market price. Where the market price for such securities is not available, the rates are derived based on the yield curve prevailing on the last business day of the month. The depreciation in the value, if any is adjusted against current Interest 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 (including software costing Rs.1 Lakh and above), motor vehicles, office equipments, furniture and electrical fittings, etc., is provided on straight–line basis.

Depreciation on other assets including premises and fixtures is provided on written–down value basis.

Software costing less than Rs.1 lakh and other Fixed Assets costing less than Rs.10,000 are charged to Profit/ Loss account in the year of acquisition.

Depreciation is provided on year end balances of the Fixed Assets.

7. RETIREMENT BENEFITS

The liability on account of retirement benefits and leave encashment to employees is provided based on an actuarial valuation.

8. CONTINGENCY RESERVE AND ASSET DEVELOPMENT RESERVE

Contingency Reserve represents the amount set aside 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 make investments in subsidiaries and associate institutions, a further specified sum is provided and credited to the Asset Development Reserve.

NOTES TO THE ACCOUNTS

1. SURPLUS TRANSFER TO GOVERNMENT OF INDIA

Surplus transferable to the Government includes Rs.2,494.00 crore representing interest differential pertaining to the period April 1, 2004 – March 31, 2005 on account of conversion of Special Securities into marketable securities.

2. CHANGES IN ACCOUNTING POLICIES AND PROCEDURES

2.1 Reserve Bank has changed its policy relating to depreciation on Fixed Assets, which was hitherto being charged only if the asset was held for more than six months as at the year end, is now being charged on all Fixed Assets acquired during the year. Further, Expenditure incurred on software, which was hitherto being treated as revenue expenditure is now being capitalised for all individual software costing Rs. one lakh and above and depreciation is charged over a period of three years.

The net impact of the aforesaid change has resulted in additional depreciation of Rs.18.15 crore during the year.

2.2 During the year, Reserve Bank has earmarked certain Government securities from its Investments Account in order to cover the liabilities in Provident Fund, Superannuation Fund and encashment of ordinary leave, details thereof are as under:

Sr. No.	Category	Particulars of securities earmarked	Book value of securities earmarked as on June 30, 2005 (Rs. crore)
1.	Bank's Investment Account – Provident Fund	11.43% 2015	1,591.72
2.	Bank's Investment Account – Superannuation Fund	10.70% 2020	3,292.27
		11.43% 2015	551.90
3.	Encashment of Ordinary Leave	11.43% 2015	205.88
	TOTAL		**5,641.77**

3. RESERVE FUND

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 Currency and Gold Revaluation Account (CGRA).

4. DEPOSITS

4.1 Deposits of Central Government includes Rs.71,680.65 crore (previous year Rs.37,812.01 crore) on account of operations under Market Stablisation Scheme (MSS).

4.2 **Details of Deposits – Others:**

(Rupees crore)

	Particulars	As at June 30	
		2005	2004
	1	2	3
I.	Rupee Deposits from Foreign Central Banks and Foreign Financial Institutions	4,486.86	4,087.35
II.	Deposits from Indian Financial Institutions	233.71	453.50
III.	Accumulated Retirement Benefits	5,483.38	5,152.38
IV.	Surplus transferable to Government of India	5,400.00	5,400.00
V.	Miscellaneous	317.05	428.52
	Total	**15,921.00**	**15,521.75**

5. DETAILS OF OTHER LIABILITIES

(Rupees crore)

Particulars	As at June 30	
	2005	2004
1	2	3
I. Contingency Reserve		
Balance at the beginning of the year	56,218.76	55,249.29
Add : Accretion during the year	6,125.92	969.47
Balance at the end of the year	**62,344.68**	**56,218.76**
II. Asset Development Reserve		
Balance at the beginning of the year	5,778.94	5,590.85
Add : Accretion during the year	687.09	188.09
Balance at the end of the year	**6,466.03**	**5,778.94**
III. Currency and Gold Revaluation Account		
Balance at the beginning of the year	62,283.04	51,276.41
Add : Net Accretion (+)/ Net depletion (-) during the year	(-)35,376.83	11,006.63
Balance at the end of the year	**26,906.21**	**62,283.04**
IV. Exchange Equalisation Account		
Balance at the beginning of the year	5.65	567.25
Transfer from Exchange Account	–	763.65
Add : Net Accretion(+)/ Net Utilisation(-) during the year	(-) 5.15	(-)1,325.25
Balance at the end of the year	**0.50**	**5.65**
V. Provision for net debit entries in RBI General Account	**63.15**	**63.15**
VI. Provision for Outstanding Expenses	**1,873.95**	**1,153.86**
VII. Miscellaneous	**2,701.75**	**4,426.09**
Total (I to VII)	**1,00,356.27**	**1,29,929.49**

6. RBI GENERAL ACCOUNT

Other Liabilities includes Rs.999.65 crore (previous year Rs.517.39 crore) in respect of inter–office transactions and balances under reconciliation, which is at various stages of reconciliation and necessary adjustments are effected, as and when ascertained.

7. RUPEE INVESTMENTS

Securities sold (Reverse Repos) and purchased (Repo) under Liquidity Adjustment Facility (LAF) are reduced/ added from 'Investments'. As at the year end, the outstanding Reverse Repos amounted to Rs.6,470 crore and Repos amounted to Rs.575 crore. There was no depreciation on the securities sold under LAF as at the year end.

8. DETAILS OF FOREIGN CURRENCY ASSETS

(Rupees crore)

Particulars	As at June 30	
	2005	2004
1	2	3
I. Held in Issue Department	3,61,033.08	3,13,709.35
II. Held in Banking Department -		
a) Included in Investments	19,155.43	16,482.48
b) Balances Held Abroad	1,95,675.15	1,94,673.18
Total	**5,75,863.66**	**5,24,865.01**

Note: (i) As on June 30, 2005, there were no outstanding US$/ Rupee forward exchange contracts as against forward exchange purchase contracts to the tune of Rs 524.66 crore outstanding as at June 30, 2004.

ii. Uncalled amount on partly paid shares of the Bank for International Settlements as at June 30, 2005 was Rs.76.31 crore.

9. DETAILS OF OTHER ASSETS

(Rupees crore)

Particulars	As at June 30	
	2005	2004
1	2	3
I. Fixed Assets (net of accumulated depreciation)	497.05	520.17
II. Gold	3,546.70	3,415.09
III. Income accrued but not received	7,954.29	6,339.20
IV. Miscellaneous	2,405.53	4,185.31
Total	**14,403.57**	**14,459.77**

10. INTEREST, DISCOUNT, EXCHANGE, COMMISSION, *ETC.*

Interest, Discount, Exchange, Commission, *etc.* include the following:

(Rupees crore)

Particulars	Year ended	
	June 30, 2005	June 30, 2004
1	2	3
i. Profit on sale of Foreign and Rupee Securities	4,625.50	3,022.85
ii. Rent realised	9.95	9.17
iii. Net profit on sale of Bank's property	0.92	0.73

11. ESTABLISHMENT EXPENDITURE

Establishment expenditure includes Rs.228.06 crore appropriation towards gratuily and superannuation fund as per actuarial valuation (previous year Rs.1,010 crore including additional provision on account of optional early retirement scheme).

ANNEX

CHRONOLOGY OF MAJOR POLICY ANNOUNCEMENTS: APRIL 2004 – JULY 2005

Date of Announcement		POLICY ANNOUNCEMENTS
		I. MONETARY POLICY MEASURES
2004		
April	**17**	• In order to provide consistency in the interest rate offered to non-resident Indians (NRIs), the ceiling on interest rates on NRE deposits for one to three years maturity contracted effective close of business on April 17, 2004, was capped at LIBOR/SWAP rates for US dollar of corresponding maturity. Similarly, the interest rate on NRE saving deposits was capped at LIBOR/SWAP rates, instead of domestic savings deposit rate.
	19	• All scheduled commercial banks (SCBs) advised of the State/Union Territory-wise physical targets for sanctioning and disbursement of loans under the Prime Minister Rozgar Yojana (PMRY) for the purpose of their quarterly targets to be achieved by end-March 2005.
	23	• The validity period of the reduction in the interest rates charged by SCBs on pre-shipment rupee export credit up to 180 days and post-shipment rupee export credit up to 90 days announced on September 26, 2001 extended up to April 30, 2005.
	24	• Entities other than authorised dealers (ADs) or authorised banks were prohibited from accepting deposits from NRIs either through fresh remittances or by debit to their NRE/FCNR(B) accounts. Holding of the existing deposits would be permitted and renewed on repatriation or non-repatriation basis and the interest earned on such deposits would continue to be repatriable.
May	**18**	• Entire export credit refinance to be made available at reverse repo rate.
		• Non-bank participants' lending in call/notice money market reduced to 45 per cent of their average daily lending during 2000-01, effective June 26, 2004.
		• Automated value-free transfer of securities between market participants and the Clearing Corporation of India Ltd. (CCIL) was enabled for collateralised borrowing and lending operations (CBLO).
		• Loans to storage units, including cold storage units, designed to store agricultural produce/ products, irrespective of their location, would be treated as indirect agricultural finance under priority sector.
		• Investments by banks in securitised assets representing direct (indirect) lending to agriculture would be treated as their direct (indirect) lending to agriculture under priority sector.
Jul.	**20**	• Investment by banks in the mortgage backed securities (MBS) to be classified as direct lending to housing within the priority sector lending, subject to certain conditions.
	26	• Banks to take appropriate steps to increase the flow of credit to priority sector, agriculture and weaker sections so as to achieve the stipulated targets and also observe the Reserve Bank directives on interest rates on loans.
		• Some recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Prof. V.S. Vyas) accepted and advised to banks for implementation. These include : exploring possibilities like entering into tie-ups with major tractor and farm machinery manufacturers for financing agriculturists in a cost-effective manner; taking steps for implementing the recommendations of the R. V. Gupta Committee relating to simplification of documentation, delegation of more powers to the branch managers, *etc.*; measures to save avoidable expenses for borrowers for getting a loan sanctioned; providing a separate flexible revolving credit limit to small borrowers for production and investment loans for meeting temporary shortfalls in family cash flows; measures to reduce the information gap about procedures; exploring financing of oral lessees on the basis of Joint Liability Group and SHG approach models through pilot projects; and address various issues to make access to financial services smooth and client-friendly.
Sept.	**11**	• The cash reserve ratio (CRR) increased by one-half of one percentage point of Net Demand and Time Liabilities (NDTL) in two stages - 4.75 per cent effective September 18, 2004 and 5.0 per cent effective October 2, 2004.
		• The interest on eligible cash balances maintained with the Reserve Bank reduced to 3.5 per cent from the Bank Rate (6.0 per cent) effective September 18, 2004.

Date of Announcement		POLICY ANNOUNCEMENTS
2004		**I. MONETARY POLICY MEASURES** *(Contd.)*
Oct.	**26**	• Repo rate increased by 25 basis points to 4.75 per cent effective October 27, 2004. The fixed reverse repo rate under the Liquidity Adjustment Facility (LAF) left unchanged at 6.0 per cent. The nomenclature of repo and reverse repo was changed effective October 29, 2004 consistent with international usage. Effective October 29, 2004, reverse repo indicates absorption of liquidity and repo indicates injection of liquidity. Accordingly, reverse repo rate would be 4.75 per cent and repo rate would be 6.0 per cent.
		• The revised LAF scheme operationalised with overnight fixed rate repo and reverse repo effective November 1, 2004; the 7-day and 14-day repos discontinued.
		• Ceiling on interest rates on NRE deposits raised by 50 basis points above the LIBOR/SWAP rates for the US dollar of corresponding maturities.
		• Banks allowed to fix the ceiling on interest rates on FCNR(B) deposits on a monthly basis for the following month based on rates prevailing as on the last working day of the preceding month.
		• Banks allowed to reduce the minimum tenor of retail domestic term deposits (under Rs.15 lakh) from 15 days to 7 days. Banks have the freedom to offer differential rates of interest on wholesale domestic term deposits of Rs.15 lakh and above.
		• Limits on priority sector advances for dealers in agricultural machinery including drip/sprinkler irrigation systems increased from Rs. 20 lakh to Rs.30 lakh and for distribution of inputs for allied activities from Rs.25 lakh to Rs.40 lakh.
		• Banks advised to increase their disbursements to small and marginal farmers to 40 per cent of their direct advances under special agricultural credit plans (SACPs) by March 2007. All private sector banks urged to formulate SACP from the year 2005-06, targeting an annual growth rate of at least 20-25 per cent of credit disbursements to agriculture.
		• Investments made by banks in securitised assets representing direct lending to the SSI sector would be treated as their direct lending to SSI sector under priority sector, provided the pooled assets represent loans to SSI sector which are reckoned under priority sector and the securitised loans are originated by banks/financial institutions.
		• The composite loan limit for SSI entrepreneurs enhanced from Rs. 50 lakh to Rs. 1 crore.
		• Banks, with the approval of their Boards, allowed to extend direct finance to housing sector up to Rs.15 lakh, irrespective of location, as part of their priority sector lending.
		• Banks allowed to advance loans to distressed urban poor, against appropriate collateral or group security, to prepay their debt to non-institutional lenders and classify the same under weaker sections within the priority sector.
		• Non-bank participants' lending in call/notice money market reduced to 30 per cent of their average daily lending during 2000-01, effective the fortnight beginning January 8, 2005.
		• The minimum maturity period of Commercial Paper (CP) reduced from 15 days to 7 days.
		• The ceiling on the outstanding obligation of the Government under the Market Stabilisation Scheme (MSS) raised from Rs.60,000 crore to Rs.80,000 crore. The threshold level of the ceiling for further review placed at Rs.70,000 crore.
Nov.	**1**	• Banks allowed to reduce the minimum tenor of retail domestic/NRO term deposits (under Rs.15 lakh) at their discretion from 15 days to 7 days. Similar guidelines were issued to all State and District central co-operative banks.
Dec.	**15**	• Banks' investments in special bonds issued by certain specified institutions on or after April 1, 2005 made ineligible for classification under priority sector lending. Investments made up to March 31, 2005 would cease to be eligible in a phased manner.
2005		
Jan.	**12**	• The investment limit in plant and machinery for seven items belonging to sports goods, which figures in the list of items reserved for manufactures in the SSI sector, enhanced from Rs. 1 crore to Rs. 5 crore for the purpose of classification under priority sector advances.
April	**28**	• The fixed reverse repo rate under the LAF of the Reserve Bank increased by 25 basis points to 5.0 per cent effective April 29, 2005. The fixed repo rate under the LAF left unchanged at 6.0 per cent.

Date of Announce-ment		POLICY ANNOUNCEMENTS
2005		**I. MONETARY POLICY MEASURES** *(Concld.)*
April	**28**	• Non-bank participants' lending, except Primary Dealers (PDs), reduced to 10 per cent of their average daily lending in call/notice money market during 2000-01 with effect from the fortnight beginning June 11, 2005. Non-bank participants, except PDs, to be completely phased out from the call/notice money market effective August 6, 2005.
		• With effect from the fortnight beginning April 30, 2005, the benchmark for fixing prudential limits on exposures to call/notice money market in the case of SCBs linked to their capital funds (sum of Tier I and Tier II capital) from their owned funds (Schedule I and II capital).
		• Participation in market repo facility in Government securities for non-scheduled urban co-operative banks (UCBs) and listed companies having gilt accounts with scheduled commercial banks allowed subject to eligibility criteria and safeguards.
		• The minimum maturity period of certificates of deposit (CDs) reduced from 15 days to 7 days with immediate effect.
		• Introduction of asset-backed commercial paper (ABCP) to further deepen the CP market and additional intra-day LAF to stabilise short-term interest rates would be considered in future in consultation with market participants.
		• Options in OTC rupee derivatives to be considered, once legal clarity to OTC derivatives is provided and appropriate accounting standards are put in place.
		• The limit on loans to farmers through the produce marketing scheme increased from Rs.5 lakh to Rs.10 lakh under priority sector lending.
	29	• The validity period of the reduction in the interest rates on pre-shipment rupee export credit up to 180 days and post-shipment rupee export credit up to 90 days announced on September 24, 2001 extended up to October 31, 2005.
Jul.	**1**	• Investments made by banks in venture capital on or after July 1, 2005 shall not be eligible for classification under priority sector lending and investments that have already been made up to June 30, 2005 shall not be eligible for classification under priority sector with effect from April 1, 2006.
		II. INTERNAL DEBT MANAGEMENT POLICIES
2004		
June	**3**	• Guidelines issued on dividend distribution by PDs. Dividend payout ratio linked to Capital to Risk Weighted Assets Ratio (CRAR) and ceiling on individual payout ratio fixed.
Aug.	**19**	• The Gilt Account holders in the UCBs not to undertake any sale transaction unless the security sold is actually held in the Gilt Account of the constituent.
	24	• Guidelines issued to PDs to hold all their equity investments (including conversion of their equity holdings in scrip form into dematerialised form) and make all fresh investments only in dematerialised form, effective December 31, 2004.
Oct.	**15**	• Guidelines on PDs issuing subordinated debt instruments for raising Tier II and Tier III capital issued.
	26	• Capital indexed bonds (CIBs) to be introduced during the year 2005-06 in consultation with the Central Government.
Nov.	**13**	• All PDs to ensure that whenever defaults (in maintaining sufficient balances in the current and/or SGL accounts to meet their commitments arising out of transactions) take place, they should immediately report the details of such defaults to the Reserve Bank.
2005		
March	**29**	• Guidelines issued to all NDS members regarding conduct of dated Government securities auction under Primary Market Operations module of PDO-NDS.
April	**28**	• The settlement system for transactions in Government securities to be standardised to T+1 basis.
		• The Reserve Bank would continue to resort to multiple and uniform price methods flexibly in the auction of Government securities.
		• Permitted structures of PD business would be expanded to include banks which fulfil certain minimum criteria subject to safeguards and in consultation with banks, PDs and the Government.
		• Restructuring the underwriting obligations of PDs, allowing PDs exclusivity in primary auctions, introduction of 'When Issued Market' and limited short selling in Government securities would be considered in consultation with the Government.

Date of Announcement		POLICY ANNOUNCEMENTS
2005		**II. INTERNAL DEBT MANAGEMENT POLICIES** *(Concld.)*
May	**11**	• Guidelines issued on adoption of standardised settlement on T+1 basis of all outright secondary market transactions in Government securities.
		• Guidelines issued permitting sale of Government securities allotted to successful bidders in primary issues on the day of allotment, with and between Constituents' Subsidiary General Ledger (CSGL) account holders.
		• Non-scheduled UCBs and listed companies, having a gilt account with a scheduled commercial bank, made eligible to participate in repo market subject to certain conditions.
July	**20**	• Guidelines on transaction in Government securities further relaxed by permitting a buyer from an allottee in primary auction to re-sell the security.
		III. FINANCIAL SECTOR MEASURES
2004		
April	**10**	• Revised norms issued with regard to cheque drop box facility, delivery of cheque books over the counter and statement of accounts/pass book.
	15	• Comprehensive guidelines issued for investment in non-SLR securities by UCBs.
	22	• Banks to inform at least one month in advance, their account holders, any change in the prescribed minimum balance and the charges that may be levied if the minimum balance is not maintained.
	23	• Guidelines relating to the eligibility criteria (inclusive of minimum CRAR, non-performing asset and regulatory compliance) for declaration of dividend by commercial banks without prior approval of the Reserve Bank as well as the quantum of dividend payable (with a ceiling placed at 33 1/3 per cent dividend payout ratio and methods of compilation of the ratio prescribed) modified.
	24	• Non-Banking Financial Companies (NBFCs) prohibited from accepting fresh NRI deposits with effect from April 24, 2004, but could renew the deposits already accepted.
	30	• Banks (excluding RRBs and LABs) to review policies and practices relating to information system (IS) audit and place the audit reports before the top management. Banks to adopt an IS Audit Policy appropriate to their level of computerisation, review the same at regular intervals in tune with industry best practices and guidelines issued by the Reserve Bank.
		• Banks (excluding RRBs) to ensure strict compliance with the three accounting standards (No. 24, 26 and 28) relating to discounting operations, intangible assets and impairment of assets, respectively.
May	**12**	• SCBs to strictly maintain the confidentiality of information provided by the customer for 'Know Your Customer' (KYC) compliance. These guidelines were extended to cover all primary (urban) co-operative banks on May 29, 2004.
	15	• Banks to scrupulously ensure that their branches do not open current accounts of entities which enjoy credit facilities (fund-based or non-fund based) without specifically obtaining a no-objection certificate from the lending banks.
	17	• NBFCs/Residuary Non-Banking Companies (RNBCs) to authorise designated banks for collection of interest on due dates on securities held in physical form lodged for safe custody with the designated banks.
	18	• The requirement of margin/security for agricultural loans up to Rs.50,000 and in the case of agri-business and agri-clinics for loans up to Rs.5 lakh waived.
	20	• The exemption granted to Regional Rural Banks (RRBs) from 'mark-to-market' norms in respect of the SLR securities extended for one more year, *i.e.*, up to 2004-05.
	24	• The primary (urban) co-operative banks to exercise due caution with regard to valuation while sanctioning loans and advances against mortgage of house property.
	26	• The off-site surveillance system for primary (urban) co-operative banks already in place for the scheduled UCBs extended to all non-scheduled UCBs having deposit size of Rs.100 crore and above.
June	**11**	• To give boost to the infrastructure lending, banks allowed to raise long term bonds with a minimum maturity of five years.
	15	• The risk weight in respect of exposure by banks/FIs to public financial institutions (PFIs) raised to 100 per cent for credit risk and 2.5 per cent for market risk, effective from April 1, 2005.

Date of Announce-ment		POLICY ANNOUNCEMENTS
2004		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
June	**16**	• The scope of definition of infrastructure lending by NBFCs widened to include the following projects/sectors: i) construction relating to projects involving agro-processing and supply of inputs to agriculture; ii) construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality; and iii) construction of educational institutions and hospitals.
	17	• The extant limits on unsecured exposures by banks withdrawn, allowing banks to set their own limits for unsecured exposures. Unsecured exposures were redefined and it was clarified that unsecured sub-standard assets would attract 20 per cent provisioning.
		• The currency of the *ad hoc* Committees on Procedures and Performance Audit on Customer Services in Banks was extended by six months and they were advised to complete the work within one year from the date of their constitution and also to associate non-officials in the Committees.
		• The extant guidelines on country risk management extended to cover countries where a bank has net funded exposure of one per cent or more of its assets with effect from the year ending March 31, 2005.
	18	• Banks to draw a roadmap for migration to Basel II norms by the end of 2004 and make a quarterly review of the progress made.
	21	• Graded higher provisioning requirement according to the age of NPAs in 'doubtful for more than three years' category introduced for SCBs, with effect from March 31, 2005. Similar guidelines issued to FIs on August 3, 2004 and to RRBs on August 6, 2004.
		• It was clarified that the process of identifying wilful defaulters and the mechanism related to redressal of grievances are two distinct processes. The borrower should be suitably advised before being classified as a wilful defaulter.
		• Boards of banks/Financial Institutions (FIs) to oversee furnishing of requisite information of all borrowers to CIBIL and report compliance of the same to the Reserve Bank. The role of CIBIL in dissemination of credit information was clarified. CIBIL to move towards a sufficiently diversified ownership structure with no single entity owning more than 10 per cent of its paid-up capital.
		• Banks to fully adhere to the Know Your Customer (KYC) policy adopted by their Boards: i) for opening new accounts, ii) for the existing accounts, where any wrong-doing is suspected or where the summation of the credit/debit transactions is more than Rs.10 lakh, and iii) in respect of all accounts belonging to trusts, intermediaries or those operated through a mandate or power of attorney.
		• The vigilance procedure in public sector banks modified. Only such vigilance cases in which an officer of the level of Scale V and above is involved are required to be referred to the Central Vigilance Commission (CVC) for advice.
		• Boards of banks, under exceptional circumstances, allowed to raise single or group exposure limit by 5 per cent of capital funds.
	22	• The investment pattern prescribed for RNBCs rationalised for imparting liquidity and safety to their investments for enhancing depositors' protection. These measures included: i) phasing out of discretionary investment by RNBCs, ii) restriction of investments in financial institutions in only CD instruments of rating AA+ and above, iii) additional investment of 15 per cent of the deposits in securities issued by the Central and State Governments, iv) investment in bonds and debentures to be limited to listed securities of rating AA+ and above, v) restricting mutual fund investments to only debt oriented schemes with a sub-limit of 2 per cent in any one fund, and vi) restricting exposure to a single SCB to one per cent of aggregate deposit liabilities of the SCB and to a single specified FI to not more than one per cent of the deposits of the RNBCs.
	24	• Banks to provide for capital charge for market risk in respect of trading book exposures (including derivatives), effective March 31, 2005. Capital charge would be introduced for securities under 'Available for Sale' (AFS) category with effect from March 31, 2006.
		• Prudential norms on income recognition, asset classification and provisioning with respect to agricultural advances modified with a view to align the repayment dates with harvesting of crops. Effective September 30, 2004, a loan granted for short duration crops to be treated as NPA if the instalment of the principal or interest thereon remains unpaid for two crop seasons beyond the due date. A loan granted for long duration crops (with crop season longer than one year) will be treated as NPA, if the instalment of principal or interest thereon remains unpaid for one crop season beyond the due date.
		• All commercial banks advised to implement the measures, announced by the Union Finance Minister, for doubling flow of credit to agriculture.

Date of Announce-ment		POLICY ANNOUNCEMENTS
2004		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
July	**6**	• The types of instruments to be included in the prudential limit of bank's aggregate investment in Tier II bonds widened.
	7	• NBFCs advised that the issue of debit cards, stored value cards, smart cards, value added cards, *etc.* have a characteristic akin to demand deposits as they are payable at the convenience of the card holders. The issue of such cards is, therefore, violative of the extant NBFC directions.
	13	• No application for inclusion in the Second Schedule of the Reserve Bank of India Act, 1934 to be considered for the primary (urban) co-operative banks till a proper legislative framework is put in place.
	20	• Banks debarred from prescribing any minimum annual turnover for issuance of Gold Card since the objective of the scheme was to cover all credit worthy exporters, including the SME segment.
	23	• Additional measures relating to wilful defaulters introduced. These included: prohibition on additional facilities, debarment from institutional finance for floating new ventures for a period of five years, initiation of legal proceedings and foreclosure and also criminal proceedings wherever necessary, adoption of a proactive approach for a change of management of the wilfully defaulting borrower unit, incorporation of a covenant in the loan agreement barring borrowing companies to induct a person who is a director on the Board of a company which has been identified as a wilful defaulter.
	24	• NBFCs having Certificate of Registration (CoR) in the non-public deposit taking category to meet the minimum net owned funds (NOFs) requirement of Rs.2 crore for being eligible to apply to the Reserve Bank for accepting public deposits.
	26	• FIs to strictly adhere to the single/group borrower prudential exposure ceilings *i.e.*, 15 per cent and 40 per cent, respectively and the additional limits of 5 per cent and 10 per cent, respectively, for exposure to infrastructure. FIs could, in exceptional circumstances, with the approval of their Boards, consider enhancement of the exposure to a borrower up to a further 5 per cent of capital funds subject to the borrower consenting to the FIs making appropriate disclosures in their Annual Reports.
		• On the application of the Reserve Bank under Sub-Section (1) of Section 45 of the Banking Regulation Act, 1949, the Government of India made an Order of Moratorium in respect of the Global Trust Bank Ltd. under Sub-Section (2) of the said Section for the period from the close of business on July 24, 2004 and inclusive of October 23, 2004. The Government of India also issued directions to the said banking company under paragraph (2) thereof authorising payment of certain liabilities and obligations. In order to effect an amalgamation of the Global Trust Bank Ltd. with Oriental Bank of Commerce, the Reserve Bank, in exercise of the powers conferred on it by Sub-Section (4) of the said Section, prepared a scheme and forwarded it, in draft, to each of the aforesaid banking companies for suggestions and objections, if any, in terms of clause (a) of Sub-Section (6) of Section 45 *ibid* by August 7, 2004.
	29	• Banks to insist on a declaration from the account holder, for opening of current accounts, stating that he/she is not enjoying any credit facility with any other commercial bank or insist on a declaration giving particulars of credit facilities enjoyed by him/her with any other commercial bank(s). Banks also to ascertain whether he/she is a member of any other co-operative society/bank, if so, the full details thereof.
	30	• Norms for inclusion of Self Help Groups (SHGs) for assistance under Prime Minister Rozgar Yojana (PMRY) modified.
Aug.	**3**	• The monetary ceiling of the cases to be referred to the *Lok Adalats*, organised by Civil Courts, enhanced from Rs.5 lakh to Rs.20 lakh.
	7	• For loans and advances (both secured and unsecured) sanctioned by the UCBs, the directors and relatives not eligible to stand as surety/guarantor.
	10	• NBFCs advised that whenever they intend to extend the date of their Balance Sheet as per provisions of the Companies Act, they should take prior approval of the Reserve Bank before approaching the Registrar of Companies (ROC) for this purpose. Even in the cases where permission is granted for extension of time, the company would be required to furnish to the Reserve Bank a Proforma Balance Sheet (unaudited) as on March 31 of the year and the statutory returns due on the above date.
	17	• Banks to convert all their equity holdings into dematerialised form by the end of December 2004.
	26	• Banks to ensure that the schedule of interest/instalment payable on advances on rural housing granted to agriculturists under *'Indira Awas Yojana'* and 'Golden Jubilee Rural Housing Finance Scheme' is linked to crop cycles.

Date of Announce-ment		POLICY ANNOUNCEMENTS
2004		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
Aug.	**28**	• Banks to initiate action at their level to get the Master Policy under Personal Accident Insurance Scheme (PAIS) for KCC holders renewed for a period of one year, on the existing terms and conditions.
	30	• FIs permitted to make fresh investments in equity instruments and hold them in demat form with immediate effect. All outstanding investments in equity in paper-based form to be converted into demat form by end December 2004.
Sept.	**1**	• Banks to take remedial measures suggested by the Group on Frauds in the area of housing finance.
	2	• Banks permitted to exceed the 25 per cent limit under Held to Maturity (HTM) category provided that the excess comprises only SLR securities and the total SLR securities held in the HTM category are not more than 25 per cent of their NDTL. To enable the above, banks were allowed to shift SLR securities to the HTM category. However, no fresh non-SLR securities are permitted to be included in the HTM category once more during the year 2004-05. Similar guidelines were also issued to the UCBs.
		• 'Yes Bank Limited' included in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from August 21, 2004.
	4	• Some recommendations of Ganguly Working Group on Flow of Credit to SSI sector were accepted and advised to banks for implementation. These include: identification of new clusters and adoption of cluster based approach for financing SME sector, sponsoring specific projects as well as widely publicising the successful working models of NGOs, sanctioning higher working capital limits to SSI in North East region for maintaining higher levels of inventory, and exploring new instruments for promoting rural industry.
	27	• For advances identified as 'doubtful for more than three years', additional provisioning by the UCBs to be phased over a five-year period commencing from the year ending March 31, 2005 instead of four years.
Oct.	**4**	• Guidelines issued for implementing the revised Model KCC Scheme of NABARD to take care of the investment credit as also working capital for agriculture and allied activities and a reasonable component for consumption needs.
	5	• The minimum lock-in-period of three months from the date of acceptance of deposits for NBFCs and Miscellaneous Non-Banking Companies (MNBCs) and twelve months for RNBCs within which they cannot repay a public deposit (in case of NBFCs) or deposit (in case of RNBCs and MNBCs) or grant of any loan against such deposits was retained. It was also decided to stratify the NBFCs, MNBCs and RNBCs for the purpose of permission to prepay the deposits (after the lock-in period) into two categories, *viz.*, 'problem NBFCs, MNBCs, and RNBCs' and 'normally run companies'. Accordingly, different set of norms were issued for the two groups with respect to the prepayment norms and the interest rates to be paid on the deposits.
	7	• The Senior Citizens Savings Scheme (SCSS), 2004 being implemented through post offices also to be operated through all the branches of public sector banks (PSBs) which are operating 'PPF Scheme, 1968'.
	14	• Industrial Development Bank of India (IDBI) Ltd. included in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from October 11, 2004.
	15	• Banks to implement a few more recommendations of the Vyas Committee. These included: financing development of wasteland and fallow land, improving staffing in the rural areas to promote retail lending to agriculture, relying on village functionaries for credit disbursal, using individual volunteers, farmers' clubs or NGOs/SHGs as direct selling agents, building synergy between good working primary agricultural credit societies and commercial banks, using Information Technology (IT) in rural branches, working out appropriate incentive structure for prompt repayment, making the rates of interest on small loans reasonable and improving the efficiency of credit delivery to small borrowers and association with contract farming.
		• Guidelines relating to the process of issue of Subordinated Debt Instruments under Tier II and Tier III Capital issued.
	19	• The details of the levy of penalty on a bank to be put in the public domain in the interests of the investors and depositors. The strictures or directions on the basis of inspection reports or other adverse findings also to be placed in the public domain.
	20	• UCBs to follow similar practices as the illustrative best practices followed by well-managed banks in the urban banking sector provided by the Reserve Bank as examples. UCBs, however, are free to put in place any other practices, which would result in better customer service and business development.

Date of Announcement		POLICY ANNOUNCEMENTS
2004		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
Oct.	**27**	• RRBs permitted to undertake insurance business as corporate agent without risk participation subject to their fulfilling certain terms and conditions related to net worth, gross NPAs, profitability, compliance with IRDA regulations, prudential norms and directions of the Reserve Bank, *etc*.
Nov.	**1**	• Banks to formulate a comprehensive and transparent policy covering i) immediate credit of local/outstation cheques, ii) time frame for collection of local/outstation cheques and iii) interest payment for delayed collection.
		• The requirement of invocation of State Government guarantee for deciding the asset classification and provisioning of State Government guaranteed exposure was withdrawn and they were subjected to the same norms as applicable to exposures not guaranteed by the State Governments. Similar guidelines were issued to all primary (Urban) co-operative banks.
		• With effect from March 31, 2005, in respect of FIs, an asset is to be classified as doubtful asset, if it remained in the sub-standard category for 12 months. FIs permitted to phase out the consequent additional provisioning over a four-year period, commencing from the year ending March 31, 2005, with a minimum of 20 per cent each year.
	6	• Banks/FIs to take immediate steps to ensure submission of periodical data to CIBIL and submit progress reports to the Reserve Bank.
	13	• A quarterly reporting arrangement introduced for NBFCs not accepting/holding public deposits and having assets size of Rs.500 crore and above as on March 31, 2004.
	18	• Scheduled or licensed State Co-operative Banks and licensed District Central Co-operative Banks (DCCBs) permitted to undertake insurance business as corporate agent without risk participation subject to their fulfilling certain terms and conditions.
	24	• Banks to restructure crop loans and agricultural term loans only in respect of the overdue instalments including interest thereon as on March 31, 2004. The farmers whose loans have been restructured as above would be eligible for fresh loans. The rescheduled/restructured loans as also the fresh loans to be issued to the farmers may be treated as current due and need not be classified as NPA.
	29	• Comprehensive guidelines on 'Know Your Customer' norms and Anti-Money Laundering Measures issued. Banks advised to frame their KYC policies incorporating the following four key elements: i) Customer Acceptance Policy; ii) Customer Identification Procedures; iii) Monitoring of Transactions; and iv) Risk Management. Similar guidelines issued to UCBs on December 15, 2004, to RRBs on February 18, 2005 and to NBFCs/MNBCs/RNBCs on February 21, 2005.
Dec.	**8**	• The recommendations of the Ganguly Working Group with regard to evaluation of methods of utilisation of deposits made by foreign banks with SIDBI for shortfall in their priority sector obligation accepted. Accordingly, the amount of shortfall in priority sector obligation to be placed with SIDBI for a tenor of three years and the funds so placed to have a graded interest rate structure.
		• The Service Area Approach (SAA) introduced in April 1989 was reviewed and it was decided to dispense with the restrictive provisions of the scheme, while retaining the positive features such as credit planning and monitoring of the credit purveyance.
	14	• UCBs permitted to grant housing loan up to Rs.15 lakh as against the existing limit of Rs.10 lakh.
	16	• Banks advised that the due diligence in respect of members of the Nomination Committee be carried out by the Board itself.
	21	• Comprehensive guidelines issued to banks to play a proactive role in achieving the targets set under the *Swarnjayanti Gram Swarozgar Yojana* (SGSY) scheme.
	23	• Risk weight on housing loans extended by SCBs increased from 50 per cent to 75 per cent and in the case of consumer credit including personal loans and credit cards increased from 100 per cent to 125 per cent. Similar guidelines issued to UCBs on January 5, 2005.
	30	• Banks to enhance the amount of consumption loan for general purposes to Rs.3,000 for people affected by *Tsunami*.
		• Comprehensive guidelines issued to RNBCs to smoothen the process of their transition to compliance with the revised Directions of the Reserve Bank. For compliance with the revised Directions issued on June 22, 2004, following modifications were made. These included: reckoning as eligible securities the investments made in CDs of specified FIs and bonds/debentures which are listed, even if rating of AA+ of these instruments at the time of investment has been subsequently downgraded to Minimum Investment Grade Rating (MIGR); treating balances in current account with scheduled commercial banks as eligible investments.

Date of Announce-ment		POLICY ANNOUNCEMENTS
2005		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
Jan.	**4**	• Guidelines on receipt of foreign contributions by Associations/Organisation in India under Foreign Contribution (Regulation) Act, 1976 for the *Tsunami* relief issued to Banks/UCBs.
	18	• Banks to formulate suitable loan policies to finance second hand assets, both directly and through NBFCs.
		• Banks advised to ensure acceptance of coins of all denominations without any restriction from the members of the public by their branches.
	20	• Guidelines issued to UCBs to delink the requirement of invocation of State Government Guarantee for asset classification and provisioning.
	24	• Comprehensive guidelines issued allowing all primary (urban) co-operative banks to undertake insurance business on a referral basis, subject to certain conditions. Similar guidelines were issued to all State co-operative banks and District central co-operative banks on May 6, 2005 and to RRBs on May 12, 2005.
Feb.	**2**	• Guidelines on Merger/Amalgamation for UCBs issued with the following preconditions: i) net worth of the acquiree bank is positive and the acquirer bank assures to protect entire deposits of all the depositors of the acquired bank; ii) when the net worth of acquiree bank is negative, the acquirer bank on its own assures to protect deposits of all the depositors of the acquired bank; and iii) when the net worth of the acquiree bank is negative and the acquirer bank assures to protect the deposits of all the depositors with financial support from the State Government extended upfront as part of the process of merger.
	7	• NBFCs accepting/holding public deposits advised to ensure that at all times there is full cover available for public deposits accepted by them.
	11	• FIs to obtain from their Statutory Central Auditors, the certificate relating, *inter alia*, to their treasury operations; reconciliation of their investments; compliance in key areas; income recognition, asset classification and provisioning and authentication of their calculation on CRAR.
	15	• Detailed prudential guidelines issued to banks on capital adequacy for implementation of the New Capital Adequacy framework under Basel II. In order to maintain consistency and harmony with international standards. Banks were advised to adopt Standardised Approach for credit risk and Basic Indicator Approach for operational risk with effect from March 31, 2007. The Reserve Bank may consider allowing some banks to migrate to Internal Rating Based (IRB) approach after developing adequate skills both in banks and at supervisory levels. Under the New Framework, banks adopting Standardised Approach would use the ratings assigned only by those credit rating agencies which are identified by the Reserve Bank. Banks were also required to focus on formalising and operationalising their Internal Capital Adequacy Assessment Process which would serve as a useful benchmark while undertaking the parallel run with effect from April 1, 2006.
	17	• The minimum networth for undertaking insurance business by scheduled or licensed state co-operative banks and licensed DCCBs reduced from Rs.100 crore to Rs.50 crore.
	26	• Guidelines issued to primary (urban) co-operative banks regarding reporting system on their investment portfolio.
	28	• Comprehensive guidelines issued on ownership and governance in private sector banks encompassing the minimum capital requirement, diversified ownership, procedures for acquisition and transfer of shares, ‘fit and proper criteria’ for the directors and important shareholders, *etc.*
		• Roadmap for presence of foreign banks in India laid out in two phases. In the first phase (March 2005 to March 2009); i) foreign banks wishing to establish presence in India for the first time could either choose to operate through branch presence or set up a 100 per cent wholly owned subsidiary (WOS), following the one-mode presence criterion; ii) for new and existing foreign banks, it was proposed to go beyond the existing WTO commitment of 12 branches in a year. Initially entry of foreign banks would be permitted only in private sector banks that are identified by the Reserve Bank for restructuring, wherein foreign banks would be allowed to acquire a controlling stake in a phased manner. In the second phase beginning April 2009, the experience with Phase I would be reviewed and after due consultations with all stakeholders in the banking sector issues concerning extension of national treatment to WOS, dilution of stake and permitting mergers and acquisitions of any private sector banks in India by a foreign bank would be examined.
March	**1**	• Master circular issued to SCBs (including RRBs/LABs) in regard to matters relating to lending to small scale industries sector.
		• Guidelines issued to state co-operative banks and DCCBs in respect of additional provisioning requirement for NPAs.
		• Guidelines issued to UCBs regarding enhancement of transparency of their operations by having comprehensive requirements for disclosure.
	3	• Effective March 31, 2005, SCBs to disclose a minimum framework on their risk exposure in derivatives.

Date of Announcement		POLICY ANNOUNCEMENTS
2005		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
March	**11**	• Parameters on pilot implementation of Cheque Truncation Image Standards issued to banks.
	28	• Detailed guidelines issued to UCBs regarding classification and valuation of investment portfolio for provisioning requirements.
	30	• Prudential norms in respect of income recognition, assets classification, provisioning and other related matters for the UCBs revised.
		• UCBs to exercise caution in outsourcing of their systems and ensure that risks in this regard are minimised.
		• Banks advised to implement some recommendations of the Vyas Committee. These included: constitution of local advisory committees for all rural branches/group of branches, setting up of micro-finance cells at banks' central offices, and encouraging SHGs to use local book writers in association with concerned agencies promoting these SHGs for maintaining the quality of books of accounts.
April	**7**	• The lending and deposit rates of interest restructured in case of amounts disbursed on or before October 31, 2003 out of RIDF IV to VII, effective April 16, 2005.
	11	• Detailed guidelines issued to banks on rural lending under Annual Credit Plans on the basis of Potential Linked Plans (PLPs) prepared by NABARD.
		• Banks to pay compensation for delayed credit under ECS/EFT/SEFT *suo moto*.
		• Ceilings on donations/contributions for public/charitable purposes out of profits of UCBs announced.
	13	• The rate of interest to be charged on group loans under SGSY linked to per capita size of the loans.
	15	• Banks to put in place a Business Continuity Plan including a robust information risk management system within a fixed time frame.
		• UCBs to reduce the prudential exposure limits on advances to 15 per cent and 40 per cent of the 'Capital Funds' in case of single borrower and group of borrowers, respectively. The definitions of capital funds and exposure were also modified for this purpose. UCBs to bring down the outstanding or the sanctioned exposure limit exceeding the revised limit within a maximum period of 2 years, *i.e.*, by March 31, 2007.
	16	• Banks to take necessary action to convert the existing *ad hoc* Committees on Procedures and Performance Audit of Public Services (CPPAPS) into a Standing Committee on Customer Service.
	19	• Banks advised on the role of Customer Service Committee of the Board for monitoring the implementation of awards under the Banking Ombudsman Scheme.
	26	• A minimum framework for disclosures by FIs on their risk exposures in derivatives laid out to provide a clear picture of their exposure to risks in derivatives, risk management systems, objectives and policies.
	27	• Banks permitted to shift their rural branches within the block/service area without obtaining prior approval of the Reserve Bank, subject to their complying with a few conditions.
		• Financial institutions not accepting public deposits but having asset size of Rs.500 crore and above would be subjected to limited off-site supervision by the Reserve Bank. Therefore, with effect from the period ended March 31, 2005, the existing system of off-site supervision would stand replaced by a simplified information system known as the "Quarterly Return on Important Financial Parameters in respect of Select Financial Institutions".
	30	• Banks allowed to formulate schemes for providing services at the premises of a customer within the framework of Section 23 of Banking Regulation Act, 1949 and submit to the Reserve Bank for approval.
		• Banks with capital of at least 9 per cent of the risk weighted assets for both credit risk and market risks for both Held for Trading (HFT) and Available for Sale (AFS) categories may transfer the balance in excess of 5 per cent of securities included under HFT and AFS categories, in the Investment Fluctuation Reserve (IFR) to Statutory Reserve, which is eligible for inclusion in Tier I capital.
May	**4**	• General permission granted to banks to declare dividends under fulfillment of a few conditions, including observance of minimum CRAR and NPA ratio, subject to a ceiling of dividend payout ratio of 40 per cent.
		• Effective quarter ended June 2005, the time limit for filing the monthly and quarterly off-site returns changed to 15 days and 21 days, respectively, from the close of the relevant period for all categories of banks.
		• UCBs to forward in the quarterly statement on 'consolidated position of frauds outstanding' a footnote detailing the position of frauds outstanding in the housing loan segment, beginning from the quarter ended March 2005.

Date of Announcement		POLICY ANNOUNCEMENTS
2005		**III. FINANCIAL SECTOR MEASURES** *(Concld.)*
May	**11**	• Detailed guidelines for merger/amalgamation of private sector banks issued laying down the process of merger proposal, determination of swap ratios, disclosures, the stages at which Boards will get involved in the merger process and norms of buying/selling of shares by the promoters before and during the process of merger.
	13	• The Vision Document on Payment and Settlement Systems 2005-08 released.
	20	• Banks to initiate early action with regard to scheme for Small Enterprises Financial Centres (SEFCs) envisaged for forming a strategic alliance between branches of banks and SIDBI located in the clusters for improving credit flow to the SSIs sector.
	26	• SCBs advised to put in all efforts to achieve the credit mobilisation targets under SGSY during the year 2005-06 including the minimum subsidy credit ratio fixed and maintain per family investment of Rs.25,000.
June	**7**	• Banks allowed to extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures/ wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investment in terms of a Board approved policy, duly incorporated in the loan policy of the bank.
	9	• Instructions issued to banks, in supersession of all earlier instructions on settlement of claims in respect of deceased depositors, covering aspects relating to i) access to balance in deposit accounts, ii) premature termination of term deposit accounts, iii) treatment of flows in the name of the deceased depositor, iv) access to the safe-deposit lockers/ safe custody articles, and v) time limit for settlement of claims.
		• Banks (both in private and public sector) need not obtain approval of the Reserve Bank for permitting any of their whole-time officers or employees (other than Chairmen/CEOs) to become director or a part-time employee of any other company.
	14	• Processing charges waived for all electronic products for transactions under EFT, SEFT and ECS facility involving Rs.2 crore and above with effect from June 14, 2005 up to the period ending March 31, 2006. This is in addition to the existing waiver on transactions involving less than Rs.2 crore.
	20	• Banks advised that while furnishing data/information to the Government or other investigating agencies they should satisfy themselves that the information is not of such a nature which will violate the provisions of the laws relating to secrecy in banking transactions.
	24	• For the purpose of Section 20 of the Banking Regulation Act, 1949, the term " loans and advances" shall not include line of credit/overdraft facility extended by settlement bankers to National Securities Clearing Corporation Ltd. (NSCCL) to facilitate smooth settlement.
	29	• Banks to have a Board mandated policy in respect of their real estate exposure covering exposure limits, collaterals to be considered, margins to be kept, sanctioning authority/level and sector to be financed. Banks to also report their real estate exposure under certain heads and disclose their gross exposure to real estate sector as well as the details of the break-up in their Annual Report.
July	**4**	• UCBs having a single branch/HO with deposits up to Rs.100 crore and those having multiple branches within a single district with deposits up to Rs.100 crore permitted to classify loan NPAs based on 180 days delinquency norm instead of the extant 90 days norm till March 31, 2007.
	13	• Banks to furnish information on pricing of services for products based on RTGS/SEFT/EFT/ECS infrastructure.
		• Guidelines on sale/purchase of NPAs, including valuation and pricing aspects, and prudential and disclosure norms issued.
		• The norms relating to classification and valuation of investment portfolio of State and District central co-operative banks modified allowing them to amortize their additional provisioning requirement.
	20	• Prior approval of the Reserve Bank not required for offering Internet Banking services, subject to fulfillment of certain conditions.
	23	• The authority to grant permission to companies listed on a recognised stock exchange to hedge the price risk in respect of any commodity (except gold, silver, petroleum and petroleum products) in the international commodity exchanges/markets delegated to select commercial banks.
	26	• The risk weight for credit risk on capital market exposures and commercial real estate exposures increased from 100 per cent to 125 per cent.
	29	• Guidelines issued for relief measures by banks in areas affected by unprecedented rains and floods in Maharashtra. Accordingly, banks were advised to consider granting consumption loans to the affected persons up to Rs.5,000 without any collateral and Rs.10,000 at the discretion of the branch manager, depending on the repaying capacity of the borrower.

Date of Announce-ment		POLICY ANNOUNCEMENTS
		IV. CAPITAL MARKET POLICIES
		(i) Securities and Exchange Board of India (SEBI)
2004 April	**1**	• With a view to make the trading system efficient and less time consuming, Straight Through Processing (STP) made compulsory for all institutional trades.
	2	• In order to identify the trades through multiple members of the stock exchanges and for the purpose of better risk management, FIIs/sub-accounts advised to inform the unique client code to the member broker while trading in the Indian securities market.
	21	• Guidelines issued to facilitate smooth completion of settlement process and help members of the stock exchanges to meet their obligations in a timely manner in cases where holidays of banks and stock exchanges are not common.
	30	• All listed companies which decide to change their names advised to comply with the following conditions: i) at least one year should have elapsed from the last name change, ii) at least 50 per cent of its total revenue in the preceding one year period should have been accounted for by the new activity suggested by the new name, and iii) the new name along with the old name should be disclosed through the websites of the respective stock exchanges where the company is listed and also through the EDIFAR website for a continuous period of one year, from the date of the last name change.
May	**28**	• SEBI announced amendments to the SEBI Disclosure and Investor Protection (DIP) Guidelines, 2000 with respect to the following: splitting of shares before IPO, terms of the issue, post issue obligations, public issues of bonds by designated financial institutions under a shelf prospectus, definition of employees, reservation for shareholders and availability of Green Shoe Option (GSO) facility.
July	**16**	• SEBI modified the risk containment measures, position limits and the broad eligibility criteria of stocks and indices on which futures and options could be introduced. The FII position limit in all index derivative contracts (futures or options) on a particular underlying index would be Rs.250 crore or 15 per cent of the total open interest of the market per exchange, whichever was higher, in that index derivative.
		• All specified intermediaries and their related persons required to quote the Unique Identification Number (UIN) obtained under the Central Database of Market Participants in lieu of the Unique Client Code for all secondary market transactions with effect from August 2, 2004.
Aug.	**23**	• As per the provisions in the Union Budget and the Finance Bill for 2004-05, SEBI instructed the stock exchanges to levy, collect and remit the securities transaction tax (STT) on all transactions from the date of notification by the Government of India.
	24	• SEBI instructed the members to transfer the funds and securities from their respective pool account to the respective beneficiary account of their clients within a working day after the payout day.
	26	• In order to bring about uniformity in documentary requirements across different segments and exchanges and also to avoid duplication and multiplicity of documents, SEBI in consultation with stock exchanges formulated uniform set of documents with respect to client registration form, member client agreements, model tripartite agreement between broker, sub-broker and clients and uniform risk disclosure documents. Broker sub-broker agreement to be submitted by the market participants periodically.
Oct.	**27**	• On the basis of SEBI (Central Database of Market Participants) Regulation, 2003, SEBI clarified ‘specified investors’ as those who are required to obtain a UIN before March 31, 2005. All resident investors not being bodies corporates, who enter into any securities market transactions (primary or secondary) of value of one lakh rupees or more, as ‘specified investors’, required to obtain a UIN before March 31, 2005. Foreign institutional investors, sub-accounts and foreign venture capital investors as ‘specified investors’ also required to obtain a UIN before March 31, 2005.
	28	• SEBI reviewed and consolidated the Investors Protection Fund (IPF)/Customer Protection Fund (CPF) Guidelines and prescribed comprehensive guidelines with respect to constitution and management of the IPF/CPF, contribution to IPF/CPF, manner of filing/inviting claims from investors, eligible claims, determination of legitimate claims and disbursements of claims from the IPF/CPF.
	29	• All stock exchanges directed to amend the existing Clause 49 of the listing agreement in areas pertaining to composition of board of directors, audit committee, subsidiary companies, disclosures, CEO/CFO certification, report on corporate governance, and compliance. SEBI clarified that the provisions would be implemented for entities seeking listing for the first time, at the time of seeking in-principle approval for such listing and for existing listed entities having a paid-up share capital of Rs.3 crore and above or net worth of Rs.25 crore or more at any time in the history of the company, by April 1, 2005.

Date of Announcement		POLICY ANNOUNCEMENTS
2004		**IV. CAPITAL MARKET POLICIES** *(Contd.)*
Nov.	**2**	• In view of the Government of India raising the cumulative debt investment limit for the FIIs/sub-accounts from US $ 1 billion to US $ 1.75 billion, SEBI clarified that the overall investment limit under the 70:30 route in dated Government securities and treasury bills would be increased from US $ 100 million to US $ 200 million.
		• SEBI finalised the model listing agreement for debt securities. Part one of the agreement contains clauses which should be complied with by all issuers irrespective of the mode of issuance. Part two contains clauses which should be complied with only if debentures are issued either through public or rights issue. Part three contains clauses which are required to be complied with only if debentures are issued on private placement basis. All the stock exchanges instructed to henceforth list all debt securities through an agreement as given in the model listing agreement.
Dec.	**2**	• SEBI clarified that a cumulative sub-ceiling of US $ 500 million outstanding would be fixed for FII investments in corporate debt, over and above the ceiling of US $ 1.75 billion for Government debt.
	8	• SEBI amended the Clause 16 of the Listing Agreement and instructed that the company on whose stocks, derivatives are available or whose stocks form part of an index on which derivatives are available, should give a notice period of 30 days to stock exchanges for corporate actions like mergers, de-mergers, splits and bonus shares.
2005		
Jan.	**28**	• Based on the recommendations of the Secondary Market Advisory Committee (SMAC), SEBI rationalised the charge structure for dematerialisation by exempting investors from paying any charge towards opening of beneficiary owner (BO) account except for statutory charges and for credit of securities into his/her BO account.
Feb.	**23**	• SEBI released the comprehensive risk management framework for the cash segment of the market which contains the definition of acceptable liquid assets and the applicable haircuts, liquidity categorisation of security, calculation of mark-to-market losses and computation and collection of VaR margin and other margins.
Mar.	**4**	• SEBI modified the margin trading and securities lending and borrowing scheme with respect to the securities eligible for margin trading facility, margin requirements, no-objection certificate and procedures of securities lending and borrowing.
	29	• SEBI extended the deadline for ensuring conformity by companies with the revised Clause 49 of the listing agreement up to December 31, 2005.
		• SEBI amended the SEBI (DIP) Guidelines, 2000 for enhancing the allocation category for retail investors, redefining the retail investors in value terms, reducing the bidding period, timing of disclosure of price band/floor price in case of listed companies and data reporting at the website of stock exchanges.
July	**1**	• SEBI suspended all fresh registrations for obtaining UIN and the requirement to obtain/quote UIN under the Central Database of Market Participants Regulations/Circulars.
		(ii) Government of India
2004		
July	**8**	• The Union Budget, 2004-05 proposed the following measures: i) raising of the investment ceiling for FIIs in debt funds from US $ 1 billion to US $ 1.75 billion, ii) 0.15 per cent Securities Transaction Tax (STT) on all transactions made on the stock exchanges, iii) abolition of the tax on long-term capital gains from securities transactions, iv) reduction in the short-term capital gains tax to a flat rate of 10 per cent from the existing 30 per cent (excluding surcharge), v) a tax of 12.5 per cent on the income distributed to individual unit holders and 20 per cent in case of corporate unit holders by debt-oriented mutual funds, and vi) abolition of the bonus stripping and dividend stripping in units of MFs.
	21	• The budget proposal relating to the STT modified. It was clarified that the STT of 0.15 per cent would be applicable only to the delivery-based transactions and would be shared equally between the buyers and the sellers. The tax for non-delivery transactions by day traders and arbitragers was proposed to be reduced from 0.15 per cent to 0.015 per cent and 0.01 per cent, respectively, on derivates transactions. The debt market was fully exempted from the STT. Debt-oriented mutual funds were also exempted from STT and would pay 10 per cent tax on long-term capital gains and 30 per cent tax on short-term capital gains. Equity-oriented mutual funds were exempted from tax on long-term capital gains and the tax on short-term capital gains was reduced to 10 per cent. Buyers of units of MFs would pay a STT of 0.15 per cent.

Date of Announcement		POLICY ANNOUNCEMENTS
2005		**IV. CAPITAL MARKET POLICIES** *(Concld.)*
Feb.	**28**	• The Union Budget, 2005-06 proposed the following measures: i) authorising the SEBI to set up a National Institute of Securities Markets (NISM) for teaching and training intermediaries in the securities markets and promoting research, ii) permitting FIIs to submit appropriate collateral, in cash or otherwise, as prescribed by the SEBI, when trading in derivatives on the domestic market, iii) amending the definition of 'securities' under the Securities Contracts (Regulation) Act, 1956 so as to provide a legal framework for trading of securitised debt including mortgage-backed debt, iv) appointing a high level Expert Committee on corporate bonds and securitisation to look into the legal, regulatory, tax and market design issues in the development of the corporate bond market, v) taking measures to provide legal validity to Over the Counter (OTC) derivatives contracts, vi) exempting one-time stamp duty on the notional transfer of assets of the three stock exchanges which are not yet corporatised, vii) rationalising the stamp duty to create a level playing field for banks and non-bank entities to issue commercial paper, viii) appointing a high powered Expert Committee in consultation with the Reserve Bank to advise the Government on making Mumbai a regional financial centre, and ix) SEBI to permit mutual funds to introduce Gold Exchange Traded Funds (GETFs) with gold as the underlying asset in consultation with the Reserve Bank.
		(iii) Reserve Bank of India
2004		
May	**18**	• In line with the recommendations made by the Task Force constituted for monitoring developments in the financial markets, the Reserve Bank decided to restore, with immediate effect, the *status quo ante* on margins that banks have to maintain for financing against shares/IPOs/issue of guarantees. Accordingly, the margins would be 40 per cent as against the earlier 50 per cent. The minimum cash margin of 25 per cent (within the margin of 50 per cent) was reduced to 20 per cent.
Dec.	**27**	• Margin on all advances against shares/financing of IPOs/issue of guarantees increased from the existing 40 per cent to 50 per cent and the minimum cash margin from 20 per cent to 25 per cent with immediate effect.
2005		
June	**25**	• Banks going for rights issues henceforth to make complete disclosure of the regulatory requirements in their offer documents.
		V. EXTERNAL SECTOR POLICIES
		a) Trade Policy
2004		
May	**17**	• Additional Standard Input Output Norms (SION) for 20 new export items and amendments/corrections/deletions in the norms for 20 existing export items notified by the Directorate General of Foreign Trade (DGFT). Out of the 20 new norms, 16 norms related to the chemicals and allied products and one each related to engineering products, plastic products, textile products and miscellaneous products.
	27	• The Reserve Bank announced the Gold Card Scheme for exporters.
Aug.	**31**	• A comprehensive Foreign Trade Policy 2004-09 (FTP 2004) announced by the Government of India aimed at doubling India's share in global merchandise trade by 2009 and to make exports an effective instrument of economic growth and employment generation. The key strategies adopted in the policy to enhance exports include unshackling of controls, simplification of procedures, reduction in transaction cost; neutralisation of incidence of all levies and duties on inputs used for export; facilitating development of India as a global hub for manufacturing, trading and services; and identifying and nurturing special focus areas like agriculture, handlooms, handicraft, gems and jewellery, leather and footwear. In addition, export promotion schemes like '*Vishesh Krishi Upaj Yojna*' and '*Served from India*' scheme were also announced to accelerate the growth of agriculture and services exports. New schemes named 'Target Plus' and 'Free Trade Warehousing Zone' (FTWZ) were announced to improve the export-related infrastructure and thereby exports. Various schemes were modified to suit the changing export climate. FTP 2004 also mooted to revamp and revitalise the Board of Trade to advise the Government on policy measures for preparation and implementation of short-term and long-term plans for increasing exports.

Date of Announce-ment		POLICY ANNOUNCEMENTS
2004		**V. EXTERNAL SECTOR POLICIES** *(Contd.)*
Oct.	**15**	• Free on Board (FOB) value of exports of an Export Oriented Unit (EOU)/ Electronic Hardware Technology Park (EHTP)/ Software Technology Park (STP)/ Bio-Technology Park (BTP) units could be clubbed with FOB value of exports of its parent company in the Domestic Tariff Area (DTA) or *vice versa* for the purpose of according Star Export House Status.
		• Clearance of capital goods including second hand capital goods in DTA would be allowed as per the policy under the EPCG Scheme. In other cases, clearance in DTA may be allowed on payment of applicable duty and import policy in force on the date of such clearance.
Nov.	**25**	• The DGFT notified additional SION for 60 new export items and amendments/corrections/deletions in the SION for 42 existing export items. Out of the 60 new norms, 48 norms related to the chemicals and allied products and 12 related to engineering products.
Dec.	**16**	• The DGFT notified additional SION for 28 new export items and amendments/corrections/deletions in the norms for 23 existing export items. Out of the 28 new norms, 20 norms related to the chemicals and allied products, 6 norms related to textile products and 2 norms related to miscellaneous products.
2005		
Jan.	**4**	• The Government of India notified various export items eligible for duty credit scrip equivalent to 5 per cent of FOB value of exports under *'Vishesh Krishi Upaj Yojana'*. The export items eligible for these benefits include plants, bulbs, roots, cut flowers, edible vegetables, edible fruits and nuts, spices and minor forest product.
	13	• The DGFT notified additional SION for 12 new export items and amendments/corrections/deletions in the SION for 16 existing export items. Out of the 12 new norms, 6 norms related to the chemicals and allied products, 3 related to the engineering products, 2 related to the plastic products and 1 norm related to the textile products.
	18	• All supplies made to Special Economic Zones (SEZs) to be treated as physical exports with effect from September 1, 2004 and entitled for benefits of Duty-Free Replenishment Certificate (DFRC) under the foreign trade policy.
	24	• A fast track clearance procedure for EOUs having status holder certificate under the foreign trade policy announced to facilitate the functioning of performing EOUs by lowering the transaction cost.
Feb.	**16**	• The DGFT notified additional SION for 27 new export items and amendments/corrections/deletions in the norms for 35 existing export items. Out of the 27 new norms, 22 norms related to the chemicals and allied products, 4 related to the engineering products and 1 related to the food products.
	28	• The Union Budget for 2005-06 announced various trade measures relating to diversification of agricultural commodities, rejuvenation of the plantation sector, programme to strengthen manufacturing competitiveness and nurturing the textile sector to prepare it for the post-MFA regime. Towards the objective of bringing India's custom duty structure closer to the East Asian level, the peak rate of custom duty for non-agricultural products reduced from 20 per cent to 15 per cent.
April	**8**	• Annual Supplement to FTP 2004 announced with focus on making manufacturing sector more competitive through concrete measures so as to help Indian companies become globally competitive and simultaneously give Indian consumers world-class products and services. The policy renewal provides packages for several sectors including agriculture, marine products, export oriented units and service sectors; contains major procedural simplification initiatives to reduce transaction costs; setting up of an Inter State Trade Council to engage State Governments more actively in export effort; and proposals to abolish cess on export of all agricultural and plantation commodities levied under the various Commodity Board Act. In a further boost to agri-exports, benefits under the '*Vishesh Krishi Upaj Yojana*' proposed to be extended to poultry and dairy products in addition to export of flowers, fruits, vegetables, minor forest produce and their value added products.
	28	• The DGFT notified additional SION for 27 new export items of which 25 norms related to the chemicals and allied products and one each related to engineering products and plastic products.
May	**10**	• SEZ units obtaining gold/silver/platinum from the nominated agencies on loan basis required to export that jewellery within 90 days from the date of release, except outright purchase.
	13	• Units, other than gems and jewellery, allowed to sell goods up to 50 per cent of FOB value of exports subject to fulfillment of positive net foreign exchange earnings (NFE) on payment of concessional duties.
		• EOU/EHTP/STP/BTP units allowed to sell finished products except pepper and pepper products, which are freely importable under the policy in the DTA under intimation to the Development Commissioner against payment of full duties, provided they have achieved the positive NFE.

Date of Announcement		POLICY ANNOUNCEMENTS
		V. EXTERNAL SECTOR POLICIES *(Contd.)*
		b) Foreign Exchange Market
2004		
April	**17**	• Authorised Dealers (ADs) allowed to approve trade credits for imports into India up to US $ 20 million per import transaction for import of all items (permissible under the EXIM Policy) with a maturity period (from the date of shipment) up to one year. ADs also allowed to approve trade credits up to US $ 20 million per import transaction with a maturity period of more than one year and less than three years only for import of capital goods. No roll-over/ extension would be permitted by the AD beyond the permissible period.
		• ADs permitted to allow remittance of net salary (after deductions of taxes, contribution to provident fund and other deductions) of a citizen of India, who is on deputation to the office or branch or subsidiary or joint venture in India of such overseas company, for the maintenance of close relatives residing abroad.
	22	• It was clarified to banks that non-resident ordinary accounts may be held by non-residents jointly with residents.
	24	• It was clarified that deposits by NRIs with persons other than ADs/Authorised Banks out of inward remittances from overseas or by debit to NRE/FCNR(B) accounts would not be permitted. However, deposits by NRIs by debit to NRO Accounts may continue hitherto provided that the amount deposited with such entities does not represent inward remittances or transfer from NRE/FCNR(B) accounts into the NRO account.
May	**3**	• ADs permitted to allow remittances for acquisition of shares under Employees' Stock Option Plan (ESOP) dispensing with the condition that the shares should be offered at a concessional price. Sale of the shares so acquired was also permitted, without prior permission of the Reserve Bank, provided the proceeds thereof are repatriated to India.
	25	• Close relatives (as defined under section 6 of the Companies Act, 1956) of the borrower in India permitted to repay the installment of housing loans, interest and other charges, if any, through their bank accounts directly to the borrower's loan account with the authorised dealer/housing finance institution.
June	**7**	• Exporters permitted to grant trade related loans/advances from their EEFC account to their overseas importer customers without any ceiling, subject to submission of a guarantee of a bank of international repute situated outside India by the overseas borrowers in favour of the lender where the amount of loan advanced exceeds US $ 1,00,000 (earlier limit of US $ 25,000).
July	**9**	• ADs advised that they can open Letters of Credit (LCs) and allow remittance on behalf of EOUs, units in SEZs in the gems and jewellery sector in addition to nominated agencies for direct import of gold, subject, *inter alia*, to the conditions that i) the import of gold should be strictly in accordance with the EXIM policy, ii) Suppliers' and Buyers' Credit, including usance period of LCs opened for direct import of goods, should not exceed 90 days, and iii) bankers' prudence should be strictly exercised for all such transactions, while also meeting reporting requirements stipulated by the Reserve Bank.
	20	• Resident individual beneficiaries were permitted to credit to their Resident Foreign Currency (RFC) Account or RFC (Domestic) Account, as the case may be, the foreign exchange received by them by way of the proceeds of life insurance policy claims/maturity/surrender values settled in foreign currency from an insurance company in India permitted to undertake life insurance business by the IRDA.
Sept.	**13**	• Restriction imposed on investment in Indian companies by Sri Lankan citizens was lifted and they would henceforth be eligible to purchase shares or convertible debentures of an Indian company under foreign direct investment scheme subject to specified terms and conditions.
Oct.	**1**	• Listed Indian companies may allot shares to their employees who are citizens of Bangladesh and Sri Lanka under ESOP.
		• The issue of ADR/GDR linked stock option by a listed company in the knowledge-based sectors would be governed by SEBI (Employees Stock Option and Stock Purchase Scheme) Guidelines, 1999, while the issue of ADR/GDR linked stock option to its employees by an unlisted company would continue to be governed by the guidelines issued by the Government of India. Accordingly, ADs were allowed to make remittances up to US $ 50,000 or its equivalent in a block of five calendar years, which is the current limit per eligible employee, without prior approval of the Reserve Bank, for purchase of foreign securities under the ADR/GDR linked ESOP, after satisfying that the issuing company has followed the relevant guidelines of SEBI/Government of India.

Date of Announce-ment		POLICY ANNOUNCEMENTS
2004		**V. EXTERNAL SECTOR POLICIES** *(Contd.)*
Oct.	**1**	• General permission granted for conversion of external commercial borrowings (ECBs) into equity subject to the following conditions: i) the activity of the company is covered under the automatic route for FDI or they had obtained Government approval for foreign equity in the company; ii) the foreign equity after such conversion of debt into equity is within the sectoral cap, if any; iii) pricing of shares is as per SEBI and erstwhile CCI guidelines/regulations in the case of listed/unlisted companies as the case may be; and iv) compliance with the requirements prescribed under any other statute and regulation in force. This would also be applicable to ECBs irrespective of whether due for repayment or not, as well as secured or unsecured loans availed from non-resident collaborators. However, import payables, deemed as ECBs, would not be eligible for conversion into equity/preference shares. Conversion of ECB into equity will be subject to the prescribed reporting requirements.
	4	• The requirement of prior approval of the Reserve Bank for transfer of shares and convertible debentures (excluding financial service sector) was dispensed with and general permission accorded subject to compliance of the terms and conditions and reporting requirements for transfer by a person resident in India to person resident outside India and *vice versa*. Increase in foreign equity participation by fresh issue of shares as well as conversion of preference shares into equity capital allowed, provided such increase falls within the sectoral cap in relevant sectors and are within the automatic route.
	16	• The requirement of prior approval of the Reserve Bank by Indian agents of foreign airline companies who are members of International Air Transport Association (IATA), for arranging to issue bank guarantees in favour of the foreign airline companies/IATA, in connection with their ticketing business was dispensed with. Accordingly, ADs were allowed to issue such guarantees and required to report the details of invocation of such guarantees to the Reserve Bank.
	25	• Remittance of hiring charges of transponders by i) TV Channels and ii) Internet Service Providers (ISP) would require the approval of the Ministry of Information and Broadcasting and Ministry of Communication and Information Technology, respectively. Accordingly, ADs would allow the remittances towards hiring of transponders by TV Channels and ISPs, as approved by the concerned Ministry.
Nov.	**1**	• General permission given to ADs to issue guarantees, letters of comfort and letters of undertaking in favour of overseas suppliers or banks for their importer clients, up to US $ 20 million per transaction for a period up to one year for import of all non-capital goods permissible under the Foreign Trade Policy (except gold) and up to three years for import of capital goods, subject to prudential guidelines.
		• All status holder exporters permitted a period of twelve months for realisation and repatriation of export proceeds. This facility was extended to 100 per cent EOUs and units set up under EHTPs, STPs and BTPs schemes.
		• The limit for outstanding forward contracts booked by importers/exporters, based on their past performance (without production of the underlying documents), was increased from 50 per cent to 100 per cent of their eligible limit. The contracts booked in excess of 25 per cent of the eligible limits, however, would be on deliverable basis.
2005		
Feb.	**1**	• The Government of India, in consultation with the Reserve Bank, reviewed the procedures for compounding of contravention under the Foreign Exchange Management Act (FEMA), with a view to providing comfort to the citizens and corporate community by minimising transaction costs, while taking severe view of wilful, *mala fide* and fraudulent transactions. The responsibilities of administering compounding of contravention cases under FEMA vested with the Reserve Bank with exception of clause (a) of Section 3 of FEMA 1999 which deals essentially with *Hawala* transactions. Accordingly, the Reserve Bank issued directions to the ADs operationalising the revised procedures for compounding of contravention under the FEMA.
	9	• An employee or a director of an Indian office or branch or a subsidiary of a foreign company in India or of an Indian company in which the foreign holding is not less than 51 per cent was permitted to purchase shares under ESOP offered by a foreign company even if it is an indirect shareholding (through a holding company or an SPV in third country) in the Indian company.
	18	• As per the existing guidelines, nominated agencies/approved banks can import gold on loan basis for on-lending to exporters of jewellery and by EOUs and units in SEZs for manufacturing and export of jewellery on their own account only. After a review of these guidelines, the maximum tenor of gold loan was enhanced to 240 days *i.e.*, 60 days for manufacture and exports, and 180 days for fixing the price and repayment. ADs were permitted to open standby LCs for tenor equivalent to the loan period and on behalf of entities permitted to import gold. The standby LC should be in favour of the internationally renowned bullion banks only.

Date of Announce-ment		POLICY ANNOUNCEMENTS
2005		**V. EXTERNAL SECTOR POLICIES** *(Concld.)*
March	**15**	• Banks authorised to deal in foreign exchange permitted to allow a resident power of attorney holder to remit funds out of the balances in the NRE/FCNR(B) account through normal banking channels, to the non-resident account holder provided specific powers for the purpose have been given.
	31	• The liberalised remittance scheme of US $ 25,000 is not permitted, directly or indirectly, to countries identified by the Financial Action Task Force (FATF) as non co-operative countries and territories (NCCTs) *viz.* Cook Islands, Egypt, Guatemala, Indonesia, Myanmar, Nauru, Nigeria, Philippines and Ukraine. AD banks were advised that they may keep a record of the countries identified by FATF as NCCTs and accordingly update the list from time to time for necessary action by their branches handling the transactions under the liberalised remittance scheme. For this purpose, they may access the website www.fatf-gafi.org to obtain the latest list of non co-operative countries identified by FATF.
April	**25**	• General permission granted to insurance companies incorporated outside India which have obtained prior approval from the IRDA to establish Liaison Offices in India subject to conditions specified by the IRDA from time to time.
		• Non-Governmental Organisations (NGOs) engaged in micro finance activities, having satisfactory borrowing relationship of three years with a bank and 'fit and proper' board/management committee, were permitted to raise ECB up to US $ 5 million during a financial year for permitted end-use, under the automatic route. The designated AD has to ensure that the ECB proceeds are utilised for lending to self-help groups or for micro-credit or for *bona fide* micro finance activity including capacity building and that the forex exposure of the borrower is hedged at the time of draw down. ECB funds should be routed through normal banking channel from internationally recognised sources *viz.* i) international banks, ii) multilateral financial institutions, and iii) export credit agencies. Furthermore, overseas organisations and individuals complying with KYC guidelines and anti-money laundering safeguards were allowed to lend ECB provided all other ECB parameters under the automatic route are complied with.
May	**12**	• The ceiling of overseas investment by Indian entities in overseas joint ventures and/or wholly owned subsidiaries raised from 100 per cent to 200 per cent of their net worth under the automatic route.
	16	• The closing time for inter-bank foreign exchange market in India was extended by one hour up to 5.00 p.m.
	17	• General permission to ADs to open non-interest bearing foreign currency account for the project offices set up under the general/specific approval of the Reserve Bank by foreign companies in India, and operate the accounts flexibly.
June	**14**	• Cancellation and rebooking of all eligible forward contracts booked by residents, irrespective of tenor, allowed subject to certain conditions.
		• International Debit Cards (IDCs) can be used only for permissible current account transactions. Accordingly, the item-wise limits as mentioned in the Schedules to the Government of India Notification No.G.S.R. 381(E) dated May 3, 2000, as amended from time to time, are equally applicable to payments made through use of these cards. Further, IDCs cannot be used on internet for purchase of prohibited items like lottery tickets, banned or proscribed magazines, participation in sweepstakes, payment for call-back services, *i.e.* for such items/activities for which drawal of foreign exchange is not permitted.
July	**12**	• ADs given freedom not to follow up submission of evidence of import involving amount of US $ 1,00,000 or less provided they are satisfied about the genuineness of the transaction and the *bona fides* of the remitter. A suitable policy may be framed by the bank's Board of Directors and ADs may set their own internal guidelines to deal with such cases.
	23	• Banks allowed to approve proposals for commodity hedging in international exchanges from their corporate customers.
	29	• FDI up to 100 per cent permitted under the automatic route in petroleum product marketing, oil exploration in both small and medium sized fields and petroleum product pipelines. In air transport services (Domestic Airlines) sector, FDI up to 100 per cent permitted under the automatic route by NRIs and up to 49 per cent by others. However, no direct or indirect equity participation by foreign airlines would be allowed.

APPENDIX TABLE I.1 : SELECT MACROECONOMIC AND FINANCIAL INDICATORS

Item	2004-05	2003-04	2002-03	2001-02	2000-01	Average 1995-96 to 2004-05 (10 years)
1	2	3	4	5	6	7
1. Real GDP (% change)	6.9 RE	8.5 QE	4.0	5.8	4.4	6.2
2. Industrial Production (% change)	8.2 P	7.0	5.7	2.7	5.0	6.5
3. Agricultural Production (% change)	-1.2 £	13.2	-15.5	7.6	-6.3	0.6
4. Foodgrains Production (Million tonnes)	204.6 £	213.5	174.8	212.9	196.8	198.8
5. Gross Domestic Saving Rate (% of GDP)	..	28.1 QE	26.1	23.4	23.5	24.3 ^
6. Gross Domestic Investment Rate (% of GDP)	..	26.3 QE	24.8	22.6	23.8	24.6 ^
7. Central Government Finances (% of GDP)						
a) Total Revenue Receipts	9.7 RE	9.6	9.4	8.9	9.2	9.2
b) Total Expenditure	16.3 RE	17.1	16.8	15.9	15.6	15.8
c) Revenue Deficit	2.7 RE	3.6	4.4	4.4	4.1	3.4
d) Fiscal Deficit	4.5 RE	4.5	5.9	6.2	5.7	5.4
e) Net RBI Credit to Centre	-1.6 RE	-2.8	-1.2	-0.2	0.3	-0.2
f) Interest Payments	4.1 RE	4.5	4.8	4.7	4.8	4.5
g) Domestic Debt	62.1 RE	61.3	60.9	57.0	52.8	53.1
8. Monetary Aggregates (% change)						
a) Broad Money (M_3)	12.2 #	16.7	12.7 @	14.1	16.8	15.6
b) Narrow Money (M_1)	11.7	22.2	12.0	11.4	11.0	12.9
c) Reserve Money	12.1	18.3	9.2	11.4	8.1	11.3
9. Scheduled Commercial Banks (% change)						
a) Aggregate Deposits	12.8 #	17.5	13.4 @	14.6	18.4	15.8
b) Bank Credit	27.0 #	15.3	16.1 @	15.3	17.3	16.9
c) Non-Food Credit	27.6 #	18.4	18.6 @	13.6	14.9	17.1
d) Investments in Government Securities	8.0 #	25.1	27.3	20.9	22.1	19.8
10. Wholesale Price Index (% change)						
a) Point-to-Point	5.1	4.6	6.5	1.6	4.9	4.9
b) Average	6.4	5.4	3.4	3.6	7.2	5.2
11. Consumer Price Index - Industrial Workers (% change)						
a) Point-to-Point	4.2	3.5	4.1	5.2	2.5	6.0
b) Average	3.8	3.9	4.0	4.3	3.8	6.3
12. BSE Sensitive Index (% change, point-to-point)	16.1	40.1	-3.8	-22.0	-8.4	6.9
13. Trade and Balance of Payments						
a) Exports in US $ (% change)	24.1	21.1	20.3	-1.6	21.0	12.1
b) Imports in US $ (% change)	37.0	27.3	19.4	1.7	1.7	14.7
c) Current Account (% of GDP)	-0.9 P	1.7	1.2	0.7	-0.6	-0.4
d) Capital Account (% of GDP)	4.6 P	3.4	2.1	1.8	1.9	2.5
14. Foreign Exchange Reserves* (US $ Million)	141,514	112,959	76,100	54,716	42,897	
15. External Debt						
a) Debt-GDP Ratio*	17.4 P	17.8	20.3	21.2	22.6	22.1
b) Debt-Service Ratio	6.2 P	16.3	16.4	13.4	16.6	17.3
16. Exchange Rate (Rupee / US $)						
a) High	43.36	43.45	47.51	46.56	43.61	31.37
b) Low	46.46	47.46	49.06	48.85	46.89	49.06

^ : Data are available up to 2003-04 only .. : Not available. P : Provisional.
RE : Revised Estimates. QE : Quick Estimates.
@ : Adjusted for the mergers in the banking system since May 3, 2002.
# : Adjusted for the conversions in the banking system since October 11, 2004.
* : As at the end of the period.
£ : Fourth Advance Estimate as on July 6, 2005.

APPENDIX TABLE I.2 : INTEREST RATE STRUCTURE OF SCHEDULED COMMERCIAL BANKS

(Per cent per annum)

Item	Rates as on												
	Jan. 28 2005	Jan. 21 2005	Jan. 14 2005	Jan. 07 2005	Dec.03, 2004	Nov.05, 2004	Oct.01, 2004	Sept 03, 2004	August 06, 2004	July 02, 2004	June 4, 2004	May 07, 2004	April 09, 2004
1	2	3	4	5	6	7	8	9	10	11	12	13	14
A. Lending Rates *Size of Credit Limit*													
1. Up to Rs. 2 lakh	≤ BPLR	≤ BPLR	≤ BPLR	≤ BPLR	≤ BPLR	≤ BPLR	≤ BPLR	≤ BPLR	≤ BPLR	≤ BPLR	≤ BPLR	≤ BPLR	≤ BPLR
2. Over Rs. 2 lakh: (Benchmark Prime Lending Rate)*	10.25-10.75	10.25-10.75	10.25-10.75	10.25-10.75	10.25-10.75	10.25-10.75	10.25-10.75	10.25-11.00	10.25-11.00	10.25-11.00	10.25-11.00	10.25-11.00	10.25-11.00
B. Deposit Rates *Category of Account*													
1. Current	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
2. Savings	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
3. Term Deposits*													
a) Up to and including one year	3.00-5.00	3.00-5.00	3.00-5.00	3.00-5.00	3.00-5.00	3.75-4.75	3.75-4.75	3.75-4.75	4.00-4.75	4.00-4.75	4.00-4.75	4.00-4.75	4.00-4.75
b) 1-2 years	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
c) 2-3 years	5.50	5.50	5.50	5.50	5.50	5.00-5.25	5.00-5.25	5.00-5.25	5.00-5.25	5.00-5.25	5.00-5.25	5.00-5.25	5.00-5.25
d) > 3 years	5.75-6.25	5.75-6.25	5.75-6.25	5.75-6.25	5.75-6.25	5.00-5.50	5.00-5.50	5.00-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50
Memo Item :													
Bank Rate	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00

* : Data relate to major public sector banks.

≤ : Not Exceeding

APPENDIX TABLE I.3 : INTEREST RATES ON EXPORT CREDIT

(Per cent per annum)

Export Credit	Rates Effective										
	May 18, 2004	May 1, 2003	September 26, 2001	May 5, 2001	January 6, 2001	May 26, 2000	October 29, 1999	April 1, 1999	August 6, 1998	April 30, 1998	January 1, 1998
1	2	3	4	5	6	7	8	9	10	11	12
1. Pre-shipment Credit											
i) Up to 180 days	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-1.5 PP	10.00	10.00	10.00	10.00	9.00	11.00	12.00
ii) Beyond 180 days and up to 270 days	Free	Free	≤ PLR+0.5 PP	≤ PLR+1.5 PP	13.00	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	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-1.5 PP	10.00	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)	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-1.5 PP	≤ 10.00	≤ 10.00	≤ 10.00	≤ 10.00	9.00	≤ 11.00	≤ 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)											
a) Up to 90 days	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-1.5 PP	≤ 10.00	≤ 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	Free	Free	≤ PLR+0.5 PP	≤ PLR+1.5 PP	12.00	12.00	12.00	12.00	11.00	13.00	13.00
c) Beyond six months from the date of shipment	–	–	–	–	–	–	–	–	–	–	20.00 $ (Min.)
d) Up to 365 days for exporters under the Gold Card Scheme	≤ BPLR-2.5 PP										
iii) Against incentives receivable from Government covered by ECGC Guarantee (up to 90 days)	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-1.5 PP	≤ 10.00	≤ 10.00	≤ 10.00	≤ 10.00	9.00	≤ 11.00	≤ 11.00
iv) Against undrawn balance (up to 90 days)	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-1.5 PP	≤ 10.00	≤ 10.00	≤ 10.00	≤ 10.00	9.00	≤ 11.00	≤ 11.00
v) Against retention money (for supplies portion only) payable within one year from the date of shipment (up to 90 days)	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-2.5 PP	≤ PLR-1.5 PP	≤ 10.00	≤ 10.00	≤ 10.00	≤ 10.00	9.00	≤ 11.00	≤ 11.00
3. Deferred Credit Deferred credit for the period beyond 180 days	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free (FDA)	Free (FDA)
4. Export Credit, not otherwise specified											
a) Pre-shipment credit	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free	
b) Post-shipment credit	Free	Free	Free	Free	Free	25.00 (Min.)	Free	20.00 (Min.)	20.00 (Min.)	20.00 (Min.)	20.00 (Min.)

FDA : From the date of advance. ≤ : Not Exceeding Min. : Minimum. – : Not Applicable. PP : Percentage points.

$: Chronic cases, *i.e.* , overdues as on July 1, 1997 are exempted.

Note : 'Free' means banks are free to charge interest rates keeping in view the BPLR and spread guidelines.

APPENDIX TABLE I.4 : GROWTH RATES AND SECTORAL COMPOSITION OF REAL GROSS DOMESTIC PRODUCT (At 1993-94 Prices)

(Per cent)

Sector	Growth Rate					Share in real GDP			
	2004-05#	2003-04*	2002-03@	2001-02	1998-99 to 2003-04	2004-05#	2003-04*	2002-03@	2001-02
1	2	3	4	5	6	7	8	9	10
1. Agriculture and Allied Activities	**1.1**	**9.6**	**-7.0**	**6.3**	**2.6**	**20.5 (3.6)**	**21.7 (24.3)**	**21.5 -(42.2)**	**24.0 (26.0)**
of which :									
Agriculture	n.a.	10.3	-8.0	6.5	2.5	n.a.	19.8	19.5	22.0
2. Industry	**8.3**	**6.5**	**6.4**	**3.5**	**5.0**	**21.9 (25.9)**	**21.6 (16.9)**	**22.0 (34.7)**	**21.5 (13.4)**
of which :									
a) Mining and quarrying	4.5	6.4	9.0	2.5	4.4	2.3	2.3	2.4	2.3
b) Manufacturing	9.2	6.9	6.5	3.6	5.2	17.4	17.0	17.3	16.9
c) Electricity, gas and water supply	5.5	3.7	3.1	3.7	4.5	2.3	2.3	2.4	2.4
3. Services	**8.6**	**8.9**	**7.9**	**6.5**	**7.8**	**57.6 (70.5)**	**56.7 (58.9)**	**56.5 (107.5)**	**54.4 (60.7)**
of which :									
a) Construction	5.2	7.0	7.3	4.0	6.5	5.1	5.2	5.3	5.1
b) Trade, hotels and restaurants	11.4 $	8.8	8.2	8.9	7.4	26.6 $	15.7	15.6	15.0
c) Transport, storage and communication	n.a.	17.0	12.6	9.2	11.7	n.a.	9.9	9.2	8.5
d) Financing, insurance, real estate and business services	7.1	7.1	8.7	4.5	7.0	12.9	12.8	13.0	12.4
e) Community, social and personal services	5.9	5.8	3.9	5.1	7.1	12.9	13.0	13.4	13.4
4. Gross Domestic Product at Factor Cost	**6.9**	**8.5**	**4.0**	**5.8**	**5.9**	**100.0**	**100.0**	**100.0**	**100.0**

: Revised Estimates. * : Quick Estimates. @ : Provisional Estimates. n.a. : Not available.

$: Corresponds to 'trade, hotels and restaurants' and 'transport, storage and communication'.

Note : Figures in brackets indicate relative contribution of the sectors to the real GDP growth.

Source : Central Statistical Organisation.

APPENDIX TABLE I.5 : QUARTERLY GROWTH RATES AND COMPOSITION OF REAL GROSS DOMESTIC PRODUCT (At 1993-94 Prices)

(Per cent)

Sector	2004-05				2003-04				2002-03				2001-02			
	Q_1	Q_2	Q_3	Q_4	Q_1	Q_2	Q_3	Q_4	Q_1	Q_2	Q_3	Q_4	Q_1	Q_2	Q_3	Q_4
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Agriculture and Allied Activities	**3.8**	**0.0**	**-0.5**	**1.8**	**0.1**	**7.2**	**18.2**	**10.4**	**-0.6**	**-4.0**	**-12.5**	**-8.0**	**2.8**	**5.7**	**6.8**	**9.5**
	(20.8)	**(16.3)**	**(24.7)**	**(19.7)**	**(21.6)**	**(17.4)**	**(26.4)**	**(20.7)**	**(22.7)**	**(17.7)**	**(24.8)**	**(20.4)**	**(24.1)**	**(19.5)**	**(28.8)**	**(23.0)**
2. Industry	**7.6**	**9.1**	**9.2**	**7.3**	**5.6**	**6.0**	**6.4**	**7.9**	**5.0**	**6.9**	**6.9**	**6.9**	**2.7**	**3.3**	**3.7**	**4.3**
	(22.1)	**(23.4)**	**(20.7)**	**(21.6)**	**(22.1)**	**(22.9)**	**(20.2)**	**(21.6)**	**(22.1)**	**(23.6)**	**(21.1)**	**(21.7)**	**(22.1)**	**(23.3)**	**(20.0)**	**(21.0)**
of which :																
a) Manufacturing	7.9	9.6	10.5	8.6	6.1	6.9	7.0	7.6	4.3	7.0	7.1	7.6	3.2	3.3	3.7	4.3
	(17.4)	(18.6)	(16.5)	(17.2)	(17.3)	(18.1)	(15.9)	(16.9)	(17.2)	(18.5)	(16.5)	(17.1)	(17.4)	(18.3)	(15.6)	(16.5)
b) Mining and quarrying	6.9	4.7	4.5	2.5	4.5	4.1	5.9	10.7	11.8	10.2	7.6	7.0	-1.1	1.2	5.1	4.2
	(2.3)	(2.3)	(2.2)	(2.3)	(2.3)	(2.3)	(2.2)	(2.4)	(2.3)	(2.5)	(2.3)	(2.4)	(2.2)	(2.4)	(2.2)	(2.3)
c) Electricity, gas and water supply	6.1	9.1	4.4	2.6	3.0	1.1	3.0	7.6	3.6	3.1	4.1	1.5	2.9	4.4	2.8	4.4
	(2.4)	(2.5)	(2.1)	(2.1)	(2.4)	(2.4)	(2.1)	(2.2)	(2.5)	(2.6)	(2.3)	(2.2)	(2.5)	(2.7)	(2.2)	(2.3)
3. Services	**9.1**	**7.7**	**8.8**	**8.8**	**7.7**	**10.5**	**9.5**	**7.8**	**8.0**	**8.6**	**7.4**	**7.5**	**5.8**	**5.9**	**7.5**	**6.6**
	(57.1)	**(60.2)**	**(54.6)**	**(58.6)**	**(56.3)**	**(59.6)**	**(53.4)**	**(57.7)**	**(55.2)**	**(58.7)**	**(54.1)**	**(58.0)**	**(53.8)**	**(57.2)**	**(51.2)**	**(56.0)**
of which :																
a) Construction	5.0	4.6	7.2	4.1	6.6	8.5	6.5	6.6	6.7	9.0	7.0	6.6	0.1	1.3	5.5	9.1
	(5.3)	(5.4)	(4.9)	(5.0)	(5.5)	(5.6)	(4.8)	(5.1)	(5.4)	(5.6)	(5.0)	(5.2)	(5.3)	(5.4)	(4.8)	(5.1)
b) Trade, hotels, restaurants, transport, storage and communication	11.5	12.3	10.8	11.1	8.0	10.4	13.5	14.6	9.3	10.3	8.9	10.6	7.8	9.2	8.7	10.2
	(25.9)	(27.1)	(25.9)	(27.6)	(25.0)	(25.7)	(24.8)	(26.6)	(24.4)	(25.4)	(24.3)	(25.2)	(23.5)	(24.4)	(22.6)	(23.6)
c) Financing, insurance, real estate and business services	7.0	5.5	8.2	7.7	6.4	7.2	7.3	7.6	9.4	9.6	8.5	7.4	4.5	5.0	4.8	3.9
	(13.3)	(13.6)	(12.2)	(12.5)	(13.4)	(13.8)	(12.0)	(12.5)	(13.3)	(14.0)	(12.4)	(12.6)	(12.8)	(13.5)	(11.6)	(12.1)
d) Community, social and personal services	8.2	3.0	5.6	7.2	9.0	14.9	5.2	-2.9	4.6	4.6	3.8	3.0	6.3	3.2	9.0	2.7
	(12.5)	(14.1)	(11.7)	(13.5)	(12.5)	(14.6)	(11.8)	(13.5)	(12.1)	(13.8)	(12.4)	(15.0)	(12.1)	(14.0)	(12.2)	(15.2)
4. Gross Domestic Product at Factor Cost	**7.6**	**6.7**	**6.4**	**7.0**	**5.5**	**8.8**	**11.0**	**8.4**	**5.2**	**5.8**	**1.6**	**3.8**	**4.4**	**5.2**	**6.5**	**6.7**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

Note : 1. Figures in brackets are percentage shares to GDP.
2. Quarters Q_1, Q_2, Q_3 and Q_4 denote April-June, July-September, October-December and January-March, respectively.
3. Data are provisional.
4. Constituents may not add up to 100 due to rounding off.

Source : Central Statistical Organisation.

APPENDIX TABLE I.6 : AGRICULTURAL PRODUCTION

(Million tonnes)

Crop	2004-05A	2003-04	2002-03	2001-02	2000-01
1	2	3	4	5	6
1. All Crops: Annual Growth Rate (Per cent) $	**-1.2**	**13.2**	**-15.5**	**7.6**	**-6.3**
i) Foodgrains	-4.2	14.0	-18.4	8.6	-6.7
ii) Non-foodgrains	3.2	12.0	-11.1	6.3	-5.7
2. Foodgrains (a+b)	**204.6**	**213.5**	**174.8**	**212.9**	**196.8**
i) Rice	85.3	88.3	71.8	93.3	85.0
ii) Wheat	72.0	72.1	65.8	72.8	69.7
iii) Coarse cereals	33.9	38.1	26.1	33.4	31.1
iv) Pulses	13.4	14.9	11.1	13.4	11.1
a) Kharif	**103.3**	**116.9**	**87.2**	**112.1**	**102.1**
i) Rice	71.7	78.3	63.1	80.5	72.8
ii) Coarse cereals	26.7	32.4	20.0	26.7	24.9
iii) Pulses	5.0	6.2	4.2	4.8	4.5
b) Rabi	**101.3**	**96.6**	**87.6**	**100.8**	**94.7**
i) Rice	13.6	9.9	8.7	12.8	12.2
ii) Wheat	72.0	72.1	65.8	72.8	69.7
iii) Coarse cereals	7.2	5.8	6.1	6.7	6.2
iv) Pulses	8.4	8.8	7.0	8.5	6.6
3. Non-foodgrains					
i) Oilseeds ++	26.1	25.3	14.8	20.7	18.4
ii) Sugarcane	232.3	237.3	287.4	297.2	296.0
iii) Cotton@	17.0	13.9	8.6	10.0	9.5
iv) Jute and Mesta +	10.5	11.2	11.3	11.7	10.6
v) Tea*	820.2	857.1	838.5	853.9	846.9
vi) Coffee*	..	270.5	275.3	300.6	301.2

A : Fourth Advance Estimates as on July 6, 2005.
$: Based on 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 kilograms and data for tea on a calendar year basis.
+ : Million bales of 180 kg. each.
.. : Not Available
Source: Ministry of Agriculture, Government of India; Tea Board and Coffee Board.

APPENDIX TABLE I.7 : PROCUREMENT, OFF-TAKE AND STOCKS OF FOODGRAINS

(Million tonnes)

Fiscal year	Procurement			Off-take			Stocks*		
	Rice	Wheat	Total	Rice	Wheat	Total	Rice	Wheat	Total@
1	2	3	4	5	6	7	8	9	10
1995-96	9.93	12.33	22.16	11.63	12.72	24.35	13.06	7.76	20.82
1996-97	11.88	8.16	20.04	12.31	13.32	25.63	13.17	3.24	16.41
1997-98	14.54	9.30	23.84	11.27	7.76	18.96	13.05	5.08	18.12
1998-99	11.55	12.65	24.20	11.83	8.90	20.73	12.16	9.66	21.82
1999-00	16.62	14.14	30.76	12.42	10.63	23.05	15.72	13.19	28.91
2000-01	18.93	16.36	35.29	10.42	7.79	18.21	23.19	21.50	44.98
2001-02	21.12	20.63	41.75	15.32	15.99	31.30	24.91	26.04	51.02
2002-03	19.00	19.06	38.06	24.85	24.99	49.84	17.16	15.65	32.81
2003-04	20.78	15.80	36.58	25.04	24.29	49.33	13.07	6.93	20.65
2004-05	24.04$	16.80	40.84	22.98	18.27	41.25	13.34	4.07	17.97
2005-06 $	–	14.73	14.73	3.28	2.45	5.73	11.59	15.74	27.93

* : Stocks are as at end-March.

@ : Includes coarse grains.

$: Procurement and off-take up to May 31, 2005; and stocks as on June 1, 2005.

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

APPENDIX TABLE I.8 : TRENDS IN INDEX OF INDUSTRIAL PRODUCTION (BASE : 1993-94=100)

Sector	Mining & Quarrying		Manufacturing		Electricity		General	
Weight	10.473		79.358		10.169		100.000	
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
2000-01	130.3	2.8 (4.9)	167.9	5.3 (87.6)	154.4	4.0 (7.8)	162.6	5.0 (100.0)
2001-02	131.9	1.2 (3.8)	172.7	2.9 (86.6)	159.2	3.1 (11.1)	167.0	2.7 (100.0)
2002-03	139.6	5.8 (8.4)	183.1	6.0 (86.0)	164.3	3.2 (5.4)	176.6	5.7 (100.0)
2003-04	146.9	5.2 (6.2)	196.6	7.4 (86.4)	172.6	5.1 (6.8)	189.0	7.0 (100.0)
2004-05 P	153.4	4.4 (4.4)	214.2	9.0 (90.1)	181.5	5.2 (5.8)	204.5	8.2 (100.0)
2003-04								
April-June	138.7	5.6	183.4	6.0	167.3	4.2	177.1	5.7
July-September	138.1	2.9	191.5	7.6	166.5	1.9	183.3	6.6
October-December	149.9	4.4	199.2	7.9	174.9	4.3	191.5	7.3
January-March	161.1	8.1	212.5	7.9	181.7	9.8	204.0	8.1
April-September	138.4	4.2	187.4	6.7	166.9	3.0	180.2	6.2
October-March	155.5	6.3	205.8	7.9	178.3	7.0	197.8	7.7
2004-05 P								
April-June	146.6	5.7	198.3	8.1	177.2	5.9	190.7	7.7
July-September	144.4	4.6	209.3	9.3	182.5	9.6	199.8	9.0
October-December	157.2	4.9	219.2	10.1	181.5	3.8	208.9	9.1
January-March	165.3	2.6	230.6	8.6	184.8	1.7	219.1	7.4
April-September	145.5	5.1	203.8	8.7	179.9	7.7	195.2	8.3
October-March	161.3	3.7	224.9	9.3	183.2	2.7	214.0	8.2
2005-06 P								
April-June	153.2	4.5	220.5	11.2	190.7	7.6	210.4	10.3

P : Provisional.

Note : Figures in parentheses are relative contributions, computed as the ratios (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.

APPENDIX TABLE I.9 : GROWTH IN INDEX OF SEVENTEEN MAJOR INDUSTRY GROUPS OF MANUFACTURING SECTOR (BASE : 1993-94=100)

Industry Group	Weight	Index		Percentage Variation		Relative Contribution (Per cent)	
		2004-05 P	2003-04	2004-05 P	2003-04	2004-05	2003-04
1	2	3	4	5	6	7	8
I. Acceleration	**41.102**						
1. Machinery and Equipment other than Transport Equipment	9.565	278.9	233.3	19.5	15.8	31.2	28.5
2. Textile products (including wearing apparel)	2.537	219.6	184.3	19.2	-3.2	6.4	-1.4
3. Other Manufacturing Industries	2.559	218.8	186.6	17.3	7.7	5.9	3.2
4. Basic Chemicals and chemical products (except products of Petroleum & Coal)	14.002	238.3	208.4	14.3	8.4	30.0	21.7
5. Beverages,Tobacco and related products	2.382	345.9	312.1	10.8	8.5	5.8	5.4
6. Cotton textiles	5.518	126.1	117.4	7.4	-3.1	3.4	-2.0
7. Leather and Leather & Fur products	1.139	157.1	147.0	6.9	-3.9	0.8	-0.6
8. Metal products and parts (except machinery and equipment)	2.810	166.4	157.3	5.8	3.4	1.8	1.5
9. Jute and other Vegetable Fibre Textiles (except cotton)	0.590	107.2	103.4	3.7	-4.2	0.2	-0.2
II. Deceleration	**26.472**						
10. Paper and Paper products and Printing, Publishing and Allied Activities	2.652	228.9	208.7	9.7	15.6	3.8	7.0
11. Basic Metal and Alloy Industries	7.453	196.2	186.0	5.5	9.1	5.4	10.9
12. Transport Equipment and parts	3.984	283.2	272.6	3.9	17.0	3.0	14.8
13. Wool, Silk and Man-made fibre textiles	2.258	249.1	240.5	3.6	6.9	1.4	3.2
14. Rubber, Plastic, Petroleum and Coal products	5.728	192.2	187.7	2.4	4.5	1.8	4.3
15. Non-metallic Mineral products	4.397	244.2	240.6	1.5	3.7	1.1	3.5
III. Negative	**11.784**						
16. Wood and Wood Products, Furniture & Fixtures	2.701	74.3	81.7	-9.1	6.8	-1.4	1.3
17. Food products	9.083	166.4	167.9	-0.9	-0.4	-1.0	-0.7
MANUFACTURING (Total)	**79.358**	**214.2**	**196.6**	**9.0**	**7.3**	**100.0**	**100.0**

P : Provisional.

Note : 1. The industry groups of manufacturing sector have been categorised according to their performance during 2004-05.

2. 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.

APPENDIX TABLE I.10 : FREQUENCY DISTRIBUTION OF GROWTH RATES OF SEVENTEEN MAJOR INDUSTRY GROUPS OF MANUFACTURING SECTOR - 2000-01 to 2004-05

(Number of years)

Industry Group	Weight	Negative	0-5 %	5-10 %	10-15 %	15+ %	5% and above (Col. 5+6+7)
1	2	3	4	5	6	7	8
1. Food products	9.08	3	0	0	2	0	2
2. Beverages, Tobacco and related products	2.38	0	1	1	2	1	4
3. Cotton textiles	5.52	3	1	1	0	0	1
4. Wool, Silk and Man-made fibre textiles	2.26	0	3	2	0	0	2
5. Jute and other Vegetable Fibre Textiles (except cotton)	0.59	2	2	1	0	0	1
6. Textile products (including wearing apparel)	2.54	1	2	0	1	1	2
7. Wood and Wood products, Furniture & Fixtures	2.70	3	1	1	0	0	1
8. Paper and Paper products and Printing, Publishing and Allied Activities	2.65	1	1	2	0	1	3
9. Leather and Leather & Fur products	1.14	2	0	2	1	0	3
10. Basic Chemicals & chemical products (except products of Petroleum & Coal)	14.00	0	2	2	1	0	3
11. Rubber, Plastic, Petroleum and Coal products	5.73	0	2	1	2	0	3
12. Non-metallic Mineral products	4.40	1	3	1	0	0	1
13. Basic Metal and Alloy Industries	7.45	0	2	3	0	0	3
14. Metal products and parts (except machinery and equipment)	2.81	1	1	2	1	0	3
15. Machinery and Equipment other than Transport Equipment	9.57	0	2	1	0	2	3
16. Transport Equipment and parts	3.98	1	1	1	1	1	3
17. Other Manufacturing Industries	2.56	0	1	2	1	1	4

Source : Based on data from the Central Statistical Organisation.

APPENDIX TABLE I.11 : USE-BASED CLASSIFICATION OF INDUSTRIAL PRODUCTION (BASE : 1993-94=100)

Industry Group	Weight	Index			Growth Rate (Per cent)					
		2004-05 P	2003-04	2002-03	2004-05 P	2003-04	2002-03	2001-02	2000-01	1999-00
1	2	3	4	5	6	7	8	9	10	11
1. Basic Goods	35.57	177.9	168.6	159.9	5.5 (21.3)	5.4 (25.0)	4.9 (27.4)	2.6 (31.5)	3.7 (24.5)	5.5 (27.5)
2. Capital Goods	9.26	228.3	201.5	177.4	13.3 (16.0)	13.6 (18.0)	10.5 (16.2)	-3.4 (-11.8)	1.8 (3.5)	6.9 (10.1)
3. Intermediate Goods	26.51	210.8	199.0	187.1	5.9 (20.2)	6.4 (25.4)	3.9 (19.3)	1.5 (16.3)	4.7 (27.2)	8.8 (37.4)
4. Consumer Goods (a+b)	28.66	224.1	200.9	187.5	11.5 (42.9)	7.1 (31.0)	7.1 (37.0)	6.0 (64.5)	8.0 (45.4)	5.7 (24.2)
a) Consumer Durables	5.36	303.3	265.4	237.8	14.3 (13.1)	11.6 (11.9)	-6.3 (-8.9)	11.5 (31.8)	14.5 (20.1)	14.1 (13.6)
b) Consumer Non-durables	23.30	205.8	186.1	175.9	10.6 (29.6)	5.8 (19.2)	12.0 (45.9)	4.1 (32.8)	5.8 (25.1)	3.2 (10.6)
IIP - General	**100.00**	**204.5**	**189.0**	**176.6**	**8.2 (100.0)**	**7.0 (100.0)**	**5.7 (100.0)**	**2.7 (100.0)**	**5.0 (100.0)**	**6.7 (100.0)**

P : Provisional.

Note : Figures in parentheses are relative contributions, computed as the ratios (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.

APPENDIX TABLE I.12 : GROWTH OF SIX INFRASTRUCTURE INDUSTRIES (BASE : 1993-94=100)

Industry	Weight	Index		Growth Rate (Per cent)				
		2004-05 P	2003-04	2004-05 P	2003-04	2002-03	2001-02	2000-01
1	2	3	4	5	6	7	8	9
1. Electricity	10.17	181.6	172.6	5.2 (42.9)	5.1 (29.6)	3.2 (23.0)	3.1 (36.6)	4.0 (28.7)
2. Coal	3.22	152.4	146.8	3.9 (8.4)	5.8 (9.1)	4.5 (10.9)	4.2 (12.5)	3.5 (6.7)
3. Finished Steel	5.13	252.1	243.1	3.7 (21.6)	9.8 (38.8)	10.1 (35.0)	3.6 (26.8)	6.4 (30.0)
4. Cement	1.99	229.5	215.3	6.6 (13.2)	6.1 (8.6)	8.8 (14.8)	7.4 (18.9)	-0.9 -(1.5)
5. Crude Petroleum	4.17	125.7	123.5	1.8 (4.3)	1.0 (1.8)	3.2 (7.2)	-1.2 -(4.6)	1.5 (3.7)
6. Petroleum Refinery Products	2.00	238.1	228.3	4.3 (9.2)	8.2 (12.2)	4.9 (8.9)	3.7 (10.6)	20.3 (31.9)
Composite Index of Infrastructure Industries #	**26.68**	**190.7**	**182.7**	**4.4 (100.0)**	**6.2 (100.0)**	**5.6 (100.0)**	**3.2 (100.0)**	**5.1 (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 I.13 : GROSS DOMESTIC SAVING AND INVESTMENT

Item	Per cent of GDP (at current market prices)			Amount in Rupees crore		
	2003-04*	2002-03@	2001-02	2003-04*	2002-03@	2001-02
1	2	3	4	5	6	7
1. Household Saving	**24.3**	**23.3**	**22.6**	**6,71,692**	**5,74,681**	**5,13,110**
of which :						
a) Financial Assets	11.4	10.3	11.2	3,14,261	2,54,439	2,53,964
b) Physical Assets	13.0	13.0	11.4	3,57,431	3,20,242	2,59,146
2. Private corporate sector	**4.1**	**3.8**	**3.6**	**1,14,157**	**94,269**	**81,076**
3. Public sector	**-0.3**	**-1.1**	**-2.7**	**-9,429**	**-26,652**	**-61,912**
4. Gross Domestic Saving	**28.1**	**26.1**	**23.4**	**7,76,420**	**6,42,298**	**5,32,274**
5. Net capital inflow	-1.8	-1.3	-0.8	-49,552	-32,010	-18,731
6. Gross Domestic Capital Formation	**26.3**	**24.8**	**22.6**	**7,26,868**	**6,10,288**	**5,13,543**
7. Errors and Omissions	3.3	2.1	0.4	91,174	52,330	9,531
8. Gross Capital Formation	**23.0**	**22.7**	**22.2**	**6,35,694**	**5,57,958**	**5,04,012**
of which :						
a) Public sector	5.6	5.4	6.2	1,54,086	1,31,966	1,40,095
b) Private corporate sector	4.5	4.3	4.6	1,24,177	1,05,750	1,04,771
c) Household sector	13.0	13.0	11.4	3,57,431	3,20,242	2,59,146

* : Quick Estimates.
@ : Provisional Estimates.
Source : Central Statistical Organisation.

APPENDIX TABLE I.14 : FINANCIAL SAVING OF THE HOUSEHOLD SECTOR (GROSS)

(Per cent)

Item	2004-05#	2003-04P	2002-03P
1	2	3	4
Financial saving (gross)	**100.0** **(13.7)**	**100.0** **(14.0)**	**100.0** **(13.1)**
a) Currency	9.2 (1.3)	10.5 (1.5)	8.9 (1.2)
b) Deposits	39.4 (5.4)	41.6 (5.8)	40.9 (5.4)
i) With banks	37.1	36.7	35.5
ii) With non-banking companies	0.4	0.9	2.7
iii) With co-operative banks & societies	2.0	4.0	2.8
iv) Trade debt (net)	0.0	0.0	-0.1
c) Shares and debentures	1.1 (0.2)	0.1 (0.0)	1.7 (0.2)
i) Private corporate business	1.4	1.1	0.8
ii) Banking	0.0	0.0	0.0
iii) Units of Unit Trust of India	-0.7	-2.2	-0.5
iv) Bonds of public sector undertakings	0.0	0.0	0.1
v) Mutual fund (other than UTI)	0.4	1.2	1.3
d) Claims on government	24.0 (3.3)	20.2 (2.8)	17.4 (2.3)
i) Investment in government securities	5.0	4.7	2.5
ii) Investment in small savings, *etc.*	19.0	15.5	14.9
e) Insurance funds	13.2 (1.8)	13.5 (1.9)	16.1 (2.1)
i) Life insurance funds	12.4	12.8	15.5
ii) Postal insurance	0.3	0.3	0.3
iii) State insurance	0.4	0.4	0.4
f) Provident and pension funds	13.2 (1.8)	14.1 (2.0)	15.0 (2.0)

P : Provisional. # : Preliminary estimates.

Notes: 1. Figures in brackets are percentage to GDP at current market prices.
2. Components may not add up to the totals due to rounding off.

APPENDIX TABLE I.15 : VARIATIONS IN RESERVE MONEY

(Amount in Rupees crore)

Item	Outstanding as on March 31, 2005	Variations							
		Financial year				April-June			
		2004-05		2003-04		2005-06		2004-05	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8	9	10
Reserve Money (C.1+C.2+C.3 = S.1+S.2+S.3+S.4+S.5-S.6)	**4,89,135**	**52,623**	**12.1**	**67,451**	**18.3**	**7,303**	**1.5**	**-6,812**	**-1.6**
Components									
C.1. Currency in Circulation	3,68,661	41,633	12.7	44,555	15.8	19,541	5.3	14,317	4.4
C.2. Bankers' Deposits with the RBI	1,13,996	9,631	9.2	21,019	25.2	-10,680	-9.4	-19,665	-18.8
of which: Scheduled Commercial Banks	1,06,659	9,343	9.6	20,273	26.3	-10,672	-10.0	-18,927	-19.4
C.3. 'Other' Deposits with the RBI	6,478	1,359	26.5	1,877	57.9	-1,558	-24.0	-1,463	-28.6
Sources									
S.1. Net RBI Credit to Government (a+b)	-17,975	-62,882		-75,772		9,275		-34,143	
a) Net RBI credit to Central Government (i-ii)	-23,258	-60,177		-76,065		14,600		-30,029	
i) Claims on Central Government	56,687	12,380	27.9	-72,209	-62.0	8,181	14.4	496	1.1
ii) Deposits of Central Government	79,945	72,558	982.2	3,856	109.2	-6,419	-8.0	30,525	413.2
b) Net RBI Credit to State Governments (i-ii)	5,283	-2,705	-33.9	293	3.8	-5,324	-100.8	-4,114	-51.5
i) Claims on State Governments	5,283	-2,705	-33.9	293	3.8	-5,283	-100.0	-4,073	-51.0
ii) Deposits of State Governments	0	0		0		41		41	
S.2. RBI's Claims on Commercial and Co-operative Banks	5,258	-161	-3.0	-1,741	-24.3	1,155	22.0	-2,813	-51.9
of which: Loans and Advances to Scheduled Commercial Banks	95	95		-102		-95		0	
S.3. RBI's Credit to Commercial Sector	1,390	-672	-32.6	-987	-32.4	0	0.0	-172	-8.3
S.4. Net Foreign Exchange Assets of the RBI	6,12,790	1,28,377	26.5	1,26,169	35.2	-14,595	-2.4	57,525	11.9
S.5. Government's Currency Liabilities to the Public	7,448	152	2.1	225	3.2	47	0.6	37	0.5
S.6. Net Non-monetary Liabilities of the RBI	1,19,776	12,191	11.3	-19,557	-15.4	-11,420	-9.5	27,245	25.3
S.7. Net Domestic Assets of the RBI (S.1+S.2+S.3+S.5-S.6)	-1,23,655	-75,754		-58,719		21,898		-64,336	

Note : Data are provisional.

APPENDIX TABLE I.16 : RESERVE BANK OF INDIA SURVEY

(Amount in Rupees crore)

Item	Outstanding as on March 31, 2005	Variations							
		Financial year				April-June			
		2004-05		2003-04		2005-06		2004-05	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8	9	10
Components									
C.I Currency in Circulation	3,68,661	41,633	12.7	44,555	15.8	19,541	5.3	14,317	4.4
C.II Bankers' Deposits with the RBI	1,13,996	9,631	9.2	21,019	25.2	-10,680	-9.4	-19,665	-18.8
C.II.1 Scheduled Commercial Banks	1,06,659	9,343	9.6	20,273	26.3	-10,672	-10.0	-18,927	-19.4
C.III 'Other' Deposits with the RBI	6,478	1,359	26.5	1,877	57.9	-1,558	-24.0	-1,463	-28.6
Reserve Money (C.I+C.II+C.III = S.I + S.II + S.III - S.IV - S.V)	**4,89,135**	**52,623**	**12.1**	**67,451**	**18.3**	**7,303**	**1.5**	**-6,812**	**-1.6**
Sources									
S.I RBI's Domestic Credit (S.I.1+S.I.2+S.I.3)	-11,327	-63,715		-78,500		10,430		-37,129	
S.I.1 Net RBI credit to the Government (S.I.1.1+S.I.1.2)	-17,975	-62,882		-75,772		9,275		-34,143	
S.I.1.1 Net RBI credit to the Central Government (S.I.1.1.1+S.I.1.1.2+S.I.1.1.3+S.I.1.1.4-S.I.1.1.5)	-23,258	-60,177		-76,065		14,600		-30,029	
S.I.1.1.1 Loans and Advances to the Central Government	0	0		0		0		3,222	
S.I.1.1.2 Investments in Treasury Bills	0	0		-3		0		0	
S.I.1.1.3 Investments in dated Government Securities	56,540	12,323	27.9	-72,227	-62.0	8,221	14.5	-2,901	-6.6
S.I.1.1.3.1 Central Government Securities	55,022	14,272	35.0	-11,796	-22.4	8,221	14.9	-2,900	-7.1
S.I.1.1.4 Rupee Coins	147	57	63.9	22	31.6	-40	-27.1	175	194.8
S.I.1.1.5 Deposits of the Central Government	79,945	72,558		3,856		-6,419		30,525	
S.I.1.2 Net RBI credit to State Governments	5,283	-2,705	-33.9	293	3.8	-5,324	-100.8	-4,114	-51.5
S.I.2 RBI's Claims on Banks	1,331	105	8.6	-143	-10.4	-93	-7.0	14	1.1
S.I.2.1 Loans and Advances to Scheduled Commercial Banks	95	95		-102		-95		0	
S.I.3 RBI's Credit to Commercial Sector	5,317	-938	-15.0	-2,585	-29.2	1,248	23.5	-2,999	-47.9
S.I.3.1 Loans and Advances to Primary Dealers	0	0		-34		0		0	
S.I.3.2 Loans and Advances to NABARD	3,927	-266	-6.4	-1,598	-27.6	1,248	31.8	-2,827	-67.4
S.II Government's Currency Liabilities to the Public	7,448	152	2.1	225	3.2	47	0.6	37	0.5
S.III Net Foreign Exchange Assets of the RBI	6,12,790	1,28,377	26.5	1,26,169	35.2	-14,595	-2.4	57,525	11.9
S.III.1 Gold	19,686	1471	8.1	1,431	8.5	-567	-2.9	-112	-0.6
S.III.2 Foreign Currency Assets	5,93,121	1,26,907	27.2	1,24,739	36.5	-14,028	-2.4	57,636	12.4
S.IV Capital Account	1,18,517	14,461	13.9	-7,588	-6.8	-19,637	-16.6	24,326	23.4
S.V Other Items (net)	1,259	-2,270		-11,969		8,217		2,919	

Note : Data are provisional.

APPENDIX TABLE I.17 : VARIATIONS IN MONEY STOCK

(Amount in Rupees crore)

Item	Outstanding as on March 31, 2005	Variations							
		2004-05		2003-04		April-June			
						2005-06		2004-05	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8	9	10
Broad Money (M_3) (C.1+C.2+C.3 = S.1+S.2+S.3+S.4-S.5)	**22,53,938 (22,50,369)**	**2,48,262 (2,44,693)**	**12.4 (12.2)**	**2,87,716**	**16.7**	**1,05,850**	**4.7**	**69,831**	**3.5**
Components									
C.1. Currency with the Public	3,55,768	40,797	13.0	43,390	16.0	19,671	5.5	14,540	4.6
C.2. Aggregate Deposits with Banks (a+b)	18,91,692	2,06,106	12.2	2,42,450	16.8	87,737	4.6	56,754	3.4
a) Demand Deposits	2,84,017	25,391	9.8	59,869	30.1	11,401	4.0	-14,038	-5.4
b) Time Deposits	16,07,675 (16,04,106)	1,80,716 (1,77,147)	12.7 (12.4)	1,82,581	14.7	76,337	4.7	70,792	5.0
C.3. 'Other' Deposits with the RBI	6,478	1,359	26.5	1,877	57.9	-1,558	-24.0	-1,463	-28.6
Narrow Money (M_1)[C.1+C.2(a)+C.3]	**6,46,263**	**67,547**	**11.7**	**1,05,135**	**22.2**	**29,514**	**4.6**	**-961**	**-0.2**
Sources									
S.1. Net Bank Credit to Government (A+B)	7,57,906 (7,45,713)	15,002 (2,809)	2.0 (0.4)	66,381	9.8	6,980	0.9	12,986	1.7
A. Net RBI Credit to Government (a+b)	-17,975	-62,882		-75,772		9,275		-34,143	
a. Net RBI Credit to Central Government	-23,258	-60,177		-76,065		14,600		-30,029	
b. Net RBI Credit to State Governments	5,283	-2,705	-33.9	293	3.8	-5,324	-100.8	-4,114	-51.5
B. Other Banks' Credit to Government	7,75,880	77,884	11.2	1,42,153	25.6	-2,295	-0.3	47,129	6.8
S.2. Bank Credit to Commercial Sector (a+b)	12,80,540 (12,47,858)	2,64,389 (2,31,707)	26.0 (22.8)	1,17,170	13.0	64,221	5.0	38,057	3.7
a) RBI's Credit to Commercial Sector	1,390	-672	-32.6	-987	-32.4	0	0.0	-172	-8.3
b) Other Banks' Credit to Commercial Sector	12,79,150	2,65,061	26.1	1,18,157	13.2	64,221	5.0	38,229	3.8
S.3. Net Foreign Exchange Assets of Banking Sector (a+b)	6,49,255	1,22,669	23.3	1,32,872	33.7	-14,595	-2.2	49,206	9.3
a) RBI's Net Foreign Exchange Assets	6,12,790	1,28,377	26.5	1,26,169	35.2	-14,595	-2.4	57,525	11.9
b) Other Banks' Net Foreign Exchange Assets	36,465	-5,709	-13.5	6,702	18.9			-8,319	-19.7
S.4. Government's Currency Liabilities to the Public	7,448	152	2.1	225	3.2	47	0.6	37	0.5
S.5. Banking Sector's Net Non-Monetary Liabilities (a+b)	4,41,210	1,53,949	53.6	28,931	11.2	-49,196	-11.2	30,454	10.6
a) Net Non-Monetary Liabilities of RBI	1,19,776	12,191	11.3	-19,557	-15.4	-11,420	-9.5	27,245	25.3
b) Net Non-Monetary Liabilities of Other Banks (residual)	3,21,434	1,41,758	78.9	48,488	37.0	-37,776	-11.8	3,209	1.8
Memo Items : Select Monetary Ratios									
1. M_3 Multiplier	4.6								
2. Bank Reserves to Aggregate Deposits Ratio	6.7								
3. Currency to Aggregate Deposits Ratio	18.8								

Note : 1. Data provisional.

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).

3 Time deposits and broad money include India Millenniun Deposits (IMDs) worth Rs.25,662 crore since November 17, 2000 and the impact of redemption of Resurgent India Bonds (RIBs) of Rs. 22,693 crore since October 1, 2003.

4. Figures in parentheses exclude the impact of conversion of a non-banking entity into banking entity from October 11, 2004.

APPENDIX TABLE I.18 : NEW MONETARY AGGREGATES

(Amount in Rupees crore)

Item	Outstanding as on March 31, 2005	Variations							
		Financial year				April-June			
		2004-05		2003-04		2005-06		2004-05	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8	9	10
Monetary Aggregates									
M_1 (C.I+C.II.1+C.III)	6,51,440	73,612	12.7	1,04,359	22.0	29,311	4.5	6,572	1.1
NM_2 (M_1+C.II.2.1)	13,37,555	1,48,768	12.5	1,95,372	19.7	63,575	4.8	32,466	2.7
NM_3 (NM_2+C.II.2.2+C.IV = S.I+S.II+S.III-S.IV-S.V)	**22,45,663 (22,06,919)**	**2,85,478 (2,46,733)**	**14.6 (12.6)**	**3,18,644**	**19.4**	**1,06,095**	**4.7**	**69,523**	**3.5**
Components									
C.I Currency with the Public	3,55,755	40,994	13.0	43,250	15.9	19,668	5.5	14,701	4.7
C.II Aggregate Deposits of Residents (C.II.1+C.II.2)	18,13,907	1,98,271	12.3	2,61,485	19.3	87,343	4.8	50,876	3.1
C.II.1 Demand Deposits	2,89,206	31,259	12.1	59,232	29.8	11,201	3.9	-6,665	-2.6
C.II.2 Time Deposits of Residents (C.II.2.1+C.II.2.2)	15,24,700 (15,21,131)	1,67,012 (1,63,443)	12.3 (12.0)	2,02,253	17.5	76,142	5.0	57,542	4.2
C.II.2.1 Short-term Time Deposits	6,86,115	75,155	12.3	91,014	17.5	34,264	5.0	25,894	4.2
C.II.2.1.1 Certificates of Deposits (CDs)	13,112	6,201		6,177		5,756		-937	
C.II.2.2 Long-term Time Deposits	8,38,585	91,857	12.3	1,11,239	17.5	41,878	5.0	31,648	4.2
C.III 'Other' Deposits with the RBI	6,478	1,359	26.5	1,877	57.9	-1,558	-24.0	-1,463	-28.6
C.IV Call/Term Funding from Financial Institutions	69,523 (34,348)	44,853 (9,678)	181.8 (39.2)	12,032	95.2	643	0.9	5,409	21.9
Sources									
S.I Domestic Credit (S.I.1+S.I.2)	21,85,234	2,66,634	13.9	1,86,553	10.8	74,481	3.4	29,863	1.6
S.I.1 Net Bank Credit to the Government (S.I.1.1+S.I.1.2)	7,49,795 (7,37,602)	4,947 (-7,246)	0.7 (-1.0)	67,895	10.0	6,999	0.9	7004	0.9
S.I.1.1 Net RBI credit to the Government	-17,975	-62,882		-75,772		9,275		-34,143	
S.I.1.2 Credit to the Government by the Banking System	7,67,769	67,829	9.7	1,43,667	25.8	-2,277	-0.3	41,147	5.9
S.I.2 Bank Credit to the Commercial Sector (S.I.2.1+S.I.2.2)	14,35,439 (14,02,757)	2,61,688 (2,29,006)	22.3 (19.5)	1,18,658	11.2	67,482	4.7	22,859	1.9
S.I.2.1 RBI Credit to the Commercial Sector	5,317	-938	-15.0	-2,585	-29.2	1,248	23.5	-2,999	-47.9
S.I.2.2 Credit to the Commercial Sector by the Banking System	14,30,122	2,62,626	22.5	1,21,243	11.6	66,234	4.6	25,858	2.2
S.I.2.2.1 Other Investments (Non-SLR Securities)	1,55,339	5,384	3.6	8,279	5.8	-5,000	-3.2	-4,654	-3.1
S.II Government's Currency Liabilities to the Public	7,448	152	2.1	225	3.2	47	0.6	37	0.5
S.III Net Foreign Exchange Assets of the Banking Sector (S.III.1+S.III.2)	5,36,810	1,10,751	26.0	1,36,535	47.2	-16,655	-3.1	50,819	11.9
S.III.1 Net Foreign Exchange Assets of the RBI	6,12,790	1,28,377	26.5	1,26,169	35.2	-14,595	-2.4	57,525	11.9
S.III.2 Net Foreign Currency Assets of the Banking System	-75,980	-17,626		10,366		-2,060		-6,706	
S.IV Capital Account	**2,76,376**	**43,534**	**18.7**	**10,010**	**4.5**	**2,803**	**1.0**	**39,149**	**16.8**
S.V Other items (net)	**2,07,452**	**48,527**	**30.5**	**-5,341**	**-3.3**	**-51,025**	**-24.6**	**-27,953**	**-17.6**

Note 1. Data provisional.
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).
3. Time deposits and broad money include India Millenniun Deposits (IMDs) worth Rs.25,662 crore since November 17, 2000 and the impact of redemption of Resurgent India Bonds (RIBs) of Rs. 22,693 crore since October 1, 2003.
4. Figures in parentheses exclude the impact of conversion of a non-banking entity into banking entity from October 11, 2004.

APPENDIX TABLE I.19 : LIQUIDITY AGGREGATES (OUTSTANDING AMOUNTS)

(Rupees crore)

Month	NM_3	Postal Deposits	L_1	Liabilities of Financial Institutions				L_2	Public Deposits with NBFCs	L_3
				Term Money Borrowings	CDs	Term Deposits	Total			
1	2	3	4	5	6	7	8	**9**	10	**11**
2003-04										
April	16,91,097	55,841	**17,46,938**	2,228	189	3845	6,262	**17,53,200**		
May	17,10,126	56,913	**17,67,039**	2,179	189	3722	6,090	**17,73,129**		
June	17,22,498	58,336	**17,80,834**	2,351	374	3898	6,623	**17,87,457**	19,954	**18,07,411**
July	17,30,591	60,026	**17,90,617**	1,752	368	4205	6,325	**17,96,942**		
August	17,44,016	61,181	**18,05,197**	1,769	366	4184	6,319	**18,11,516**		
September	17,56,834	62,264	**18,19,098**	1,347	363	4320	6,030	**18,25,128**	20,368	**18,45,496**
October	18,10,444	63,648	**18,74,092**	1,269	361	4150	5,780	**18,79,871**		
November	18,32,925	64,945	**18,97,870**	1,364	356	4408	6,128	**19,03,998**		
December	18,45,958	66,511	**19,12,469**	1,675	449	4388	6,512	**19,18,981**	20,301	**19,39,281**
January	18,61,833	68,122	**19,29,955**	1,792	446	4379	6,617	**19,36,572**		
February	19,09,330	69,193	**19,78,523**	2,131	445	4286	6,862	**19,85,385**		
March	19,60,186	71,388	**20,31,574**	1,696	560	3989	6,245	**20,37,819**	19,722	**20,57,541**
2004-05										
April	20,15,525	72,445	**20,87,970**	1,653	609	3582	5,844	**20,93,814**		
May	20,19,707	73,880	**20,93,587**	1,726	583	3447	5,756	**20,99,343**		
June	20,29,709	75,446	**21,05,155**	1,659	930	3873	6,462	**21,11,617**	19,224	**21,30,841**
July	20,39,266	76,941	**21,16,207**	1,476	905	3867	6,248	**21,22,455**		
August	20,57,376	78,361	**21,35,737**	3,081	231	3517	6,829	**21,42,566**		
September	20,51,664	79,668	**21,31,332**	3,026	231	3538	6,795	**21,38,127**	19,244	**21,57,371**
October	21,26,968	81,000	**22,07,968**	1,427	85	289	1,801	**22,09,769**		
November	21,33,694	82,114	**22,15,808**	1,191	85	258	1,534	**22,17,342**		
December	21,42,472	83,647	**22,26,119**	1,564	85	248	1,897	**22,28,016**	19,898	**22,47,914**
January	21,70,139	84,808	**22,54,947**	1,421	85	247	1,753	**22,56,700**		
February	22,12,485	85,868	**22,98,353**	1,319	85	247	1,651	**23,00,004**		
March	22,45,663	88,647	**23,34,310**	1,319	85	247	1,651	**23,35,961**	19,840	**23,55,802**
2005-06										
April	23,41,244	89,718	**24,30,962**	1,319	85	247	1,651	**24,32,613**		
May	23,43,969	91,306	**24,35,275**	1,319	85	247	1,651	**24,36,926**		
June	23,51,759	92,870	**24,44,625**	1,319	85	247	1,651	**24,46,280**	19,840	**24,66,120**

CDs : Certificates of Deposit; L_1, L_2, L_3, : Liquidity Aggregates; NBFCs : Non- Banking Financial Companies.

Notes:
1. Figures are provisional.
2. The methodology of compilation of the liquidity aggregates is available in the "New Monetary and Liquidity Aggregates" RBI Bulletin, November 2000, which also presented the Liquidity Series from April 1993 onwards.The acronym NM_3 is used to distinguish the new monetary aggregate as proposed by the Working Group from the existing monetary aggregates.
3. Postal Deposits comprise post office savings bank deposits, post office time deposits, post office recurring deposits, other deposits and post office cumulative time deposits.
4. Financial Institutions (FIs), here, comprise IFCI, EXIM Bank, IIBI, SIDBI, NABARD, NHB, TFCI and IDFC. Since October 2004, data on FI's do not include that of IDBI reflecting its conversion into a banking entity.
5. Since July 2001, the term money borrowings of the FIs comprise borrowings from corporate and others.
6. Since August 2002,Term Deposits include CP and Others.
7. Estimates of public deposits are generated on the basis of returns received from all NBFCs with public deposits of Rs. 20 crore and more as had been recommended by the Working Group.
8. While L_1 and L_2 are compiled on a monthly basis, L_3 is compiled on a quarterly basis.
9. Wherever data are not available, the estimates for the last available month have been repeated.

APPENDIX TABLE I.20 : IMPORTANT BANKING INDICATORS - SCHEDULED COMMERCIAL BANKS

(Amount in Rupees crore)

Item	Outstanding as on March 18, 2005	Variations							
		Financial year				April-June			
		2004-05		2003-04		2005-06 P		2004-05	
		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)	**20,29,530**	**2,97,873**	**17.2**	**2,46,013**	**16.6**	**63,696**	**3.1**	**61,680**	**3.6**
2. Aggregate Deposits (a+b)	**17,00,198 (16,96,629)**	**1,95,782 (1,92,213)**	**13.0 (12.8)**	**2,23,563**	**17.5**	**89,665**	**5.3**	**58,004**	**3.9**
a. Demand deposits	2,48,028	23,005	10.2	54,733	32.1	12,085	4.9	-12,155	-5.4
b. Time deposits	14,52,171 (14,48,602)	1,72,777 (1,69,208)	13.5 (13.2)	1,68,830	15.2	77,581	5.3	70,159	5.5
3. Other Borrowings #	69,523	44,853	181.8	12,032	95.2	643	0.9	5,409	21.9
4. Other Demand and Time Liabilities	1,92,760	44,676	30.2	18,278	14.1	-39,180	-20.3	-4,470	-3.0
5. Borrowings from the RBI	50	50		-79	-100.0	-50	-100.0	0	
6. Inter-bank Liabilities	67,049	12,562	23.1	-7,859	-12.6	12,568	18.7	2,738	5.0
7. Bank Credit (a+b)	**11,00,428 (10,67,746)**	**2,59,643 (2,26,961)**	**30.9 (27.0)**	**1,11,570**	**15.3**	**60,958**	**5.5**	**38,085**	**4.5**
a. Food Credit	41,121	5,159	14.3	-13,518	-27.3	3,683	9.0	7,100	19.7
b. Non-food Credit	10,59,308 (10,26,626)	2,54,484 (2,21,802)	31.6 (27.6)	1,25,088	18.4	57,275	5.4	30,985	3.8
8. Investments (a+b)	**7,39,154 (7,26,961)**	**61,566 (49,373)**	**9.1 (7.3)**	**1,30,042**	**23.8**	**925**	**0.1**	**39,871**	**5.9**
a. Government Securities	7,18,982 (7,06,789)	64,224 (52,031)	9.8 (7.9)	1,31,341	25.1	-3,875	-0.5	40,056	6.1
b. Other Approved Securities	20,172	-2,658	-11.6	-1,299	-5.4	4,800	23.8	-184	-0.8
9. Cash in hand	8,472	574	7.3	331	4.4	1,258	14.9	1,001	12.7
10. Balances with the RBI	88,105	19,108	27.7	10,662	18.3	7,881	8.9	9,391	13.6
11. Inter-Bank Assets	51,297	3,118	6.5	-10,840	-18.4	6,439	12.6	1,581	3.3
12. Credit-Deposit Ratio (per cent)	64.7		132.6		49.9		68.0		65.7
13. Non-food Credit-Deposit Ratio (per cent)	62.3		130.0		56.0		63.9		53.4
14. Investment-Deposit Ratio (per cent)	43.5		31.4		58.2		1.0		68.7

P : Provisional.

: Other than from the Reserve Bank/IDBI/NABARD/EXIM Bank.

Note : 1. Data are revised in line with the new accounting standards and are consistent with the methodology suggested by the Working Group on Money Supply: Analytics and Methodoloy 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.

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

APPENDIX TABLE I.21 : COMMERCIAL BANK SURVEY

(Amount in Rupees crore)

Item	Outstanding as on March 18, 2005	Variations							
		Financial year				April-June			
		2004-05		2003-04		2005-06		2004-05	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8	9	10
Components									
C.I Aggregate Deposits of Residents (C.I.1+C.I.2)	16,23,793	1,94,980	13.6	2,40,465	20.2	90,159	5.6	57,050	4.0
C.I.1 Demand Deposits	2,48,028	23,005	10.2	54,733	32.1	12,085	4.9	-12,155	-5.4
C.I.2 Time Deposits of Residents	13,75,766	1,71,975	14.3	1,85,732	18.2	78,074	5.7	69,206	5.7
(C.I.2.1+C.I.2.2)	(13,72,197)	(1,68,406)	(14.0)						
C.I.2.1 Short-term Time Deposits	6,19,095	77,389	14.3	83,579	18.2	35,133	5.7	31,142	5.7
C.I.2.1.1 Certificates of Deposits (CDs)	13,112	6,201		6,177		5,756		-937	
C.I.2.2 Long-term Time Deposits	7,56,671	94,586	14.3	1,02,153	18.2	42,941	5.7	38,063	5.7
C.II Call/Term Funding from Financial Institutions	69,523	44,853	181.8	12,032	95.2	643	0.9	5,409	21.9
	(34,348)	(9,678)	(39.2)						
Sources									
S.I Domestic Credit (S.I.1+S.I.2)	19,87,406	3,26,410	19.7	2,46,995	17.5	64,348	3.2	72,940	4.4
S.I.1 Credit to the Government	7,18,982	64,224	9.8	1,31,341	25.1	-3,875	-0.5	40,056	6.1
	(7,06,789)	(52,031)	(7.9)						
S.I.2 Credit to the Commercial Sector	12,68,425	2,62,186	26.1	1,15,654	13.0	68,223	5.4	32,884	3.3
(S.I.2.1+S.I.2.2+S.I.2.3+S.I.2.4)	(12,35,743)	(2,29,504)	(22.8)						
S.I.2.1 Bank Credit	11,00,428	2,59,643	30.9	1,11,570	15.3	60,958	5.5	38,085	4.5
S.I.2.2 Net Credit to Primary Dealers	1,447	-499		-3,219		7,466		-678	
S.I.2.3 Investments in Other Approved Securities	20,172	-2,658	-11.6	-1,299	-5.4	4,800	23.8	-184	-0.8
S.I.2.4 Other Investments (in non-SLR Securities)	1,46,377	5,699	4.1	8,602	6.5	-5,000	-3.4	-4,339	-3.1
S.II Net Foreign Currency Assets of Commercial Banks (S.II.1-S.II.2-S.II.3)	-75,980	-17,626		10,366		-2,060		-6,706	
S.II.1 Foreign Currency Assets	26,091	-8,295	-24.1	3,247	10.4	-766	-2.9	-2,741	-8.0
S.II.2 Non-resident Foreign Currency Repatriable Fixed Deposits	76,405	802	1.1	-16,902	-18.3	-494	-0.6	953	1.3
S.II.3 Overseas Foreign Currency Borrowings	25,666	8,529	49.8	9,784	133.1	1,788	7.0	3,012	17.6
S.III Net Bank Reserves (S.III.1+S.III.2-S.III.3)	96,527	19,632	25.5	11,072	16.8	9,189	9.5	10,392	13.5
S.III.1 Balances with the RBI	88,105	19,108	27.7	10,662	18.3	7,881	8.9	9,391	13.6
S.III.2 Cash in Hand	8,472	574	7.3	331	4.4	1,258	14.9	1,001	12.7
S.III.3 Loans and Advances from the RBI	50	50		-79	-100.0	-50	-100.0	0	
S.IV Capital Account	1,33,688	29,135	27.9	16,723	19.0	22,440	16.8	14,884	14.2
S.V. Other items (net) (S.I+S.II+S.III-S.IV-C.I-C.II)	1,80,949	59,448	48.9	-787	-0.6	-41,765	-23.1	-717	-0.6
S.V.1 Other Demand & Time Liabilities (net of S.II.3)	1,67,094	36,146	27.6	8,494	6.9	-40,968	-24.5	-7,482	-5.7
S.V.2 Net Inter-Bank Liabilities (other than to PDs)	17,199	8,945	108.4	-238	-2.8	13,594	79.0	479	5.8

Note
1. Data provisional.
2. Time deposits and broad money include India Millenniun Deposits (IMDs) worth Rs.25,662 crore since November 17, 2000 and the impact of redemption of Resurgent India Bonds (RIBs) of Rs. 22,693 crore since October 1, 2003.
3. Figures in parentheses exclude the impact of conversion of a non-banking entity into banking entity from October 11, 2004.

APPENDIX TABLE I.22 : SECTORAL DEPLOYMENT OF GROSS BANK CREDIT

(Amount in Rupees crore)

Sector	Outstanding as on			Variations	
	March 18, 2005	March 19, 2004	March 21, 2003	2004-05	2003-04
1	2	3	4	5	6
I. Gross Bank Credit (1+2)	**9,72,587**	**7,64,383**	**6,69,534**	**2,08,204**	**94,849**
1. Public Food Procurement Credit	41,121	35,961	49,479	5,160	-13,518
2. Non-food Gross Bank Credit	9,31,466	7,28,422	6,20,055	2,03,044 (100.0)	1,08,367 (100.0)
A. Priority Sectors #	3,45,627	2,63,834	2,11,609	81,793 (40.3)	52,225 (48.2)
i) Agriculture	1,22,370	90,541	73,518	31,829 (15.7)	17,023 (15.7)
ii) Small Scale Industries	76,114	65,855	60,394	10,259 (5.1)	5,461 (5.0)
iii) Other Priority Sectors	1,47,143	1,07,438	77,697	39,705 (19.6)	29,741 (27.4)
B. Industry (Medium and Large)	2,90,186	2,47,210	2,35,168	42,976 (21.2)	12,042 (11.1)
C. Wholesale Trade (other than food procurement)	33,814	24,867	22,578	8,947 (4.4)	2,289 (2.1)
D. Other Sectors	2,61,839	1,92,511	1,50,700	69,328 (34.1)	41,811 (38.6)
of which :					
i) Housing	75,173	51,981	36,587	23,192	15,394
ii) Consumer Durables	8,655	8,274	7,219	381	1,055
iii) Non-Banking Financial Companies	18,610	16,802	14,127	1,808	2,675
iv) Loans to Individuals against Shares and Debentures/Bonds	2,390	2,020	2,001	370	19
v) Real Estate Loans	10,612	5,577	5,894	5,035	-317
vi) Other Non-Priority Sector Personal Loans	58,812	35,165	27,905	23,647	7,260
vii) Advances against Fixed Deposits	29,310	26,346	22,708	2,964	3,638
viii) Tourism and Tourism Related Hotels	3,455	3,269	2,428	186	841
II. Export Credit [included under item I(2)]	**65,914**	**57,687**	**49,202**	**8,227 (4.1)**	**8,485 (7.8)**
III. Net Bank Credit (including inter-bank participations)	**9,71,809**	**7,63,855**	**6,68,576**	**2,07,954**	**95,279**

: The data in this statement may not match with those quoted elsewhere in the report due to differences in the data source.

Note :
1. Data are provisional and relate to select scheduled commercial banks which account for about 90 per cent of bank credit of all scheduled commercial banks.
2. Gross bank credit data include bills rediscounted with the Reserve Bank, IDBI, EXIM Bank, other approved financial institutions and inter-bank participations.
3. Net bank credit data are exclusive of bills rediscounted with the Reserve Bank, IDBI, EXIM Bank and other approved financial institutions
4. Figures in parentheses are proportions to incremental non-food gross bank credit.

APPENDIX TABLE I.23 : INDUSTRY-WISE DEPLOYMENT OF GROSS BANK CREDIT

(Amount in Rupees crore)

Industry	Outstanding as on			Variations	
	March 18, 2005	March 19, 2004	March 21, 2003	2004-05	2003-04
1	2	3	4	5	6
Industry (Small, Medium and Large)	**3,66,300**	**3,13,065**	**2,95,562**	**53,235**	**17,503**
1 . Coal	987	1,165	1,334	-178	-169
2 . Mining	1,791	1,635	1,769	156	-134
3 . Iron and Steel	29,025	26,295	28,065	2,730	-1,770
4 . Other Metals & Metal Products	9,596	8,168	8,556	1,428	-388
5 . All Engineering	26,370	26,348	26,272	22	76
of which: Electronics	8,769	8,421	7,831	348	590
6 . Electricity	15,991	14,090	11,173	1,901	2,917
7 . Cotton Textiles	20,011	17,166	15,762	2,845	1,404
8 . Jute Textiles	850	1,051	860	-201	191
9 . Other Textiles	17,695	15,941	15,075	1,754	866
10. Sugar	6,030	6,363	5,726	-333	637
11. Tea	1,355	1,222	1,052	133	170
12. Food Processing	11,413	9,872	8,577	1,541	1,295
13. Vegetable Oils (including *vanaspati)*	3,455	3,219	2,919	236	300
14. Tobacco & Tobacco Products	802	891	756	-89	135
15. Paper and Paper Products	5,767	5,990	5,049	-223	941
16. Rubber and Rubber Products	3,161	2,593	2,662	568	-69
17. Chemicals, Dyes, Paints, *etc.*	31,889	30,629	31,805	1,260	-1,176
of which:					
i) Fertilisers	6,188	6,249	6,923	-61	-674
ii) Petro-Chemicals	6,048	7,221	7,735	-1,173	-514
iii) Drugs and Pharmaceuticals	10,674	8,667	7,892	2,007	775
18. Cement	6,112	5,689	6,431	423	-742
19. Leather and Leather Products	3,099	3,167	2,940	-68	227
20. Gems and Jewellery	12,123	9,178	7,533	2,945	1,645
21. Construction	7,963	5,978	4,891	1,985	1,087
22. Petroleum	14,618	12,266	14,743	2,352	-2,477
24. Automobiles including trucks	6,363	5,302	5,629	1,061	-327
25. Computer Software	2,367	3,029	2,611	-662	418
26. Infrastructure	56,709	37,224	26,297	19,485	10,927
i) Power	26,973	19,655	15,042	7,318	4,613
ii) Telecommunications	12,956	8,408	5,779	4,548	2,629
iii) Roads and Ports	16,780	9,161	5,476	7,619	3,685
27. Other Industries	70,758	58,594	57,075	12,164	1,519

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

APPENDIX TABLE I.24 : RESERVE BANK'S ACCOMMODATION TO SCHEDULED COMMERCIAL BANKS

(Amount in Rupees crore)

Item	2005-06	2004-05				2003-04
	May	March	December	September	June	March
1	2	3	4	5	6	7
1. Export Credit Refinance						
A) Limit	4,915	4,951	4,614	4,460	4,464	4,664
a) Normal	–	–	–	–	–	1,553
b) Backstop	–	–	–	–	–	3,111
B) Outstanding	774	50	601	3	–	0
a) Normal	–	–	–	–	–	0
b) Backstop	–	–	–	–	–	0
Memo Items :						
1. Aggregate Export Credit $	70,911	69,389	66,712	64,582	62,956	59,744
2. Export Credit eligible for Refinance	32,766	33,007	30,761	29,733	29,812	31,101
3. Aggregate Export Credit as percentage of Net Bank Credit	6.1	6.3	6.4	7.0	7.1	7.1

$: Inclusive of Rupee export credit, pre-shipment credit in foreign currency (PCFC), rediscounting of export bills abroad (EBR) and overdue export credit.

Note : 1. Data pertain to the last reporting Friday of the month.

2. Effective April 1, 2002, ECR facility is being provided to the banks to the extent of 15 per cent of the outstanding export credit eligible for refinance as at the end of second preceding fortnight. Apportionment of normal and back-stop under ECR facility which was changed from initial ratio of two-third to one-third (i.e., 67:33) to one half (50:50) each effective from November 16, 2002 was further changed to one-third to two-third (33:67). Effective March 29, 2004, normal and back-stop facilities merged into single facility.

APPENDIX TABLE I.25 : 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	
		2004-05	2003-04	2004-05	2003-04	2005-06 P	2004-05
1	2	3	4	5	6	7	8
All Commodities	**100.000**	**5.1**	**4.6**	**6.4**	**5.4**	**4.1**	**7.0**
I. Primary Articles	**22.025**	**1.3**	**1.6**	**3.7**	**4.3**	**0.7**	**2.1**
1. Food articles	15.402	3.0	0.2	2.7	1.2	3.9	-0.9
a) Cereals	4.406	2.9	-0.3	0.9	1.6	4.8	-1.9
i) Rice	2.449	2.9	-2.0	-0.4	1.7	4.3	-2.7
ii) Wheat	1.384	-1.1	6.1	1.4	3.2	3.4	1.3
b) Pulses	0.603	-2.6	-2.6	-1.2	-2.2	5.9	-3.4
c) Fruits and vegetables	2.917	11.6	-4.9	4.4	2.6	10.5	-9.1
d) Milk	4.367	-1.7	8.4	4.3	2.5	0.3	6.7
e) Eggs, fish and meat	2.208	7.3	-6.5	4.1	-3.6	5.2	1.2
f) Condiments and spices	0.662	-12.8	0.2	-8.2	5.6	-13.3	-5.2
g) Other food articles	0.239	22.1	-5.9	19.1	-4.2	-3.9	14.7
i) Tea	0.157	12.2	-2.5	21.0	-8.0	-13.0	18.9
ii) Coffee	0.082	43.2	-12.5	14.9	5.0	18.7	5.6
2. Non-food articles	6.138	-6.9	4.1	0.8	12.4	-5.8	2.7
a) Fibres	1.523	-19.2	12.3	-6.0	23.3	-17.9	4.1
Raw cotton	1.357	-23.8	12.3	-8.2	26.8	-21.6	3.8
b) Oilseeds	2.666	-6.5	-1.2	1.7	10.8	-4.9	-1.4
3. Minerals	0.485	68.0	25.3	110.0	2.1	-11.5	134.9
II. Fuel, Power, Light and Lubricants	**14.226**	**10.5**	**2.5**	**10.1**	**6.3**	**9.8**	**12.0**
1. Coking coal	0.241	26.9	8.8	23.0	6.6	2.8	34.3
2. Mineral oils	6.990	16.0	0.0	15.0	7.5	14.0	16.0
3. Electricity	5.484	0.8	4.9	1.7	4.5	5.9	2.8
III. Manufactured Products	**63.749**	**4.6**	**6.7**	**6.2**	**5.6**	**3.5**	**7.2**
1. Sugar, *Khandsari* and *Gur*	3.929	17.5	14.5	17.2	3.5	11.1	18.5
i) Sugar	3.619	19.7	16.9	19.1	0.7	12.5	20.6
ii) *Khandsari*	0.173	30.2	14.0	26.0	-2.2	23.5	26.1
iii) *Gur*	0.060	31.2	15.5	41.9	-5.0	13.1	45.6
2. Edible oils	2.755	-8.4	6.6	-0.9	14.3	-6.3	-0.3
3. Cotton textiles	4.215	-12.7	15.6	1.1	12.1	-11.3	10.9
4. Chemicals and chemical products	11.931	3.9	0.1	2.5	1.9	3.8	2.0
5. Cement	1.731	10.2	1.3	3.8	1.2	7.0	4.0
6. Iron and steel	3.637	21.3	34.6	28.4	26.2	9.2	43.8
7. Machinery and tools	8.363	7.1	3.1	5.7	1.8	7.4	2.6
8. Transport equipments and parts	4.295	6.2	1.4	4.6	-0.1	5.6	2.9

P : Provisional.

APPENDIX TABLE I.26 : 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	
		2004-05	2003-04	2004-05	2003-04	2005-06 P	2004-05
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**	**5.5**	**8.0**	**13.1**	**18.1**	**3.7**	**7.1**
1. Food articles	15.402	8.9	0.6	6.7	3.8	14.6	-2.0
a) Cereals	4.406	2.4	-0.3	0.6	1.4	4.8	-1.2
i) Rice	2.449	1.3	-1.0	-0.2	0.8	2.3	-0.9
ii) Wheat	1.384	-0.3	1.9	0.3	0.9	1.1	0.3
b) Pulses	0.603	-0.3	-0.3	-0.1	-0.3	0.8	-0.3
c) Fruits and vegetables	2.917	6.4	-3.3	2.2	1.6	8.2	-5.0
d) Milk	4.367	-1.5	7.9	2.9	2.1	0.3	4.2
e) Eggs, fish and meat	2.208	3.1	-3.4	1.5	-1.7	3.0	0.4
f) Condiments and spices	0.662	-1.8	0.0	-1.0	0.8	-2.3	-0.6
g) Other food articles	0.239	0.6	-0.2	0.4	-0.1	-0.2	0.3
i) Tea	0.157	0.2	-0.1	0.3	-0.2	-0.4	0.3
ii) Coffee	0.082	0.3	-0.1	0.1	0.0	0.2	0.0
2. Non-food articles	6.138	-8.8	5.8	0.8	14.0	-8.8	2.5
a) Fibres	1.523	-5.8	3.8	-1.4	5.7	-6.4	0.9
Raw cotton	1.357	-6.5	3.4	-1.8	5.8	-7.0	0.8
b) Oilseeds	2.666	-3.4	-0.7	0.7	5.2	-3.1	-0.6
3. Minerals	0.485	5.3	1.8	5.7	0.1	-2.0	6.5
II. Fuel, Power, Light and Lubricants	**14.226**	**42.7**	**11.6**	**32.2**	**23.7**	**49.7**	**34.7**
1. Coking coal	0.241	1.3	0.5	0.9	0.3	0.2	1.2
2. Mineral oils	6.990	34.9	-0.1	25.4	14.9	38.8	24.3
3. Electricity	5.484	1.2	8.1	2.0	6.6	10.7	3.2
III. Manufactured Products	**63.749**	**52.0**	**80.5**	**54.7**	**58.8**	**47.2**	**58.5**
1. Sugar, *Khandsari* and *Gur*	3.929	11.1	9.2	8.3	2.1	8.9	7.9
i) Sugar	3.619	10.3	8.7	7.6	0.4	8.3	7.2
ii) *Khandsari*	0.173	0.8	0.4	0.5	-0.1	0.8	0.5
iii) *Gur*	0.060	0.3	0.1	0.3	0.0	0.2	0.3
2. Edible oils	2.755	-4.0	3.4	-0.4	6.0	-3.5	-0.1
3. Cotton textiles	4.215	-10.4	12.8	0.7	8.4	-10.9	6.1
4. Chemicals and chemical products	11.931	9.1	0.3	4.6	4.4	10.5	3.5
5. Cement	1.731	2.9	0.4	0.9	0.3	2.4	0.8
6. Iron and steel	3.637	17.0	23.6	16.5	15.2	10.2	21.5
7. Machinery and tools	8.363	8.6	4.3	5.6	2.2	11.0	2.4
8. Transport equipments and parts	4.295	4.3	1.1	2.6	0.0	4.7	1.5

P : Provisional.

APPENDIX TABLE I.27 : 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
1999-00	6.5 (3.3)	4.8 (3.4)	5.0 (4.5)	3.4 (4.4)
2000-01	4.9 (7.2)	2.5 (3.8)	5.6 (5.6)	-2.0 (-0.3)
2001-02	1.6 (3.6)	5.2 (4.3)	4.8 (5.1)	3.0 (1.1)
2002-03	6.5 (3.4)	4.1 (4.0)	3.8 (3.8)	4.9 (3.2)
2003-04	4.6 (5.4)	3.5 (3.9)	3.4 (3.7)	2.5 (3.9)
2004-05	5.1 (6.4)	4.2 (3.8)	4.0 (3.6)	2.4 (2.6)
2003-04				
April	6.7	5.1	4.3	5.5
May	5.8	4.7	4.3	5.1
June	5.3	4.4	3.7	5.1
July	4.3	4.2	3.7	4.7
August	3.8	3.1	3.2	3.8
September	5.4	2.9	2.9	3.4
October	5.1	3.3	3.7	3.4
November	5.5	3.1	3.4	3.1
December	5.9	3.7	4.0	3.4
January	5.9	4.3	4.4	3.8
February	5.2	4.1	3.9	3.1
March	4.6	3.5	3.4	2.5
2004-05				
April	4.3	2.2	2.9	1.5
May	5.6	2.8	2.9	1.8
June	7.0	3.0	3.4	1.8
July	8.0	3.2	3.1	2.1
August	8.7	4.6	4.0	3.0
September	7.3	4.8	4.0	3.3
October	7.0	4.6	4.0	3.6
November	7.3	4.2	4.0	3.3
December	6.6	3.8	3.6	3.0
January	5.1	4.4	3.8	2.7
February	5.1	4.2	3.8	2.4
March	5.1	4.2	4.0	2.4
2005-06				
April	5.7	5.0	4.2	3.0
May	5.3	3.7	4.2	3.0
June	4.1 P	3.3	3.9	2.7

@ : Base : 1993-94=100. # : Base : 1982=100.
+ : Base : 1984-85=100. * : Base : 1986-87=100.

Note : Figures in parentheses are on an average basis.

APPENDIX TABLE I.28 : 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
1995-96	60,243 (50,253)	42,432	10,198 (208)	10,806	19,855	29,731
2001-02	1,40,955	1,23,074	33,495	51,152	-5,150	1,00,162
2002-03	1,45,072	1,33,829	27,268	53,647	-28,399	1,07,880
2003-04	1,23,272	1,15,558	-816	29,987	-76,065	98,262
2004-05 (RE)	1,39,231	1,37,689	13,326	43,322	-60,177	85,165
2005-06 (BE)	1,51,144	1,57,492	17,199	49,047	..	95,312
As Percentage to GDP at Current Market Prices						
1995-96	5.07 (4.23)	3.57	0.86 (0.02)	0.91	1.67	2.50
2001-02	6.20	5.42	1.47	2.25	-0.23	4.41
2002-03	5.89	5.43	1.11	2.18	-1.15	4.38
2003-04	4.47	4.19	-0.03	1.09	-2.76	3.56
2004-05 (RE)	4.48	4.43	0.43	1.40	-1.94	2.74
2005-06 (BE)	4.34	4.52	0.49	1.41	..	2.74
Average 1994-95 to 2003-04	5.57 *	4.45	1.05 *	1.53	-0.06	3.48

RE : Revised Estimates. BE : Budget Estimates. .. : Not available.
- : Indicates Surplus.
+ : As per RBI records after closure of Government accounts.
* : Net of States' share in small savings.

Note : 1. The revenue deficit denotes the difference between revenue receipts and revenue expenditure. The net RBI credit to the Central Government is the sum of 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 over revenue receipts (including external grants) and non-debt capital receipts. 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.

2. Figures in parentheses exclude States' share in small savings as per the new system of accounting followed since 1999-2000.

Source : Central Government budget documents and Reserve Bank records.

APPENDIX TABLE I.29 : MAJOR ITEMS OF RECEIPTS AND EXPENDITURES OF THE CENTRAL GOVERNMENT

Item	2005-06 (BE)	2004-05 (RE)	2004-05 (BE)	2003-04	2002-03	2001-02	2000-01	Average 1994-95 to 2003-04
1	2	3	4	5	6	7	8	9
1. Total Receipts (2+5)	5,14,344	5,05,791	4,77,829	4,71,368	4,11,365	3,63,806	3,26,789	
	(14.77)	(16.29)	(15.39)	(17.08)	(16.70)	(16.01)	(15.64)	(15.58)
2. Revenue Receipts (3+4)	3,51,200	3,00,904	3,09,322	2,63,878	2,30,834	2,01,306	1,92,605	
	(10.09)	(9.69)	(9.96)	(9.56)	(9.37)	(8.86)	(9.22)	(9.13)
3. Tax Revenue (Net to Centre)	2,73,466	2,25,804	2,33,906	1,86,982	1,58,544	1,33,532	1,36,658	
	(7.85)	(7.27)	(7.53)	(6.77)	(6.44)	(5.88)	(6.54)	(6.50)
4. Non-tax Revenue	77,734	75,100	75,416	76,896	72,290	67,774	55,947	
of which :	(2.23)	(2.42)	(2.43)	(2.79)	(2.93)	(2.98)	(2.68)	(2.63)
i) Interest Receipts	25,500	31,538	36,950	38,517	37,622	35,538	32,811	
	(0.73)	(1.02)	(1.19)	(1.40)	(1.53)	(1.56)	(1.57)	(1.59)
ii) Dividends and Profits	23,500	20,799	18,875	21,159	21,230	17,290	13,575	
	(0.67)	(0.67)	(0.61)	(0.77)	(0.86)	(0.76)	(0.65)	(0.51)
5. Capital Receipts	1,63,144	2,04,887	1,68,507	2,07,490	1,80,531	162,500	1,34,184	
	(4.69)	(6.60)	(5.43)	(7.52)	(7.33)	(7.15)	(6.42)	(6.46)
6. Total Expenditure (7 + 8)	5,14,344	5,05,791	4,77,829	4,71,368	4,13,248	3,62,310	3,25,592	
	(14.77)	(16.29)	(15.39)	(17.08)	(16.78)	(15.95)	(15.58)	(15.76)
7. Revenue Expenditure	4,46,512	3,86,069	3,85,493	3,62,140	3,38,713	3,01,468	2,77,839	
of which :	(12.82)	(12.43)	(12.42)	(13.12)	(13.75)	(13.27)	(13.30)	(12.60)
i) Interest Payments	1,33,945	1,25,905	1,29,500	1,24,088	1,17,804	1,07,460	99,314	
	(3.85)	(4.05)	(4.17)	(4.50)	(4.78)	(4.73)	(4.75)	(4.51)
ii) Subsidies	47,432	46,514	43,516	44,256	43,533	31,210	26,838	
	(1.36)	(1.50)	(1.40)	(1.60)	(1.77)	(1.37)	(1.28)	(1.32)
iii) Defence	48,625	43,517	43,517	43,203	40,709	38,059	37,238	
	(1.40)	(1.40)	(1.40)	(1.57)	(1.65)	(1.68)	(1.78)	(1.67)
8. Capital Disbursements	67,832	1,19,722	92,336	1,09,228	74,535	60,842	47,753	
of which :	(1.95)	(3.86)	(2.97)	(3.96)	(3.03)	(2.68)	(2.29)	(3.16)
Capital Outlay	62,180	56,615	60,718	34,249	29,101	26,558	24,745	
	(1.79)	(1.82)	(1.96)	(1.24)	(1.18)	(1.17)	(1.18)	(1.19)
9. Developmental Expenditure *	2,24,004	2,20,638	2,13,986	1,95,428	1,84,197	1,59,364	1,39,386	
of which :	(6.43)	(7.10)	(6.85)	(7.08)	(7.48)	(7.01)	(6.67)	(7.23)
Social Sector	70,616	63,350	58,211	61,157	58,606	44,538	34,467	
	(2.03)	(2.04)	(1.86)	(2.22)	(2.38)	(1.96)	(1.65)	(1.78)
10. Non-Developmental Expenditure *	3,05,589	2,67,197	2,78,334	2,43,298	2,42,749	2,15,456	1,97,470	
	(8.78)	(8.60)	(8.91)	(8.82)	(9.85)	(9.48)	(9.45)	(8.85)
Memo Items:								
1. Interest Payments as per cent of Revenue Receipts	38.14	41.84	41.87	47.02	51.03	53.38	51.56	49.48
2. Revenue Deficit as per cent of Gross Fiscal Deficit	63.06	61.17	55.43	79.71	74.36	71.06	71.74	62.48
3. Net RBI Credit to Centre as per cent of Gross Fiscal Deficit	n.a.	-36.38	n.a.	-61.71	-19.58	-3.65	5.64	-2.01

BE : Budget Estimates. RE : Revised Estimates. n.a. : Not available.
* : Data on developmental and non-developmental expenditures are inclusive of commercial departments.
Note : Figures in parentheses are percentages to GDP.
Source : Central Government budget documents and Reserve Bank records.

APPENDIX TABLE I.30 : DIRECT AND INDIRECT TAX REVENUES OF THE CENTRAL AND THE STATE GOVERNMENTS

(Rupees crore)

Year		Centre (Gross)			States@			Centre and States Combined		
		Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total
1		2	3	4	5	6	7	8	9	10
1995-96		33,563	77,661	1,11,224	8,040	55,587	63,627	41,603	1,33,248	1,74,851
	(a)	30.2	69.8	100.0	12.6	87.4	100.0	23.8	76.2	100.0
	(b)	2.8	6.5	9.4	0.7	4.7	5.4	3.5	11.2	14.7
2000-2001		68,305	1,20,299	1,88,604	12,204	1,04,823	1,17,027	80,509	2,25,122	3,05,631
	(a)	36.2	63.8	100.0	10.4	89.6	100.0	26.3	73.7	100.0
	(b)	3.2	5.7	9.0	0.6	5.0	5.6	3.8	10.7	14.5
2001-02		69,197	1,17,863	1,87,060	14,308	1,13,162	1,27,470	83,505	2,31,025	3,14,530
	(a)	37.0	63.0	100.0	11.2	88.8	100.0	26.5	73.5	100.0
	(b)	3.0	5.2	8.2	0.6	5.0	5.6	3.7	10.2	13.8
2002-03		83,085	1,33,181	2,16,266	18,131	1,24,546	1,42,677	1,01,216	2,57,727	3,58,943
	(a)	38.4	61.6	100.0	12.7	87.3	100.0	28.2	71.8	100.0
	(b)	3.4	5.4	8.8	0.7	5.1	5.8	4.1	10.5	14.6
2003-04 *		1,05,082	1,49,266	2,54,348	19,189	1,37,651	1,56,840	1,24,271	2,86,917	4,11,188
	(a)	41.3	58.7	100.0	12.2	87.8	100.0	30.2	69.8	100.0
	(b)	3.8	5.4	9.2	0.7	5.0	5.7	4.5	10.4	14.9
2004-05 *		1,39,510	1,78,223	3,17,733	17,687	1,58,941	1,76,628	1,57,197	3,37,164	4,94,361
BE	(a)	43.9	56.1	100.0	10.0	90.0	100.0	31.8	68.2	100.0
	(b)	4.5	5.7	10.2	0.6	5.1	5.7	5.1	10.9	15.9
2004-05 *		1,34,194	1,71,827	3,06,021	21,842	1,62,835	1,84,677	1,56,036	3,34,662	4,90,698
RE	(a)	43.9	56.1	100.0	11.8	88.2	100.0	31.8	68.2	100.0
	(b)	4.3	5.5	9.9	0.7	5.2	5.9	5.0	10.8	15.8
2005-06 *		1,77,077	1,92,948	3,70,025	20,087	1,84,467	2,04,554	1,97,164	3,77,415	5,74,579
BE	(a)	47.9	52.1	100.0	9.8	90.2	100.0	34.3	65.7	100.0
	(b)	5.1	5.5	10.6	0.6	5.3	5.9	5.7	10.8	16.5
Memo Items :										
(Average)										
1994-95	(a)	34.4	65.7	100.0	11.6	88.4	100.0	27.5	74.3	100.0
2003-04	(b)	3.1	5.9	8.9	0.6	4.8	5.4	3.7	10.7	14.4

RE : Revised Estimates. BE : Budget Estimates.

@ : Excluding States' share in Central Taxes as reported in Central Government budget documents.

* : Data in respect of State Governments are provisional (see Notes to Appendix Table IV.5 for details).

(a) : Represents percentages to total tax revenue.

(b) : Represents percentages to GDP.

Source : Budget documents of the Central and the State Governments.

APPENDIX TABLE I.31 : 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 @	Draw down of cash balances +	Total (2+3+4)		
1	2	3	4	5	6	7
1990-91	8,001 (17.9)	22,103 (49.5)	11,347 (25.4)	41,451 (92.9)	3,181 (7.1)	44,632 (100.0)
1995-96	34,001 (56.4)	16,117 (26.8)	9,807 (16.3)	59,925 (99.5)	318 (0.5)	60,243 (100.0)
2000-01	73,431 (61.8)	39,077 (32.9)	-1,197 (-1.0)	1,11,311 (93.7)	7,505 (6.3)	1,18,816 (100.0)
2001-02	90,812 (64.4)	46,038 (32.7)	-1496 (-1.1)	1,35,354 (96.0)	5,601 (4.0)	1,40,955 (100.0)
2002-03	1,04,126 (71.8)	50,997 (35.2)	1,883 (1.3)	1,57,006 (108.2)	-11,934 (-8.2)	1,45,072 (100.0)
2003-04	88,870 (72.1)	51,833 (42.0)	-3,942 (-3.2)	1,36,760 (110.9)	-13,488 (-10.9)	1,23,272 (100.0)
2004-05 (BE)	90,365 $ (65.8)	25,369 (18.5)	13,597 (9.9)	1,29,331 (94.1)	8,076 (5.9)	1,37,407 (100.0)
2004-05 (RE)	45,943 $ (33.0)	63,228 (45.4)	21,025 (15.1)	1,30,196 (93.5)	9,035 (6.5)	1,39,231 (100.0)
2005-06(BE)	1,03,791 $ (68.7)	34,557 (22.9)	3,140 (2.1)	1,41,488 (93.6)	9,656 (6.4)	1,51,144 (100.0)

RE : Revised Estimates. BE : Budget Estimates.

: Includes dated securities and 364-day Treasury Bills.

@ : Other borrowings comprise small savings, state provident funds, special deposits, reserve funds, Treasury Bills excluding 364- day Treasury Bill, etc. From 1999-2000 to 2001-02, small savings and public provident funds are represented through NSSF's investment in Central Government special securities. Also includes NSSF's investment of redemption proceeds in Central Government special securities since 2003-04.

+ : Prior to 1997, represents variations in 91-day Treasury Bills issued net of changes in cash balances with RBI.

$: Exclusive of amount raised under Market Stabilisation Scheme.

Note : 1. Figures in parentheses represent percentages to total finance (gross fiscal deficit).
2. Since 1999-2000, gross fiscal deficit excludes the States' share in small savings.

Source : Central Government budget documents and Reserve Bank records.

APPENDIX TABLE I.32 : BUDGETARY OPERATIONS OF THE STATE GOVERNMENTS

A : Measures of Deficit of State Governments

(Rupees crore)

Year	Fiscal Deficit		Primary Deficit		Net RBI Credit*	Conventional 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
1995-96	31,426	26,695	9,494	10,556	16	-2,849	8,201
2003-04 P	1,21,420	1,12,193	40,660	39,998	293	-1,213	61,238
2004-05 (RE) P	1,19,288	1,08,710	32,142	33,301	-2,705	6,004	43,190
2005-06 (BE) P	1,07,041	99,149	14,666	14,984	..	-2,644	24,494
As Percentage to GDP at Current Market Prices (Base : 1993-94)							
1990-91	3.3	2.6	1.8	1.5	0.1	0.0	0.9
1995-96	2.6	2.2	0.8	0.9	0.0	-0.2	0.7
2003-04 P	4.4	4.1	1.5	1.4	0.0	0.0	2.2
2004-05 (RE) P	3.8	3.5	1.0	1.1	-0.1	0.2	1.4
2005-06 (BE) P	3.1	2.8	0.4	0.4	..	-0.1	0.7

B : Select Budgetary Variables of State Governments

Item	2005-06 P (BE)	2004-05 P (RE)	2003-04 P	1990-00 (Average)
1	2	3	4	5
1. GFD / Total Expenditure (excluding recoveries)	20.1	23.6	28.3	21.4
2. Revenue Deficit / Revenue Expenditure	5.5	10.3	16.5	9.3
3. Conventional Deficit / Aggregate Disbursements	-0.5	1.0	-0.2	-0.1
4. Revenue Deficit / GFD	22.9	36.2	50.4	34.8
5. Non-Developmental Revenue Expenditure / Revenue Receipts	48.0	49.3	52.8	39.6
6. Interest Payments/Revenue Receipts	21.9	23.1	26.1	16.5
7. Developmental Expenditure / GDP	9.1	9.9	9.9	10.2
of which :				
Social Sector Expenditure / GDP	5.4	5.6	5.3	5.7
8. Non-Developmental Expenditure / GDP	6.0	6.1	6.0	4.6
9. States' Own Tax Revenue/GDP	6.1	6.0	5.7	5.3
10. States' Own Non Tax Revenue / GDP	1.3	1.5	1.3	1.7

RE : Revised Estimates. BE : Budget Estimates. – : Negligible. .. : Not available.
GFD : Gross Fiscal Deficit. P : Provisional data.
(-) : Indicates surplus.
* : Data pertain to State Governments having accounts with the Reserve Bank of India.

Note : 1. The net RBI credit to State Governments refers to variations in loans and advances given to them by the RBI net of their incremental deposits with the RBI.
2. Data for 2003-04, 2004-05 and 2005-06 pertain to Budgets of 28 State Governments, of which 2 are Vote-on-Accounts.

Source : Budget documents of the State Governments and the Reserve Bank Records.

APPENDIX TABLE I.33 : COMBINED RECEIPTS AND DISBURSEMENTS OF THE CENTRAL AND STATE GOVERNMENTS *

(Rupees crore)

Item	2005-06 (Budget Estimates)	2004-05 (Revised Estimates)	2004-05 (Budget Estimates)	2003-04 (Accounts)	2002-2003 (Accounts)	Percentage Variation Col.2 over Col.3	Percentage Variation Col.3 over Col.5
1	2	3	4	5	6	7	8
I. Total Disbursements (A+B+C)	**9,91,960**	**9,46,132**	**9,00,066**	**8,45,338**	**7,27,151**	**4.8**	**11.9**
A. Developmental Expenditure (i +ii +iii)	**4,94,238**	**4,63,722**	**4,29,054**	**4,11,815**	**3,59,331**	**6.6**	**12.6**
i) Revenue	3,84,612	3,57,103	3,32,468	3,14,189	2,88,433	7.7	13.7
ii) Capital	95,646	84,730	78,698	67,631	50,633	12.9	25.3
iii) Loans	13,980	21,889	17,888	29,995	20,265	-36.1	-27.0
B. Non-Developmental Expenditure (i+ii+iii)	**4,64,810**	**4,21,112**	**4,29,507**	**3,68,476**	**3,39,086**	**10.4**	**14.3**
i) Revenue	4,18,740	3,80,031	3,86,926	3,49,492	3,21,920	10.2	8.7
of which :							
Interest Payments	2,08,171	1,88,540	1,90,445	1,76,570	1,58,624	10.4	6.8
ii) Capital	41,189	36,709	40,832	17,572	15,038	12.2	108.9
iii) Loans	4,881	4,373	1,748	1,412	2,128	11.6	209.7
C. Others (i+ii)	**32,913**	**61,298**	**41,505**	**65,046**	**28,734**	**-46.3**	**-5.8**
i) Revenue	8,804	7,969	7,209	6,898	6,052	10.5	15.5
ii) Capital +	24,109	53,329	34,296	58,148	22,682	-54.8	-8.3
II. Total Receipts	**9,94,604**	**9,40,127**	**8,97,445**	**8,46,551**	**7,31,763**	**5.8**	**11.1**
of which :							
A. Revenue Receipts	**6,92,350**	**6,16,747**	**6,05,342**	**5,11,079**	**4,53,414**	**12.3**	**20.7**
i) Tax Receipts (a + b + c)	5,72,979	4,89,098	4,92,761	4,09,588	3,58,224	17.2	19.4
a) Taxes on commodities and services	3,75,082	3,32,355	3,34,940	2,84,659	2,56,440	12.9	17.3
b) Taxes on Income and Property	1,97,164	1,56,036	1,57,197	1,24,271	1,01,211	26.4	24.2
c) Taxes of Union Territories (Without Legislature)	733	707	624	658	573	3.7	7.4
ii) Non-Tax Receipts	1,19,371	1,27,649	1,12,582	1,01,491	95,191	-6.5	25.8
of which :							
Interest Receipts	15,561	18,764	20,340	18,803	17,781	-17.1	-0.2
B. Non-debt Capital Receipts (i+ii)	**7,629**	**17,973**	**14,473**	**43,259**	**16,067**	**-57.6**	**-58.5**
i) Recovery of Loans & Advances	7,629	13,882	10,473	26,306	12,916	-45.0	-47.2
ii) Disinvestment proceeds	0	4,091	4,000	16,953	3,151	-100.0	-75.9
III. Gross Fiscal Deficit [I - ICii - (IIA + IIB)]	**2,67,872**	**2,58,083**	**2,45,954**	**2,32,852**	**2,34,987**	**3.8**	**10.8**
Financed by :							
A. Institution-wise (i+ii)	**2,67,872**	**2,58,083**	**2,45,954**	**2,32,852**	**2,34,987**	**3.8**	**10.8**
i) Domestic Financing (a+b)	2,58,216	2,49,048	2,37,878	2,46,340	2,46,921	3.7	2.0
a) Total Bank Credit to Government #	n.a.	15,002	n.a.	66,381	86,958	n.a.	
of which :							
Net RBI Credit to Government	n.a.	-62,882	n.a.	-75,772	-31,499	n.a.	-17.0
b) Non-Bank Credit to Government	n.a.	2,34,046	n.a.	1,79,959	1,59,963	n.a.	
ii) External Financing	9,656	9,035	8,076	-13,488	-11,934	6.9	-167.0
B. Instrument-wise (i+ii)	**2,67,872**	**2,58,083**	**2,45,954**	**2,32,852**	**2,34,987**	**3.8**	**10.8**
i) Domestic Financing (a+b+c+d+e)	2,58,216	2,49,048	2,37,878	2,46,340	2,46,921	3.7	1.1
a) Market Borrowings (net) @	1,20,158	78,488	1,17,576	1,35,710	1,32,610	53.1	-42.2
b) Small Savings (net) ##	90,000	85,000	70,000	67,642	52,261	5.9	25.7
c) State Provident Funds (net)	12,765	13,450	15,244	11,824	11,816	-5.1	13.8
d) Budget Deficit ++	496	27,030	16,218	-5,156	-2,729	-98.2	-624.2
e) Others * *	34,797	45,080	18,840	36,320	52,963	-22.8	24.1
ii) External Financing	9,656	9,035	8,076	-13,488	-11,934	6.9	-167.0
IV. I as per cent of GDP	**28.5**	**30.5**	**29.0**	**30.6**	**29.5**		
V. II as per cent of GDP	**28.6**	**30.3**	**28.9**	**30.7**	**29.7**		
VI. IIA as per cent of GDP	**19.9**	**19.9**	**19.5**	**18.5**	**18.4**		
VII. IIA (i) as per cent of GDP	**16.5**	**15.7**	**15.9**	**14.8**	**14.5**		
VIII. III as per cent of GDP	**7.7**	**8.3**	**7.9**	**8.4**	**9.5**		

BE : Budget Estimates. RE : Revised Estimate.

* : Data pertaining to State Governments from 2003-04 onwards are provisional and relate to budgets of 28 State Governments, of which 2 are vote-on-account.

+ : Including discharge of internal liabilities by the States and repayments to the NSSF by the Centre.

: As per Reserve Bank records.

@ : Borrowing through dated securities and 364-day Treasury Bills.

n.a. : Not available / applicable.

: Represents National Small Savings Fund's investment in the Central and State Government Special Securities.

++ : Including drawdown of cash balance pertaining to Centre since 1997-98.

** : Including reserve funds, deposits and advances, Treasury Bills excluding 364-days Treasury Bills, loan from international financial institutions, etc.

Source : Budget documents of the Central and State Governments.

APPENDIX TABLE I.34 : OUTSTANDING LIABILITIES OF THE CENTRAL GOVERNMENT

(Rupees crore)

Year	Internal Debt	Small Savings, Deposits, Provident Funds and Other Accounts	Reserve Funds and Deposits	Total Internal Liabilities (2+3+4)	External Liabilities	Total Liabilities
1	2	3	4	5	6	7
1990-91	1,54,004 (27.1)	1,07,107 (18.8)	21,922 (3.9)	2,83,033 (49.8)	31,525 (5.5)	3,14,558 (55.3)
1995-96	3,07,869 (25.9)	2,13,436 (18.0)	33,680 (2.8)	5,54,985 (46.7)	51,249 (4.3)	6,06,234 (51.0)
2000-01	8,03,698 (38.5)	2,40,364 (11.5)	58,535 (2.8)	11,02,597 (52.8)	65,945 (3.2)	11,68,542 (55.9)
2001-02	9,13,061 (40.2)	3,08,668 (13.6)	73,133 (3.2)	12,94,862 (57.0)	71,546 (3.1)	13,66,408 (60.1)
2002-03	10,20,689 (41.4)	3,98,774 (16.2)	80,126 (3.3)	14,99,589 (60.9)	59,612 (2.4)	15,59,201 (63.3)
2003-04	11,41,706 (41.4)	4,56,472 (16.5)	92,376 (3.3)	16,90,554 (61.3)	46,124 (1.7)	17,36,678 (62.9)
2004-05 (RE)	12,70,272 (40.9)	5,54,409 (17.9)	1,02,474 (3.3)	19,27,155 (62.1)	54,359 (1.8)	19,81,514 (63.8)
2005-06 (BE)	14,06,525 (40.4)	6,45,833 (18.5)	1,16,313 (3.3)	21,68,671 (62.3)	63,215 (1.8)	22,31,886 (64.1)

RE : Revised Estimates. BE : Budget Estimates.

Note : 1. Figures in parentheses represent percentages to GDP.

2. Beginning 1999-2000 Centre's share in small saving collection has been converted into Central Government special securities and are part of Internal Debt.

Source : Budget documents of Government of India.

APPENDIX TABLE I.35 : FINANCING OF STATE GOVERNMENTS' GROSS FISCAL DEFICIT

(Rupees crore)

Year	Loans from the Central Government (net)	Market Borrowings (net)	Others#	Gross Fiscal Deficit (2+3+4)	States' Outstanding Liabilities (end-March)			States' Outstanding Liabilities as percentage 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)	1,25,662	74,117	15,618	22.1
1995-96	14,801 (47.1)	5,888 (18.7)	10,737 (34.2)	31,426 (100.0)	2,49,922	1,31,505	36,021	21.0
2003-04 P	-32,369 (-26.7)	46,840 (38.6)	1,06,950 (88.1)	1,21,420 (100.0)	9,09,833	2,02,263	1,78,039	33.0
2004-05 (RE) P	-22,324 (-18.7)	32,545 (27.3)	1,09,067 (91.4)	1,19,288 (100.0)	10,24,538	1,79,939	2,10,584	33.0
2005-06 (BE) P	14,898 (13.9)	16,367 (15.3)	75,777 (70.8)	1,07,041 (100.0)	11,34,249	1,94,837	2,26,951	32.6

RE : Revised Estimates. BE : Budget Estimates.

: Include loans from Financial Institutions, Provident Funds, Reserve Funds, Deposits and Advances, Special Securities issued to NSSF, *etc.* With the change in the system of accounting with effect from 1999-2000, States' share in small savings which was hitherto included under Loans from Centre is included under Others.

+ : Includes Internal Debt (including Market Borrowings and Loans against Special Securities issued to NSSF), loans and advances from the Centre, Small Savings, State Provident Funds, Insurance and Pension Funds, Trusts and Endowments, Reserve Funds and Deposits and Advances.

P : Provisional data.

Notes :
1. Figures in brackets are percentages to the Gross Fiscal Deficit.
2. Data on outstanding loans and advances from the Centre take into account medium-term loans of Rs.1,628 crore in 1985-86 given by the Centre to States to clear their overdrafts.
3. Data on outstanding liabilities of the State Governments have been revised taking into account the latest available information.
4. Data for 2003-04, 2004-05 and 2005-06 pertain to Budgets of 28 State Governments, of which 2 are Vote-on-Accounts.

Source : Budget Documents of State Governments and Combined Finance and Revenue Accounts of the Union and State Governments.

APPENDIX TABLE I.36 : MARKET BORROWINGS OF CENTRAL AND STATE GOVERNMENTS

(Rupees crore)

Government/Authority	Gross			Repayments			Net		
	2005-06BE	2004-05	2003-04	2005-06BE	2004-05	2003-04	2005-06BE	2004-05	2003-04
1	2	3	4	5	6	7	8	9	10
1. Central Government (a+b)	1,65,573	1,06,501	1,47,636	61,782	60,451	58,820	1,03,791	46,050	88,816
a) Dated Securities	1,39,573	80,350	1,21,500	35,631	34,316	32,694	1,03,942	46,034	88,806
b) 364-day Treasury Bills	26,000	26,151	26,136	26,151	26,136	26,126	-151	16	9
2. State Governments*	22,676	39,101	50,521	6,274	5,123	4,145	16,402	33,978	46,376
Grand Total (1+2)	**1,88,249**	**1,45,602**	**1,98,157**	**68,056**	**65,574**	**62,965**	**1,20,193**	**80,028**	**1,35,192**

BE : Budget Estimates.

* : Includes additional borrowings of Rs.29,000 crore in 2003-04 and Rs.16,943 crore in 2004-05 for Debt Swap Scheme.

Note : Actuals as per Reserve Bank records.

Source : Central Government budget documents and Reserve Bank records.

APPENDIX TABLE I.37 : REVERSE REPO / REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY

(Amount in Rupees crore)

LAF Date	Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(–) of liquidity [(11) – (6)]	Outstanding Amount @
		Bids received		Bids Accepted		Fixed Rate %	Bids Received		Bids Accepted		Fixed Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2004-05													
1-Apr-04	1	–	–	–	–	–	51	44800	51	44800	4.50	-44800	#
1-Apr-04	7	–	–	–	–	–	12	2390	12	2390	4.50	-2390	59205
2-Apr-04	3	–	–	–	–	–	51	44830	51	44830	4.50	-44830	#
2-Apr-04	6	–	–	–	–	–	18	5925	18	5925	4.50	-5925	65160
5-Apr-04	7	–	–	–	–	–	55	32350	55	32350	4.50	-32350	#
	14	–	–	–	–	–	11	6150	11	6150	4.50	-6150	48835
6-Apr-04	7	–	–	–	–	–	37	19455	37	19455	4.50	-19455	68290
7-Apr-04	6	–	–	–	–	–	36	9075	36	9075	4.50	-9075	75345
8-Apr-04	7	–	–	–	–	–	23	7380	23	7380	4.50	-7380	74410
12-Apr-04	7	–	–	–	–	–	51	29800	51	29800	4.50	-29800	71860
13-Apr-04	7	–	–	–	–	–	48	29310	48	29310	4.50	-29310	72640
15-Apr-04	7	–	–	–	–	–	45	15580	45	15580	4.50	-15580	80840
16-Apr-04	7	–	–	–	–	–	31	8595	31	8595	4.50	-8595	89435
19-Apr-04	4	–	–	–	–	–	44	27065	44	27065	4.50	-27065	#
	14	–	–	–	–	–	14	6335	14	6335	4.50	-6335	86885
20-Apr-04	7	–	–	–	–	–	37	18275	37	18275	4.50	-18275	75850
21-Apr-04	7	–	–	–	–	–	31	10215	31	10215	4.50	-10215	86065
22-Apr-04	7	–	–	–	–	–	41	12580	41	12580	4.50	-12580	83065
23-Apr-04	7	–	–	–	–	–	53	27950	53	27950	4.50	-27950	75355
27-Apr-04	6	–	–	–	–	–	42	17825	42	17825	4.50	-17825	74905
28-Apr-04	7	–	–	–	–	–	40	13135	40	13135	4.50	-13135	77825
29-Apr-04	7	–	–	–	–	–	35	14775	35	14775	4.50	-14775	80020
30-Apr-04	7	–	–	–	–	–	48	21005	48	21005	4.50	-21005	73075
3-May-04	7	–	–	–	–	–	48	24840	48	24840	4.50	-24840	#
	14	–	–	–	–	–	10	5515	10	5515	4.50	-5515	79270
5-May-04	7	–	–	–	–	–	40	16490	40	16490	4.50	-16490	82625
6-May-04	7	–	–	–	–	–	39	9915	39	9915	4.50	-9915	77765
7-May-04	7	–	–	–	–	–	39	19340	39	19340	4.50	-19340	76100
10-May-04	7	–	–	–	–	–	44	21680	44	21680	4.50	-21680	72940
11-May-04	7	–	–	–	–	–	23	3915	23	3915	4.50	-3915	76855
12-May-04	7	–	–	–	–	–	39	11340	39	11340	4.50	-11340	71705
13-May-04	7	–	–	–	–	–	32	10995	32	10995	4.50	-10995	72785
14-May-04	7	–	–	–	–	–	41	20050	41	20050	4.50	-20050	73495
17-May-04	7	–	–	–	–	–	44	22410	44	22410	4.50	-22410	#
	14	–	–	–	–	–	10	6060	10	6060	4.50	-6060	74770
18-May-04	7	–	–	–	–	–	26	5395	26	5395	4.50	-5395	76250
19-May-04	7	–	–	–	–	–	38	9385	38	9385	4.50	-9385	74295
20-May-04	7	–	–	–	–	–	32	8420	32	8420	4.50	-8420	71720
21-May-04	7	–	–	–	–	–	45	17645	45	17645	4.50	-17645	69315
24-May-04	7	–	–	–	–	–	49	24030	49	24030	4.50	-24030	70935
25-May-04	7	–	–	–	–	–	37	13560	37	13560	4.50	-13560	79100
26-May-04	7	–	–	–	–	–	38	10195	38	10195	4.50	-10195	79910
27-May-04	7	–	–	–	–	–	32	8945	32	8945	4.50	-8945	80435
28-May-04	7	–	–	–	–	–	40	10055	40	10055	4.50	-10055	72845
31-May-04	7	–	–	–	–	–	45	21205	45	21205	4.50	-21205	#
	14	–	–	–	–	–	7	3555	7	3555	4.50	-3555	67515
1-Jun-04	7	–	–	–	–	–	42	13000	42	13000	4.50	-13000	66955
2-Jun-04	7	–	–	–	–	–	37	11420	37	11420	4.50	-11420	68180
3-Jun-04	7	–	–	–	–	–	31	9815	31	9815	4.50	-9815	69050
4-Jun-04	7	1	800	1	800	6.00	29	8450	29	8450	4.50	-7650	66645
7-Jun-04	7	–	–	–	–	–	41	16330	41	16330	4.50	-16330	62570
8-Jun-04	7	–	–	–	–	–	41	11250	41	11250	4.50	-11250	60820
9-Jun-04	7	–	–	–	–	–	33	9200	33	9200	4.50	-9200	58600
10-Jun-04	7	–	–	–	–	–	34	8125	34	8125	4.50	-8125	56910
11-Jun-04	7	–	–	–	–	–	33	8560	33	8560	4.50	-8560	57020
14-Jun-04	7	–	–	–	–	–	44	17735	44	17735	4.50	-17735	#
	14	–	–	–	–	–	8	4550	8	4550	4.50	-4550	59420
15-Jun-04	7	–	–	–	–	–	45	13335	45	13335	4.50	-13335	61505
16-Jun-04	7	–	–	–	–	–	49	9150	49	9150	4.50	-9150	61455
17-Jun-04	7	–	–	–	–	–	33	7395	33	7395	4.50	-7395	60725
18-Jun-04	7	–	–	–	–	–	34	9630	34	9630	4.50	-9630	61795
21-Jun-04	7	–	–	–	–	–	47	16650	47	16650	4.50	-16650	60710
22-Jun-04	7	–	–	–	–	–	48	13565	48	13565	4.50	-13565	60940
23-Jun-04	6	–	–	–	–	–	35	9185	35	9185	4.50	-9185	60975
24-Jun-04	7	–	–	–	–	–	40	8510	40	8510	4.50	-8510	62090
25-Jun-04	7	–	–	–	–	–	38	8905	38	8905	4.50	-8905	61365
28-Jun-04	7	–	–	–	–	–	44	20825	44	20825	4.50	-20825	#
	14	–	–	–	–	–	7	3295	7	3295	4.50	-3295	64285

APPENDIX TABLE I.37 : REVERSE REPO / REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Contd...)*

(Amount in Rupees crore)

LAF Date	Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(–) of liquidity [(11) – (6)]	Outstanding Amount @
		Bids Received		Bids Accepted		Fixed Rate %	Bids Received		Bids Accepted		Fixed Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
29-Jun-04	7	–	–	–	–	–	45	20350	45	20350	4.50	-20350	61885
1-Jul-04	7	–	–	–	–	–	38	12360	38	12360	4.50	-12360	65735
2-Jul-04	7	–	–	–	–	–	38	10735	38	10735	4.50	-10735	67565
5-Jul-04	7	–	–	–	–	–	41	20990	41	20990	4.50	-20990	67730
6-Jul-04	7	–	–	–	–	–	39	15015	39	15015	4.50	-15015	62395
7-Jul-04	7	–	–	–	–	–	28	4660	28	4660	4.50	-4660	67055
8-Jul-04	7	–	–	–	–	–	35	9360	35	9360	4.50	-9360	64055
9-Jul-04	7	–	–	–	–	–	42	11235	42	11235	4.50	-11235	64555
12-Jul-04	7	–	–	–	–	–	37	17700	37	17700	4.50	-17700	#
	14	–	–	–	–	–	8	2965	8	2965	4.50	-2965	60935
13-Jul-04	7	–	–	–	–	–	43	12680	43	12680	4.50	-12680	58600
14-Jul-04	7	–	–	–	–	–	29	4850	29	4850	4.50	-4850	58790
15-Jul-04	7	–	–	–	–	–	25	5020	25	5020	4.50	-5020	54450
16-Jul-04	7	–	–	–	–	–	37	10415	37	10415	4.50	-10415	53630
19-Jul-04	7	–	–	–	–	–	38	15950	38	15950	4.50	-15950	51880
20-Jul-04	7	–	–	–	–	–	41	12505	41	12505	4.50	-12505	51705
21-Jul-04	7	–	–	–	–	–	30	5950	30	5950	4.50	-5950	52805
22-Jul-04	7	–	–	–	–	–	43	7275	43	7275	4.50	-7275	55060
23-Jul-04	7	–	–	–	–	–	45	13430	45	13430	4.50	-13430	58075
26-Jul-04	7	–	–	–	–	–	40	16765	40	16765	4.50	-16765	#
	14	–	–	–	–	–	8	2085	8	2085	4.50	-2085	58010
27-Jul-04	7	–	–	–	–	–	48	15030	48	15030	4.50	-15030	60535
28-Jul-04	7	–	–	–	–	–	27	5650	27	5650	4.50	-5650	60235
29-Jul-04	7	–	–	–	–	–	38	6455	38	6455	4.50	-6455	59415
30-Jul-04	7	–	–	–	–	–	32	7295	32	7295	4.50	-7295	53280
2-Aug-04	7	–	–	–	–	–	41	17315	41	17315	4.50	-17315	53830
3-Aug-04	7	–	–	–	–	–	42	14365	42	14365	4.50	-14365	53165
4-Aug-04	7	–	–	–	–	–	35	8395	35	8395	4.50	-8395	55910
5-Aug-04	7	–	–	–	–	–	29	5735	29	5735	4.50	-5735	55190
6-Aug-04	7	–	–	–	–	–	33	7760	33	7760	4.50	-7760	55655
9-Aug-04	7	–	–	–	–	–	40	16980	40	16980	4.50	-16980	
	14	–	–	–	–	–	7	2580	7	2580	4.50	-2580	55815
10-Aug-04	7	–	–	–	–	–	20	6085	20	6085	4.50	-6085	47535
11-Aug-04	7	–	–	–	–	–	14	2210	14	2210	4.50	-2210	41350
12-Aug-04	7	1	5000	1	5000	6.00	7	1490	7	1490	4.50	3510	32105
13-Aug-04	6	–	–	–	–	–	11	3320	11	3320	4.50	-3320	32665
16-Aug-04	1	–	–	–	–	–	38	17855	38	17855	4.50	-17855	
	7	–	–	–	–	–	15	6740	15	6740	4.50	-6740	40280
17-Aug-04	1	–	–	–	–	–	40	24055	40	24055	4.50	-24055	
	7	–	–	–	–	–	12	2445	12	2445	4.50	-2445	42840
18-Aug-04	1	–	–	–	–	–	44	25355	44	25355	4.50	-25355	
	7	–	–	–	–	–	8	1925	8	1925	4.50	-1925	43855
19-Aug-04	4	–	–	–	–	–	40	19455	40	19455	4.50	-19455	
	7	–	–	–	–	–	5	580	5	580	4.50	-580	33725
23-Aug-04	1	–	–	–	–	–	39	17855	39	17855	4.50	-17855	
	7	–	–	–	–	–	15	7000	15	7000	4.50	-7000	
	14	–	–	–	–	–	4	1755	4	1755	4.50	-1755	31560
24-Aug-04	1	–	–	–	–	–	36	17905	36	17905	4.50	-17905	
	7	–	–	–	–	–	8	1850	8	1850	4.50	-1850	31015
25-Aug-04	1	–	–	–	–	–	48	21580	48	21580	4.50	-21580	
	7	–	–	–	–	–	9	1760	9	1760	4.50	-1760	34525
26-Aug-04	1	–	–	–	–	–	41	22135	41	22135	4.50	-22135	
	7	–	–	–	–	–	13	1975	13	1975	4.50	-1975	36475
27-Aug-04	3	–	–	–	–	–	46	25330	46	25330	4.50	-25330	
	7	–	–	–	–	–	5	970	5	970	4.50	-970	40640
30-Aug-04	1	–	–	–	–	–	49	30720	49	30720	4.50	-30720	
	7	–	–	–	–	–	15	5275	15	5275	4.50	-5275	44305
31-Aug-04	1	–	–	–	–	–	51	34490	51	34490	4.50	-34490	
	7	–	–	–	–	–	14	2410	14	2410	4.50	-2410	48635
1-Sep-04	1	–	–	–	–	–	55	31820	55	31820	4.50	-31820	
	7	–	–	–	–	–	9	1465	9	1465	4.50	-1465	45670
2-Sep-04	1	–	–	–	–	–	55	35850	55	35850	4.50	-35850	
	7	–	–	–	–	–	11	1290	11	1290	4.50	-1290	49015
3-Sep-04	3	–	–	–	–	–	49	28430	49	28430	4.50	-28430	
	7	–	–	–	–	–	8	945	8	945	4.50	-945	41570
6-Sep-04	1	–	–	–	–	–	43	26265	43	26265	4.50	-26265	
	7	–	–	–	–	–	18	7235	18	7235	4.50	-7235	
	14	–	–	–	–	–	6	2140	6	2140	4.50	-2140	41750

APPENDIX TABLE I.37 : REVERSE REPO / REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Contd...)*

(Amount in Rupees crore)

LAF Date	Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(–) of liquidity [(11) – (6)]	Outstanding Amount @
		Bids Received		Bids Accepted		Fixed Rate %	Bids Received		Bids Accepted		Fixed Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
7-Sep-04	1	–	–	–	–	–	42	25545	42	25545	4.50	-25545	
	7	–	–	–	–	–	11	2565	11	2565	4.50	-2565	41185
8-Sep-04	1	–	–	–	–	–	51	28500	51	28500	4.50	-28500	
	7	–	–	–	–	–	14	3700	14	3700	4.50	-3700	46375
9-Sep-04	1	–	–	–	–	–	51	28315	51	28315	4.50	-28315	
	7	–	–	–	–	–	8	1195	8	1195	4.50	-1195	46095
10-Sep-04	3	–	–	–	–	–	39	19320	39	19320	4.50	-19320	
	7	–	–	–	–	–	10	1420	10	1420	4.50	-1420	37575
13-Sep-04	1	–	–	–	–	–	44	21230	44	21230	4.50	-21230	
	7	–	–	–	–	–	13	5135	13	5135	4.50	-5135	37385
14-Sep-04	1	–	–	–	–	–	44	25510	44	25510	4.50	-25510	
	7	–	–	–	–	–	12	2360	12	2360	4.50	-2360	41460
15-Sep-04	1	–	–	–	–	–	40	19890	40	19890	4.50	-19890	
	7	–	–	–	–	–	7	1710	7	1710	4.50	-1710	33850
16-Sep-04	1	–	–	–	–	–	50	24970	50	24970	4.50	-24970	
	7	–	–	–	–	–	6	670	6	670	4.50	-670	38405
17-Sep-04	3	–	–	–	–	–	39	14555	39	14555	4.50	-14555	
	7	–	–	–	–	–	4	590	4	590	4.50	-590	27160
20-Sep-04	1	–	–	–	–	–	26	9335	26	9335	4.50	-9335	
	7	–	–	–	–	–	12	3220	12	3220	4.50	-3220	
	14	–	–	–	–	–	4	820	4	820	4.50	-820	18705
21-Sep-04	1	–	–	–	–	–	14	4880	14	4880	4.50	-4880	
	7	–	–	–	–	–	5	645	5	645	4.50	-645	12535
22-Sep-04	1	–	–	–	–	–	18	5875	18	5875	4.50	-5875	
	7	–	–	–	–	–	1	150	1	150	4.50	-150	11970
23-Sep-04	1	–	–	–	–	–	24	8895	24	8895	4.50	-8895	
	7	–	–	–	–	–	6	1550	6	1550	4.50	-1550	15870
24-Sep-04	3	–	–	–	–	–	27	11015	27	11015	4.50	-11015	
	7	–	–	–	–	–	10	1845	10	1845	4.50	-1845	19245
27-Sep-04	1	–	–	–	–	–	36	12875	36	12875	4.50	-12875	
	7	–	–	–	–	–	7	2625	7	2625	4.50	-2625	20510
28-Sep-04	1	–	–	–	–	–	30	13135	30	13135	4.50	-13135	
	7	–	–	–	–	–	7	1525	7	1525	4.50	-1525	21650
29-Sep-04	1	–	–	–	–	–	29	13290	29	13290	4.50	-13290	
	7	–	–	–	–	–	6	1295	6	1295	4.50	-1295	22950
30-Sep-04	1	–	–	–	–	–	35	16940	35	16940	4.50	-16940	
	7	–	–	–	–	–	3	575	3	575	4.50	-575	25625
1-Oct-04	3	–	–	–	–	–	40	19040	40	19040	4.50	-19040	
	7	–	–	–	–	–	5	505	5	505	4.50	-505	26385
4-Oct-04	1	–	–	–	–	–	31	12865	31	12865	4.50	-12865	
	7	–	–	–	–	–	8	2350	8	2350	4.50	-2350	
	14	–	–	–	–	–	3	1525	3	1525	4.50	-1525	20640
5-Oct-04	1	–	–	–	–	–	25	9430	25	9430	4.50	-9430	
	7	–	–	–	–	–	4	555	4	555	4.50	-555	16235
6-Oct-04	1	–	–	–	–	–	23	7260	23	7260	4.50	-7260	
	6	–	–	–	–	–	5	570	5	570	4.50	-570	13340
7-Oct-04	1	–	–	–	–	–	25	7870	25	7870	4.50	-7870	
	7	–	–	–	–	–	5	590	5	590	4.50	-590	13965
8-Oct-04	3	–	–	–	–	–	31	11455	31	11455	4.50	-11455	
	7	–	–	–	–	–	5	585	5	585	4.50	-585	17630
11-Oct-04	1	–	–	–	–	–	27	7645	27	7645	4.50	-7645	
	7	–	–	–	–	–	5	560	5	560	4.50	-560	12030
12-Oct-04	2	–	–	–	–	–	28	6055	28	6055	4.50	-6055	
	7	–	–	–	–	–	2	205	2	205	4.50	-205	9520
14-Oct-04	1	–	–	–	–	–	29	7260	29	7260	4.50	-7260	
	7	–	–	–	–	–	4	270	4	270	4.50	-270	10405
15-Oct-04	3	–	–	–	–	–	24	5710	24	5710	4.50	-5710	
	6	–	–	–	–	–	4	1340	4	1340	4.50	-1340	9610
18-Oct-04	1	–	–	–	–	–	16	3695	16	3695	4.50	-3695	
	7	–	–	–	–	–	5	930	5	930	4.50	-930	
	14	–	–	–	–	–	4	950	4	950	4.50	-950	7390
19-Oct-04	1	–	–	–	–	–	12	3095	12	3095	4.50	-3095	
	7	–	–	–	–	–	1	300	1	300	4.50	-300	6885
20-Oct-04	1	–	–	–	–	–	6	1275	6	1275	4.50	-1275	
	7	–	–	–	–	–	1	30	1	30	4.50	-30	5095
21-Oct-04	4	–	–	–	–	–	9	1770	9	1770	4.50	-1770	
	7	–	–	–	–	–	1	30	1	30	4.50	-30	4010
25-Oct-04	1	–	–	–	–	–	10	4245	10	4245	4.50	-4245	
	7	–	–	–	–	–	2	400	2	400	4.50	-400	5955
26-Oct-04	1	–	–	–	–	–	13	4545	13	4545	4.50	-4545	
	7	–	–	–	–	–	1	100	1	100	4.50	-100	6055

APPENDIX TABLE I.37 : REPO / REVERSE REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Contd...)*

(Amount in Rupees crore)

LAF Date	Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(–) of liquidity [(11) – (6)]	Outstanding Amount @
		Bids Received		Bids Accepted		Fixed Rate %	Bids Received		Bids accepted		Fixed Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
27-Oct-04	1	–	–	–	–	–	22	8515	22	8515	4.75	-8515	
	7	–	–	–	–	–	1	25	1	25	4.75	-25	10020
28-Oct-04	1	–	–	–	–	–	35	13435	35	13435	4.75	-13435	
	7	–	–	–	–	–	1	20	1	20	4.75	-20	14930
29-Oct-04	3	–	–	–	–	–	20	5960	20	5960	4.75	-5960	
	7	–	–	–	–	–	–	–	–	–	–	–	7455
1-Nov-04	1	–	–	–	–	–	13	3010	13	3010	4.75	-3010	3155
2-Nov-04	1	–	–	–	–	–	13	1675	13	1675	4.75	-1675	1720
3-Nov-04	1	–	–	–	–	–	4	510	4	510	4.75	-510	530
4-Nov-04	1	1	75	1	75	6.00	3	350	3	350	4.75	-275	275
5-Nov-04	3	16	4040	15	3940	6.00	2	105	2	105	4.75	3835	-3835
8-Nov-04	1	15	3705	15	3705	6.00	1	40	1	40	4.75	3665	-3665
9-Nov-04	1	30	7915	30	7915	6.00	2	170	2	170	4.75	7745	-7745
10-Nov-04	1	26	7080	26	7080	6.00	3	70	3	70	4.75	7010	-7010
11-Nov-04	5	33	14135	33	14135	6.00	2	60	2	60	4.75	14075	-14075
16-Nov-04	1	36	13780	36	13780	6.00	–	–	–	–	–	13780	-13780
17-Nov-04	1	33	16300	33	16300	6.00	–	–	–	–	–	16300	-16300
18-Nov-04	1	37	17235	37	17235	6.00	–	–	–	–	–	17235	-17235
19-Nov-04	3	34	16195	34	16195	6.00	–	–	–	–	–	16195	-16195
22-Nov-04	1	4	1025	4	1025	6.00	1	45	1	45	4.75	980	-980
23-Nov-04	1	–	–	–	–	–	5	1015	5	1015	4.75	-1015	1015
24-Nov-04	1	–	–	–	–	–	24	5520	24	5520	4.75	-5520	5520
25-Nov-04	4	–	–	–	–	–	29	5825	29	5825	4.75	-5825	5825
29-Nov-04	1	1	200	1	200	6.00	21	4290	21	4290	4.75	-4090	4090
30-Nov-04	1	–	–	–	–	–	22	5605	22	5605	4.75	-5605	5605
1-Dec-04	1	–	–	–	–	–	17	4520	17	4520	4.75	-4520	4520
2-Dec-04	1	–	–	–	–	–	28	7975	28	7975	4.75	-7975	7975
3-Dec-04	3	–	–	–	–	–	46	18225	46	18225	4.75	-18225	18225
6-Dec-04	1	–	–	–	–	–	49	22860	49	22860	4.75	-22860	22860
7-Dec-04	1	–	–	–	–	–	50	23555	50	23555	4.75	-23555	23555
8-Dec-04	1	–	–	–	–	–	44	17840	44	17840	4.75	-17840	17840
9-Dec-04	1	–	–	–	–	–	50	20720	50	20720	4.75	-20720	20720
10-Dec-04	3	–	–	–	–	–	45	15820	45	15820	4.75	-15820	15820
13-Dec-04	1	–	–	–	–	–	27	8515	27	8515	4.75	-8515	8515
14-Dec-04	1	–	–	–	–	–	9	3325	9	3325	4.75	-3325	3325
15-Dec-04	1	–	–	–	–	–	6	1865	6	1865	4.75	-1865	1865
16-Dec-04	1	–	–	–	–	–	9	2105	9	2105	4.75	-2105	2105
17-Dec-04	3	1	1500	1	1500	6.00	8	1705	8	1705	4.75	-205	205
20-Dec-04	1	12	5315	12	5315	6.00	7	1750	7	1750	4.75	3565	-3565
21-Dec-04	1	12	8485	12	8485	6.00	4	1025	4	1025	4.75	7460	-7460
22-Dec-04	1	12	7920	12	7920	6.00	4	365	4	365	4.75	7555	-7555
23-Dec-04	1	4	665	4	665	6.00	7	2020	7	2020	4.75	-1355	1355
24-Dec-04	3	4	2595	4	2595	6.00	7	2155	7	2155	4.75	440	-440
27-Dec-04	1	2	195	2	195	6.00	2	220	2	220	4.75	-25	25
28-Dec-04	1	3	450	3	450	6.00	3	210	3	210	4.75	240	-240
29-Dec-04	1	2	140	2	140	6.00	6	425	6	425	4.75	-285	285
30-Dec-04	1	2	160	2	160	6.00	3	270	3	270	4.75	-110	110
31-Dec-04	3	–	–	–	–	–	13	2420	13	2420	4.75	-2420	2420
3-Jan-05	1	–	–	–	–	–	42	32745	42	32745	4.75	-32745	32745
4-Jan-05	1	–	–	–	–	–	51	40640	51	40640	4.75	-40640	40640
5-Jan-05	1	–	–	–	–	–	52	38165	52	38165	4.75	-38165	38165
6-Jan-05	1	–	–	–	–	–	48	29775	48	29775	4.75	-29775	29775
7-Jan-05	3	–	–	–	–	–	50	29585	50	29585	4.75	-29585	29585
10-Jan-05	1	–	–	–	–	–	33	10050	33	10050	4.75	-10050	10050
11-Jan-05	1	–	–	–	–	–	26	7625	26	7625	4.75	-7625	7625
12-Jan-05	1	–	–	–	–	–	31	12115	31	12115	4.75	-12115	12115
13-Jan-05	1	–	–	–	–	–	33	12840	33	12840	4.75	-12840	12840
14-Jan-05	3	–	–	–	–	–	35	14825	35	14825	4.75	-14825	14825
17-Jan-05	1	–	–	–	–	–	34	21840	34	21840	4.75	-21840	21840
18-Jan-05	1	–	–	–	–	–	37	19890	37	19890	4.75	-19890	19890
19-Jan-05	1	–	–	–	–	–	35	20325	35	20325	4.75	-20325	20325
20-Jan-05	4	–	–	–	–	–	35	15355	35	15355	4.75	-15355	15355
24-Jan-05	1	–	–	–	–	–	32	17265	32	17265	4.75	-17265	17265
25-Jan-05	2	–	–	–	–	–	34	16880	34	16880	4.75	-16880	16880
27-Jan-05	1	–	–	–	–	–	34	16160	34	16160	4.75	-16160	16160
28-Jan-05	3	–	–	–	–	–	31	14760	31	14760	4.75	-14760	14760
31-Jan-05	1	–	–	–	–	–	40	23375	40	23375	4.75	-23375	23375
1-Feb-05	1	–	–	–	–	–	41	23085	41	23085	4.75	-23085	23085
2-Feb-05	1	–	–	–	–	–	43	22310	43	22310	4.75	-22310	22310

APPENDIX TABLE I.37 : REPO / REVERSE REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Concld.)*

(Amount in Rupees crore)

LAF Date	Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(–) of liquidity [(11) – (6)]	Outstanding Amount @
		Bids Received		Bids Accepted		Fixed Rate %	Bids Received		Bids Accepted		Fixed Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
3-Feb-05	1	–	–	–	–	–	45	22195	45	22195	4.75	-22195	22195
4-Feb-05	3	–	–	–	–	–	35	21170	35	21170	4.75	-21170	21170
7-Feb-05	1	–	–	–	–	–	35	16280	35	16280	4.75	-16280	16280
8-Feb-05	1	–	–	–	–	–	34	16120	34	16120	4.75	-16120	16120
9-Feb-05	1	–	–	–	–	–	30	14530	30	14530	4.75	-14530	14530
10-Feb-05	1	–	–	–	–	–	31	10320	31	10320	4.75	-10320	10320
11-Feb-05	3	–	–	–	–	–	29	8670	29	8670	4.75	-8670	8670
14-Feb-05	1	–	–	–	–	–	28	13260	28	13260	4.75	-13260	13260
15-Feb-05	1	–	–	–	–	–	40	16205	40	16205	4.75	-16205	16205
16-Feb-05	1	–	–	–	–	–	39	19210	39	19210	4.75	-19210	19210
17-Feb-05	1	–	–	–	–	–	42	17360	42	17360	4.75	-17360	17360
18-Feb-05	3	–	–	–	–	–	51	25965	51	25965	4.75	-25965	25965
21-Feb-05	1	–	–	–	–	–	36	13695	36	13695	4.75	-13695	13695
22-Feb-05	1	–	–	–	–	–	46	21535	46	21535	4.75	-21535	21535
23-Feb-05	1	–	–	–	–	–	46	26845	46	26845	4.75	-26845	26845
24-Feb-05	1	–	–	–	–	–	40	26030	40	26030	4.75	-26030	26030
25-Feb-05	3	–	–	–	–	–	43	26575	43	26575	4.75	-26575	26575
28-Feb-05	1	–	–	–	–	–	40	30930	40	30930	4.75	-30930	30930
1-Mar-05	1	–	–	–	–	–	50	40600	50	40600	4.75	-40600	40600
2-Mar-05	1	–	–	–	–	–	51	44100	51	44100	4.75	-44100	44100
3-Mar-05	1	–	–	–	–	–	56	42055	56	42055	4.75	-42055	42055
4-Mar-05	3	–	–	–	–	–	53	41005	53	41005	4.75	-41005	41005
7-Mar-05	2	–	–	–	–	–	44	24930	44	24930	4.75	-24930	24930
9-Mar-05	1	–	–	–	–	–	47	31265	47	31265	4.75	-31265	31265
10-Mar-05	1	–	–	–	–	–	44	33700	44	33700	4.75	-33700	33700
11-Mar-05	3	–	–	–	–	–	47	33610	47	33610	4.75	-33610	33610
14-Mar-05	1	–	–	–	–	–	49	34330	49	34330	4.75	-34330	34330
15-Mar-05	1	–	–	–	–	–	53	38060	53	38060	4.75	-38060	38060
16-Mar-05	1	–	–	–	–	–	50	37885	50	37885	4.75	-37885	37885
17-Mar-05	1	–	–	–	–	–	42	36155	42	36155	4.75	-36155	36155
18-Mar-05	3	–	–	–	–	–	46	31545	46	31545	4.75	-31545	31545
21-Mar-05	1	–	–	–	–	–	24	21075	24	21075	4.75	-21075	21075
22-Mar-05	1	–	–	–	–	–	23	17920	23	17920	4.75	-17920	17920
23-Mar-05	1	–	–	–	–	–	27	18550	27	18550	4.75	-18550	18550
24-Mar-05	4	–	–	–	–	–	19	10900	19	10900	4.75	-10900	10900
28-Mar-05	1	–	–	–	–	–	37	23660	37	23660	4.75	-23660	23660
29-Mar-05	1	–	–	–	–	–	48	33965	48	33965	4.75	-33965	33965
30-Mar-05	1	–	–	–	–	–	46	39500	46	39500	4.75	-39500	39500
31-Mar-05	1	–	–	–	–	–	32	19330	32	19330	4.75	-19330	19330
2005-06													
1-Apr-05	3	–	–	–	–	–	56	38930	56	38930	4.75	-38930	38930
2-Apr-05	1	–	–	–	–	–	41	31865	41	31865	4.75	-31865	31865
5-Apr-05	1	–	–	–	–	–	38	34265	38	34265	4.75	-34265	34265
6-Apr-05	1	–	–	–	–	–	34	31165	34	31165	4.75	-31165	31165
7-Apr-05	1	–	–	–	–	–	37	25220	37	25520	4.75	-25220	25220
8-Apr-05	3	–	–	–	–	–	35	27015	35	27015	4.75	-27015	27015
11-Apr-05	1	–	–	–	–	–	42	31435	42	31435	4.75	-31435	31435
12-Apr-05	1	–	–	–	–	–	40	33205	40	33205	4.75	-33205	33205
13-Apr-05	2	–	–	–	–	–	46	32935	46	32935	4.75	-32935	32935
15-Apr-05	4	–	–	–	–	–	33	25125	33	25125	4.75	-25125	25125
19-Apr-05	1	–	–	–	–	–	39	31725	39	31725	4.75	-31725	31725
20-Apr-05	1	–	–	–	–	–	37	31450	37	31450	4.75	-31450	31450
21-Apr-05	4	–	–	–	–	–	36	31745	36	31745	4.75	-31745	31745
25-Apr-05	1	–	–	–	–	–	34	29515	34	29515	4.75	-29515	29515
26-Apr-05	1	–	–	–	–	–	39	32610	39	32610	4.75	-32610	32610
27-Apr-05	1	–	–	–	–	–	39	32625	39	32625	4.75	-32625	32625
28-Apr-05	1	–	–	–	–	–	43	31375	43	31375	4.75	-31375	31375
29-Apr-05	3	–	–	–	–	–	41	27650	41	27650	5.00	-27650	27650
2-May-05	1	–	–	–	–	–	42	32900	42	32900	5.00	-32900	32900
3-May-05	1	–	–	–	–	–	44	34160	44	34160	5.00	-34160	34160
4-May-05	1	–	–	–	–	–	43	27480	43	27480	5.00	-27480	47480
5-May-05	1	–	–	–	–	–	41	24615	41	24615	5.00	-24615	24615
6-May-05	3	–	–	–	–	–	42	27010	42	27010	5.00	-27010	27010
9-May-05	1	–	–	–	–	–	38	20375	38	20375	5.00	-20375	20375
10-May-05	1	–	–	–	–	–	37	20070	37	20070	5.00	-20070	20070
11-May-05	1	–	–	–	–	–	32	17410	32	17410	5.00	-17410	17410
12-May-05	1	–	–	–	–	–	29	16850	29	16850	5.00	-16850	16850

APPENDIX TABLE I.37 : REPO / REVERSE REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Concld.)*

(Amount in Rupees crore)

LAF Date	Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(–) of liquidity [(11) – (6)]	Outstanding Amount @
		Bids Received		Bids Accepted		Fixed Rate %	Bids Received		Bids Accepted		Fixed Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
13-May-05	3	–	–	–	–	–	28	11840	28	11840	5.00	-11840	11840
16-May-05	1	–	–	–	–	–	32	20020	32	20020	5.00	-20020	20020
17-May-05	1	–	–	–	–	–	35	21900	35	21900	5.00	-21900	21900
18-May-05	1	–	–	–	–	–	39	23515	39	23515	5.00	-23515	23515
19-May-05	1	–	–	–	–	–	32	18080	32	18080	5.00	-18080	18080
20-May-05	4	–	–	–	–	–	32	14285	32	14285	5.00	-14285	14285
24-May-05	1	–	–	–	–	–	42	23900	42	23900	5.00	-23900	23900
25-May-05	1	–	–	–	–	–	48	31220	48	31220	5.00	-31220	31220
26-May-05	1	–	–	–	–	–	43	29015	43	29015	5.00	-29015	29015
27-May-05	3	–	–	–	–	–	54	33120	54	33120	5.00	-33120	33120
30-May-05	1	–	–	–	–	–	37	20275	37	20275	5.00	-20275	20275
31-May-05	1	–	–	–	–	–	39	22880	39	22880	5.00	-22880	22880
1-Jun-05	1	–	–	–	–	–	44	27460	44	27460	5.00	-27460	27460
2-Jun-05	1	–	–	–	–	–	47	24765	47	24765	5.00	-24765	24765
3-Jun-05	3	–	–	–	–	–	42	26385	42	26385	5.00	-26385	26385
6-Jun-05	1	–	–	–	–	–	44	27345	44	27345	5.00	-27345	27345
7-Jun-05	1	–	–	–	–	–	37	20900	37	20900	5.00	-20900	20900
8-Jun-05	1	–	–	–	–	–	37	18095	37	18095	5.00	-18095	18095
9-Jun-05	1	–	–	–	–	–	30	12170	30	12170	5.00	-12170	12170
10-Jun-05	3	–	–	–	–	–	29	13620	29	13620	5.00	-12620	12620
13-Jun-05	1	–	–	–	–	–	22	12020	22	12020	5.00	-12020	12020
14-Jun-05	1	–	–	–	–	–	28	10745	28	10745	5.00	-10745	10745
15-Jun-05	1	–	–	–	–	–	25	8230	25	8230	5.00	-8230	8230
16-Jun-05	1	–	–	–	–	–	23	10235	23	10235	5.00	-10235	10235
17-Jun-05	3	–	–	–	–	–	25	9145	25	9145	5.00	-9145	9145
20-Jun-05	1	–	–	–	–	–	25	8305	25	8305	5.00	-8305	8305
21-Jun-05	1	–	–	–	–	–	29	15915	29	15915	5.00	-15915	15915
22-Jun-05	1	–	–	–	–	–	30	14075	30	14075	5.00	-14075	14075
23-Jun-05	1	–	–	–	–	–	31	11550	31	11550	5.00	-11550	11550
24-Jun-05	3	–	–	–	–	–	23	9670	23	9670	5.00	-9670	9670
27-Jun-05	1	–	–	–	–	–	16	4125	16	4125	5.00	-4125	4125
28-Jun-05	1	3	210	3	210	6.00	12	3640	12	3640	5.00	-3430	3430
29-Jun-05	1	–	–	–	–	–	13	5760	13	5760	5.00	-5760	5760
30-Jun-05	4	2	575	2	575	6.00	15	6470	15	6470	5.00	-5895	5895
4-Jul-05	1	–	–	–	–	–	15	10785	15	10785	5.00	-10785	10785
5-Jul-05	1	–	–	–	–	–	25	17930	25	17930	5.00	-17930	17930
6-Jul-05	1	–	–	–	–	–	17	9470	17	9470	5.00	-9470	9470
7-Jul-05	1	–	–	–	–	–	25	13875	25	13785	5.00	-13875	13875
8-Jul-05	3	–	–	–	–	–	16	5800	16	5800	5.00	-5800	5800
11-Jul-05	1	–	–	–	–	–	14	3360	14	3360	5.00	-3360	3360
12-Jul-05	1	–	–	–	–	–	14	3625	14	3625	5.00	-3625	3625
13-Jul-05	1	–	–	–	–	–	13	3675	13	3675	5.00	-3675	3675
14-Jul-05	1	–	–	–	–	–	18	7985	18	7985	5.00	-7985	7985
15-Jul-05	3	–	–	–	–	–	20	7365	20	7365	5.00	-7365	7365
18-Jul-05	1	–	–	–	–	–	35	17450	35	17450	5.00	-17450	17450
19-Jul-05	1	–	–	–	–	–	33	19530	33	19530	5.00	-19530	19530
20-Jul-05	1	–	–	–	–	–	31	18470	31	18470	5.00	-18470	18470
21-Jul-05	1	–	–	–	–	–	28	12170	28	12170	5.00	-12170	12170
22-Jul-05	3	–	–	–	–	–	32	10485	32	10485	5.00	-10485	10485
25-Jul-05	1	–	–	–	–	–	24	11495	24	11495	5.00	-11495	11495
26-Jul-05	3	–	–	–	–	–	24	12745	24	12745	5.00	-12745	12745
29-Jul-05	3	–	–	–	–	–	35	18895	35	18895	5.00	-18895	18895
1-Aug-05	1	–	–	–	–	–	46	30880	46	30880	5.00	-30880	30880
2-Aug-05	1	–	–	–	–	–	55	44605	55	44605	5.00	-44605	44605
3-Aug-05	1	–	–	–	–	–	55	50610	55	50610	5.00	-50610	50610
4-Aug-05	1	–	–	–	–	–	56	45880	56	45880	5.00	-45880	45880
5-Aug-05	3	–	–	–	–	–	62	47980	62	47980	5.00	-47980	47980
8-Aug-05	1	–	–	–	–	–	48	31295	48	31295	5.00	-31295	31295
9-Aug-05	1	–	–	–	–	–	51	38540	51	38540	5.00	-38540	38540
10-Aug-05	1	–	–	–	–	–	56	42625	56	42625	5.00	-42625	42625
11-Aug-05	1	–	–	–	–	–	51	37545	51	37545	5.00	-37545	37545
12-Aug-05	4	–	–	–	–	–	50	37050	50	37050	5.00	-37050	37050

@ : Net of overnight repo.

: Outstanding amount is shown alongwith 1 day/7 day/14 day reverse repo.

Note : 1. With effect from October 29, 2004 nomenclature of Repo and Reverse Repo has been interchanged as per international usages. Till October 28, 2004, Repo indicated absorption of liquidity where as Reverse Repo meant injection of liquidity by the Reserve Bank.

2. The revised LAF scheme was operationalised with effect from March 29, 2004, through (i) 7-day fixed rate reserve repo conducted daily and (ii) overnight fixed rate repo conducted daily on weekdays. Overnight fixed rate reserve repo was re-introduced under LAF effective August 16, 2004. With effect from November 1, 2004, the auctions of 7-day and 14-day reverse repos were discontinued.

3. Working days, on which no bid was received under LAF auction, have been excluded.

APPENDIX TABLE I.38 : ISSUE OF CERTIFICATES OF DEPOSIT BY SCHEDULED COMMERCIAL BANKS

(Amount in Rupees crore)

Fortnight ended		Total Outstanding	Rate of Discount (Per cent) @	Fortnight ended		Total Outstanding	Rate of Discount (Per cent) @	Fortnight ended		Total Outstanding	Rate of Discount (Per cent) @
1		2	3	4		5	6	7		8	9
2003				**2004**				**2005**			
January	10	1,199	4.37-6.61	January	9	4,457	3.87-6.00	January	7	7,033	3.91-6.26
	24	1,226	4.60-7.00		23	4,419	3.57-6.11		21	4,236	4.01-6.25
February	7	1,214	4.75-6.50	February	6	4,826	3.92-5.06	February	4	8,202	4.50-6.32
	21	1,125	3.00-7.50		20	4,656	3.75-6.00		18	9,214	4.25-6.12
March	7	928	5.25-7.10	March	5	4,831	3.59-5.75	March	4	10,310	5.25-6.31
	21	908	5.00-7.10		19	4,461	3.87-5.16		18	12,078	4.21-6.34
April	4	891	5.25-7.40	April	2	4,626	3.75-5.16	April	1	14,975	4.75-6.60
	18	1,485	5.25-7.40		16	4,813	4.64-6.00		15	14,106	4.10-6.60
May	2	1,660	5.00-6.26		30	4,725	3.50-4.45		29	16,602	4.24-6.50
	16	1,946	5.25-6.25	May	14	4,703	4.08-4.61	May	13	17,420	4.29-6.75
	30	1,996	3.94-7.00		28	4,860	1.09-4.73		27	17,689	4.29-6.75
June	13	2,227	3.99-7.00	June	11	5,065	4.70-5.00	June	10	18,503	5.47-7.00
	27	2,183	3.74-6.50		25	5,438	3.96-6.75		24	19,270	5.58-7.50
July	11	2,242	4.45-6.25	July	9	5,529	4.14-6.75	July	8	20,509	4.50-7.00
	25	2,466	5.25-6.75		23	5,478	4.02-6.75				
August	8	2,741	4.25-6.75	August	6	4,605	4.30-6.75				
	22	2,961	4.75-5.68		20	4,480	4.50-5.00				
September	5	3,024	4.50-5.61	September	3	4,842	4.50-5.75				
	19	3,098	4.25-6.00		17	5,112	4.09-5.09				
October	3	3,154	3.75-6.75	October	1	5,164	3.50-5.50				
	17	3,243	4.50-7.00		15	4,837	4.00-5.75				
	31	3,321	4.25-6.50		29	4,785	4.50-6.26				
November	14	3,511	4.50-7.00	November	12	5,425	3.90-7.00				
	28	3,666	3.75-6.10		26	6,118	4.45-6.00				
December	12	3,643	4.00-6.00	December	10	7,121	4.19-6.20				
	26	3,830	3.75-6.00		24	6,103	3.96-6.75				

@ : Effective discount rate range per annum.

APPENDIX TABLE I.39 : COMMERCIAL PAPER*

(Amount in Rupees crore)

Fortnight ended		Total Outstanding	Typical Effective Rates of Discount (Per cent)	Fortnight ended		Total Outstanding	Typical Effective Rates of Discount (Per cent)
1		2	3	4		5	6
2003							
January	15	8,645	5.70 – 7.50	April	15	9,911	4.66 – 6.20
	31	8,554	5.60 – 8.05		30	10,362	4.50 – 6.50
February	15	8,173	5.58 – 9.86	May	15	10,644	4.47 – 5.95
	28	7,070	5.82 – 9.50		31	11,038	4.56 – 7.00
March	15	6,573	5.60 – 8.20	June	15	10,614	4.50 – 6.05
	31	5,749	6.00 – 7.75		30	10,950	4.60-6.20
April	15	5,839	5.25 – 8.15	July	15	10,794	4.63 – 7.00
	30	5,994	5.05 – 9.85		31	11,038	4.61 – 5.65
May	15	6,396	5.05 – 8.50	August	15	11,296	4.65 – 6.50
	31	6,820	5.00 – 9.88		31	11,002	4.60 – 7.69
June	15	6,854	5.00-8.00	September	15	11,183	4.68 – 7.00
	30	7,108	5.20 – 7.40		30	11,371	4.55 – 6.50
July	15	7,069	5.15 – 6.80	October	15	10,929	4.95 – 7.25
	31	7,557	4.99 – 8.25		31	10,409	5.10 – 6.30
August	15	7,488	5.10 – 8.25	November	15	9,903	5.10 – 6.23
	31	7,646	5.00 – 6.65		30	10,719	5.40 – 7.00
September	15	7,212	4.69 – 6.60	December	15	13,330	5.35 – 6.75
	30	7,258	4.74 – 6.50		31	13,272	5.10 – 7.10
October	15	6,974	4.75 – 7.75				
	31	6,845	4.89 – 8.00	**2005**			
November	15	7,230	4.81 – 6.00	January	15	12,998	5.40 – 6.35
	30	7,956	4.70 – 6.04		31	13,092	5.10 – 6.30
December	15	8,444	4.66 – 6.50	February	15	13,383	5.21 – 6.33
	31	8,762	4.64 – 6.75		28	13,189	5.37 – 7.33
				March	15	13,995	5.50 – 6.76
2004					31	14,235	5.20 – 7.25
January	15	9,525	4.63 – 6.00	April	15	15,214	5.55 – 6.33
	31	9,562	4.70 – 5.75		30	15,598	5.50 – 6.65
February	15	9,355	4.73 – 6.75	May	15	16,078	5.38 – 6.65
	29	9,379	4.60 – 7.50		31	17,182	5.40 – 6.65
March	15	9,342	4.81 – 5.90	June	15	17,522	5.42 – 6.65
	31	9,131	4.70 – 6.50		30	17,797	5.45 – 6.51
				July	15	18,157	5.57-7.50
					31	18,349	5.25-7.50

* : Issued at face value by companies.

APPENDIX TABLE I.40 : INTER-BANK AND MERCHANT TRANSACTIONS IN THE FOREIGN EXCHANGE MARKET

(US $ million)

Month	Inter-bank							Merchant						
	Spot			Forward/Swap				Spot			Forward			
	Purchases	Sales	Net	Purchases	Sales	Net	Turnover	Purchases	Sales	Net	Purchases	Sales	Net	Turnover
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2004														
Jan	22412	24665	-2254	34939	33106	1833	158165	13106	11384	1721	6554	4472	2082	50763
Feb	18267	19851	-1583	31565	27758	3808	137740	11921	10077	1844	5326	4000	1326	45965
Mar	29830	32277	-2447	33829	32509	1320	172208	16601	13475	3126	7963	6116	1848	58719
Apr	30423	34554	-4131	45871	43154	2716	195746	12691	10770	1922	10738	6313	4424	53978
May	31454	30813	641	45610	42891	2719	186519	11743	11154	589	8598	6776	1822	51237
Jun	29092	27913	1179	37906	38453	-547	172630	12801	12376	425	5991	6781	-789	52370
Jul	29579	28142	1437	34846	36440	-1594	170639	12134	11993	140	5899	6218	-319	50662
Aug	22844	21593	1251	26543	25456	1088	131421	11691	11640	51	4526	4993	-467	46047
Sep	23766	22747	1019	36992	34578	2414	154312	12324	12306	19	7220	5260	1960	51741
Oct	22688	21368	1321	28726	30507	-1781	137987	12702	11956	746	5711	5088	623	48673
Nov	32594	34461	-1867	41801	41304	497	188668	13745	12097	1649	9488	5499	3989	57198
Dec	37386	36621	766	42154	41428	726	207840	16667	14963	1705	10979	7681	3298	77439
2005														
Jan	29057	27615	1442	30231	34039	-3808	173159	13636	13343	293	6395	5833	562	61755
Feb	38610	41037	-2427	51125	47820	3306	231650	15961	13440	2521	8851	5861	2990	64792
Mar	38825	39029	-204	43822	38875	4947	237011	19957	18015	1942	9304	6978	2326	88641
Apr (P)	21065	20011	1054	30933	34493	-3560	167965	13928	14187	-259	5072	5452	-381	65072
May (P)	31421	30410	1011	36274	35240	1034	211736	15449	15935	-487	9426	7325	2101	81569
June (P)	34588	34161	427	37023	39286	-2263	239169	20969	17939	3030	6877	8110	-1233	92694

P : Provisional.

Note : 1. Merchant turnover includes cross-currency (i.e. foreign currency to foreign currency , both spot & forward) transactions and cancellation of forward contracts.

2. Inter-bank turnover includes cross-currency (i.e. foreign currency to foreign currency , both spot & forward) transactions .

APPENDIX TABLE I.41 : A PROFILE OF CENTRAL GOVERNMENT DATED SECURITIES

(Amount in Rupees crore)

Item	2004-05	2003-04	2002-03
1	2	3	4
1. Gross Borrowing	80,350	1,21,500	1,25,000
2. Repayments	34,316	32,693	27,420
3. Net Borrowing	46,034	88,816	97,580
4. Weighted Average Maturity(in years)	14.13	14.94	13.83
5. Weighted Average Yield (per cent)	6.11	5.74	7.34
6. A. Maturity Distribution- Amount			
(a) Up to 5 Years	3,000	6,500	0
(b) Above 5 and Up to 10 Years	15,000	22,000	45,500
(c) Above 10 Years	62,350	93,000	79,500
Total	80,350	1,21,500	1,25,000
B. Maturity Distribution (per cent)			
(a) Up to 5 Years	4	5	0
(b) Above 5 and Up to 10 Years	19	18	36
(c) Above 10 Years	77	77	64
Total	100	100	100
7. Price Based Auctions – Amount	72,350	74,000	56,000
8. Yield – Per cent			
(a) Minimum	4.49 @ (12 years)	4.69 (4 years)	6.05 (12 years, 8 months)
(b) Maximum	8.24 (27 years, 10 months)	6.34 (20 years)	8.62 (24 years, 3 months)
9. Yield-Maturity Distribution – wise			
(a) Less than 10 Years			
Minimum	5.47 (9 years)	4.69 (4 years)	6.57 (8 years)
Maximum	7.20 (5 years, 6 months)	4.62 (9 years)	7.72 (9 years, 11 months)
(b) 10 Years			
Minimum	Nil	5.32	6.72
Maximum	Nil		8.14
(c) Above 10 Years			
Minimum	4.49 (12 years)	5.96 (10 years, 3 months)	6.05 (12 years, 8 months)
Maximum	8.24 (27 years, 10 months)	6.32 (29 years, 4 months)	8.62 (24 years, 8 months)
Memo Item :			
1. Initial Subscription by RBI	350	21,500	36,175
2. Open Market Operations by RBI- Net Sales	2,899	41,849	53,780
3. Monetised Deficit*			-28,399
4. Ways and Means Advances to the Centre(Outstandings) (as on March 31)	nil	nil	nil

* Financial year variation @ : Pertains to FRBs.

Note : Figure in brackets represent residual maturity in years.

APPENDIX TABLE I.42 : SECONDARY MARKET TRANSACTIONS IN GOVERNMENT SECURITIES

(Amount in Rupees crore)

Instruments	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
I. Outright Transaction																
1. Central Government Securities	150431.83	96132.13	87900.75	65199.75	64686.48	87817.49	56354.35	39112.34	66723.55	55267.73	64958.32	43945.88	45019.94	58984.45	102098.57	57316.93
	(90.60)	(82.85)	(80.00)	(74.77)	(77.13)	(79.19)	(71.82)	(63.84)	(70.32)	(67.45)	(69.14)	(57.61)	(53.45)	(68.37)	(84.42)	(81.20)
2. State Government Securities	1216.27	1648.91	3032.97	2525.54	935.95	2615.60	3820.74	1953.08	3550.47	2671.66	1212.64	1210.04	981.00	2684.81	2706.26	1254.47
	(0.73)	(1.42)	(2.76)	(2.90)	(1.12)	(2.36)	(4.87)	(3.19)	(3.74)	(3.26)	(1.29)	(1.59)	(1.16)	(3.11)	(2.24)	(1.78)
3. Treasury Bills	14350.27	18250.54	18936.53	19471.09	18239.57	20459.24	18291.70	20197.69	24608.66	24000.94	27774.30	31126.86	38223.99	24597.12	16132.34	12017.02
	(8.64)	(15.73)	(17.24)	(22.33)	(21.75)	(18.45)	(23.31)	(32.97)	(25.94)	(29.29)	(29.56)	(40.80)	(45.38)	(28.51)	(13.34)	(17.02)
(a) 91 days	7533.31	11145.63	10091.78	12973.02	12742.49	13581.46	10942.64	8864.11	11685.52	9783.91	11174.69	13125.17	16162.20	7274.96	6382.81	4573.01
	(4.54)	(9.61)	(9.19)	(14.88)	(15.19)	(12.25)	(13.95)	(14.47)	(12.32)	(11.94)	(11.89)	(17.21)	(19.19	(8.43)	(5.28)	(6.48)
(b) 182 days	–	–	–	–	–	–	–	–	–	–	–	–	1446.17	1072.80	1265.90	1593.55
	–	–	–	–	–	–	–	–	–	–	–	–	(1.72)	(1.24)	(1.05)	(2.26)
(c) 364 days	6816.96	7104.91	8844.75	6498.07	5497.08	6877.77	7349.06	11333.58	12923.14	14217.03	16599.60	18001.69	20615.63	16249.36	8483.63	5850.46
	(4.11)	(6.12)	(8.05)	(7.45)	(6.55)	(6.20)	(9.37)	(18.50)	(13.62)	(17.35)	(17.67)	(23.60)	(24.48)	(18.84)	(7.01)	(8.29)
Total (1+2+3)	165998.37	116031.57	109870.24	87196.39	83861.99	110892.32	78466.79	61263.12	94882.67	81940.33	93945.25	76262.76	84224.92	86266.38	120937.16	70588.42
	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)
II. Repo Transaction																
1. Central Government Securities	105184.45	103793.68	110164.85	111986.84	71936.55	99834.38	104435.93	114876.75	148229.97	114505.54	102457.54	79091.86	66187.52	89219.81	92656.24	99398.28
	(92.30)	(84.06)	(83.85)	(75.16)	(68.45)	(73.23)	(85.73)	(82.53)	(87.25)	(84.16)	(83.34)	(69.48)	(72.49)	(84.10)	(71.98)	(70.85)
2. State Government Securities	1027.50	1637.76	1062.96	1636.53	91.84	20.00	0.00	164.00	29.42	652.25	696.50	1821.03	2061.00	4277.39	5540.61	2654.62
	(0.90)	(1.33)	(0.81)	(1.10)	(0.09)	(0.01)	(0.00)	(0.12)	(0.02)	(0.48)	(0.57)	(1.60)	(2.26)	(4.03)	(4.30)	(1.89)
3. Treasury Bills	7753.49	18040.62	20151.74	35376.62	33072.04	36477.80	17383.33	24158.34	21639.21	20899.62	19780.90	32917.83	23053.60	12586.42	30524.39	38245.45
	(6.80)	(14.61)	(15.34)	(23.74)	(31.47)	(26.76)	(14.27)	(17.36)	(12.74)	(15.36)	(16.09)	(28.92)	(25.25)	(11.86)	(23.71)	(27.26)
(a) 91 days	1773.54	8404.66	11892.15	20482.97	17963.42	16910.78	5601.71	8781.06	6722.96	3538.59	6586.07	13509.67	10312.74	6207.14	11761.13	8109.31
	(1.56)	(6.81)	(9.05)	(13.75)	(17.09)	(12.40)	(4.60)	(6.31)	(3.96)	(2.60)	(5.36)	(11.87)	(11.30)	(5.85)	(9.14)	(5.78)
(b) 182 days	–	–	–	–	–	–	–	–	–	–	–	–	360.95	359.31	499.88	1666.91
	–	–	–	–	–	–	–	–	–	–	–	–	(0.40)	(0.34)	(0.39)	(1.19)
(c) 364 days	5979.95	9635.96	8259.59	14893.65	15108.62	19567.02	11781.62	15377.29	14916.25	17361.03	13194.84	19408.16	12379.91	6019.97	18263.37	28469.95
	(1.56)	(7.80)	(6.29)	(10.00)	(14.38)	(14.35)	(9.67)	(11.05)	(8.78)	(12.76)	(10.73)	(17.05)	(13.56)	(5.67)	(14.19)	(20.29)
Total (1+2+3)	113965.95	123472.06	131379.54	148999.99	105100.42	136332.18	121819.25	139199.09	169898.60	136057.41	122934.94	113830.72	91302.11	106083.62	128721.24	140298.35
	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)
III. GRAND TOTAL (I+II)	**279963.81**	**239503.63**	**241249.78**	**236196.38**	**188962.42**	**247224.51**	**200286.04**	**200462.21**	**264781.27**	**217997.75**	**216880.19**	**190113.49**	**175527.03**	**192350.00**	**249658.40**	**210886.76**
Percentage of I to III	59.29	48.45	45.54	36.92	44.38	44.85	39.18	30.56	35.83	37.59	43.32	40.12	47.98	44.85	48.44	33.47
Percentage of II to III	40.71	51.55	54.46	63.08	55.62	55.15	60.82	69.44	64.17	62.41	56.68	59.88	52.02	55.15	51.56	66.53

Note : 1. Figures in brackets indicate percentages to total outright/ repo transactions. Repos transactions exclude second leg of transactions.
2. 182-day Treseary Bills have been re-introduced from the year 2005-06.

APPENDIX TABLE I.43 : ISSUANCE OF CENTRAL GOVERNMENT DATED SECURITIES*

(Amount in Rupees crore)

Auction Particulars					Bids/Application Received				Bids / Application Accepted							Gross Amount Raised (14+15+16)	Cut-off Price (Rs.) / Yield (%)	Nomenclature of loan
Date of Auction	Date of Issue	Tenor (Years)	Re-sidual Matu-rity	Notified Amount	Competitive		Non-Comp		Competitive		Non-Comp		Total (11+13)	Allocation to				
					No.	Face Value	No. +	Face Value	No.	Face Value	No. +	Face Value		PDs (Devlmt)	RBI (Devlmt/–pp)			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
2004-05																		
06-May-04	07-May-04	25	23.88	3000.00	173	6791.00	14	55.08	16	2945	14	55.08	3000.00	–	–	3000.00	102.785/5.7930	6.01% GS 2028 $ **
06-May-04	07-May-04	12	12.00	6000.00	127	17140.00	3	10.40	18	5990	3	10.40	6000.00	–	–	6000.00	0.04 @	GOI FRB 2016
03-Jun-04	04-Jun-04	12	12.00	6000.00	243	11834.00	10	33.49	87	5967	10	33.49	6000.00	–	–	6000.00	5.59	5.59% GS 2016 # **
03-Jun-04	04-Jun-04	25	23.81	4000.00	178	7344.00	14	47.54	41	3952	14	47.54	4000.00	–	–	4000.00	97.22/6.2348	6.01% GS 2028 $ **
17-Jun-04	18-Jun-04	13	11.21	6000.00	261	10785.00	10	15.19	145	5985	10	15.19	6000.00	–	–	6000.00	114.80/5.5842	7.38% GS 2015 $ **
17-Jun-04	18-Jun-04	25	23.96	3000.00	180	5982.50	13	51.00	134	2949	13	51.00	3000.00	–	–	3000.00	98.03/6.2900	6.13% GS 2028 $ **
01-Jul-04	02-Jul-04	11	11.00	6000.00	94	8730.00	3	3.20	76	5997	3	3.20	6000.00	–	–	6000.00	0.19@ 100/4.71% for first 1 yr	GOI FRB 2015
01-Jul-04	02-Jul-04	25	23.92	2000.00	62	3033.00	9	15.72	35	1984	9	15.72	2000.00	–	–	2000.00	93.20/6.7039	6.13% GS 2028 $ **
09-Aug-04	10-Aug-04	30	30.00	2000.00	24	2463.00	6	8.97	16	1991	6	8.97	2000.00	–	–	2000.00	7.50	7.50% GS 2034 # ** U
09-Aug-04	10-Aug-04	11	11.00	6000.00	106	7205.00	4	7.71	93	5405	4	7.71	5412.71	370.00	217.29	6000.00	0.50@ 100/5.12% for first 1 yr	GOI FRB 2015(II)
09-Sep-04	10-Sep-04	9	9.00	4000.00	96	4505.00	1	0.48	70	2755	1	0.48	2755.48	615.00	629.52	4000.00	0.45@ 100/5.47% for first 1 yr	GOI FRB 2013
09-Sep-04	10-Sep-04	7	4.57	3000.00	207	5543.00	11	45.90	119	2954	11	45.90	3000.00	–	–	3000.00	102.97/ 5.8976	6.65% GS 2009 $ **
09-Sep-04	10-Sep-04	20	17.68	3000.00	98	3671.80	7	9.70	69	2990	7	9.70	3000.00	–	–	3000.00	112.05/ 7.1378	8.35% GS 2022 $ **
11-Oct-04	12-Oct-04	13	10.89	6000.00	296	11069.50	16	55850.00	200	5944	16	55.85	6000.00	–	–	6000.00	102.95/6.9872	7.38% GS 2015 $ **
08-Nov-04	09-Nov-04	8	5.51	6000.00	332	15541.59	12	29.45	109	5971	12	29.45	6000.00	–	–	6000.00	101.58/7.1974	7.55% GS 2010 $ **
08-Nov-04	09-Nov-04	30	27.80	2000.00	71	2169.09	5	5.10	60	1995	5	5.10	2000.00	–	–	2000.00	96.81/8.2423	7.95% GS 2032 $ **
04-Jan-05	05-Jan-05	10	6.49	5000.00	426	17223.04	12	64.17	114	4936	12	64.17	5000.00	–	–	5000.00	115.02/6.5154	9.39% GS 2011 $ **
04-Jan-05	05-Jan-05	30	29.60	2000.00	190	5835.80	15	63.73	87	1936	15	63.73	2000.00	–	–	2000.00	104.80/7.1085	7.50% GS 2034 $ **
–	25-Jan-05	30	30.00	350.00	–	–	–	–	–	–	–	–	–	–	350.00	350.00	6.49 for first five years	GOI FRB 2035 P
07-Feb-05	08-Feb-05	20	17.27	5000.00	355	13739.50	12	23.08	17	4957	12	43.08	5000.00	–	–	5000.00	109.75/7.3427	8.35% GS 2022 $ **
2005-06																		
05-Apr-05	06-Apr-05	10	6.98	5000.00	316	10755.50	9	19.68	316	4980	9	19.68	5000.00	–	–	5000.00	100.25/6.8044	6.85% GS, 2012 $ **
05-Apr-05	06-Apr-05	30	27.39	3000.00	135	5983.50	6	14.00	71	2986	6	14.00	3000.00	–	–	3000.00	101.75/7.7933	7.95% GS, 2032 $ **
19-Apr-05	20-Apr-05	15	11.74	5000.00	165	9670.90	11	39.88	86	4960	11	39.88	5000.00	–	–	5000.00	104.50/7.4847	8.07% GS , 2017 $ ** U
19-Apr-05	20-Apr-05	30	29.31	2000.00	163	4935.56	6	9.41	37	1991	6	9.41	2000.00	–	–	2000.00	95/7.9406	7.50% GS, 2034 $ **
03-May-05	04-May-05	8	5.03	6000.00	387	21535.00	12	28.81	68	5971	12	28.81	6000.00	–	–	6000.00	102.33/6.9916	7.55% GS, 2010 $ **
03-May-05	04-May-05	30	29.27	2000.00	220	6368.48	9	55.29	25	1945	9	55.29	2000.00	–	–	2000.00	94.58/7.9796	7.50% GS, 2034 $ **
24-May-05	25-May-05	20	16.05	4000.00	255	10467.00	58	55.27	1	3945	58	55.27	4000.00	–	–	4000.00	110.30/7.2825	8.35% GS, 2022 $ **
06-Jun-05	07-Jun-05	20	15.98	4000.00	148	7507.06	24	29.86	99	3970	24	29.86	4000.00	–	–	4000.00	125.71/7.4677	10.25% GS, 2021 $**
06-Jun-05	07-Jun-05	12	8.86	6000.00	306	11590.96	44	52.20	125	5948	44	52.20	6000.00	–	–	6000.00	103.00/6.9096	7.37% GS, 2014 $ **
23-Jun-05	24-Jun-05	15	10.81	5000.00	336	11323.00	62	62.43	156	4938	62	62.43	5000.00	–	–	5000.00	104.60/6.9120	7.49% GS, 2017 $ **
05-Jul-05	06-Jul-05	11	8.16	6000.00	320	11357.00	28	39.51	190	5960	28	39.51	6000.00	–	–	6000.00	101.26/7.0619	7.27% GS, 2013 $**
05-Jul-05	06-Jul-05	20	15.90	4000.00	250	8183.52	26	30.16	130	3970	26	30.16	4000.00	–	–	4000.00	124.57/7.5658	10.25% GS, 2021 $**
18-Jul-05	19-Jul-05	20	15.86	5000.00	408	12914.25	27	22.15	31	4978	27	22.15	5000.00	–	–	5000.00	122.00/7.8058	10.25% GS, 2021 $**
11-Aug-05	12-Aug-05	30	28.99	3000.00	148	6354.77	70	81.16	5	2919	70	81.16	3000.00	–	–	3000.00	100.65/7.4449	7.50% GS, 2034 $**
11-Aug-05	12-Aug-05	15	11.43	5000.00	287	9015.82	74	74.00	116	4926	74	73.98	5000.00	–	–	5000.00	107.17/7.1403	8.07% GS, 2017 $**

** : Allotment to Non-Competitive bidders at weighted average yield/price of competitive bids. U : Uniform Price. P : Private placement with RBI.
$: Reissues + : Number of applicants # : Yield based auction. @ : Mark up (spread) over the base rate.
* : Exclude issuance under Market stabilisation Scheme(MSS).

APPENDIX TABLE I.44 : PROFILE OF TREASURY BILLS

(Amount in Rupees crore)

		2004-05	2003-04	2002-03	2001-02
1	2	3	4	5	6
1. Implicit Yield at Cut-Off Price(per cent)					
14-day Treasury Bills					
	Minimum	..	..	..	6.78
	Maximum	..	..	..	7.56
	Average	..	..	..	7.13
91-day Treasury Bills					
	Minimum	4.37	4.16	5.10	6.05
	Maximum	5.61	5.47	7.00	8.50
	Average	4.89	4.63	5.73	6.88
182-day Treasury Bills					
	Minimum	..	..	..	8.33
	Maximum	..	..	..	8.57
	Average	..	..	..	8.44
364-day Treasury Bills					
	Minimum	4.43	4.31	5.35	6.16
	Maximum	5.77	5.49	6.98	8.85
	Average	5.15	4.67	5.93	7.30
2. Gross Issues					
14-day Treasury Bills		..	..	..	1,100
91-day Treasury Bills *		1,00,592 (67,955)	36,789	26,402	20,216
182-day Treasury Bills		..	..	..	300
364-day Treasury Bills *		47,132 (20,981)	26,136	26,126	19,588
3. Net Issues					
14-day Treasury Bills		..	..	..	300
91-day Treasury Bills *		20,653 (19,500)	2485	4,626	3,171
182-day Treasury Bills		..	..	..	1300
364-day Treasury Bills *		20,997 (20,981)	10	6,538	4,588
4. Outstanding at Year End					
14-day Treasury Bills		..	..	..	..
91-day Treasury Bills		27,792 (19,500)	7,139	9,627	5,001
182-day Treasury Bills		..	..	..	..
364-day Treasury Bills		47,132 (20,981)	26,136	26,126	19,588

* Figure in brackets indicate issuances under MSS.

.. Not applicable

Note : 1. Auction of 14 day and 182 day Treasury Bills were discontinued from the week beginning May 14, 2001

2. Non-competitive bids allowed to certain entities like State Governments result in the difference between notified amount and actual amounts issued and outstanding.

APPENDIX TABLE I.45 : NEW CAPITAL ISSUES BY NON-GOVERNMENT PUBLIC LIMITED COMPANIES

(Amount in Rupees crore)

Security and Type of Issue	2004-05P		2003-04		2002-03	
	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5	6	7
1) Equity Shares (a+b)	**51** **(45)**	**12,004.0** **(8,010.9)**	**35** **(24)**	**2,323.0** **(1,613.1)**	**5** **(5)**	**460.2** **(391.3)**
a) Prospectus	25 (24)	8,388.0 (4,791.7)	14 (9)	1,470.0 (1,087.4)	3 (3)	206.7 (201.0)
b) Rights	26 (21)	3,616.0 (3,219.2)	21 (15)	853.0 (525.7)	2 (2)	253.5 (190.3)
2) Preference Shares (a+b)	–	–	–	–	–	–
a) Prospectus	–	–	–	–	–	–
b) Rights	–	–	–	–	–	–
3) Debentures (a+b)	–	–	–	–	**1**	**217.5**
a) Prospectus	–	–	–	–	–	–
b) Rights	–	–	–	–	1	217.5
Of which:						
i) Convertible (a+b)	–	–	–	–	1	217.5
a) Prospectus	–	–	–	–	–	–
b) Rights	–	–	–	–	1	217.5
ii) Non-Convertible (a+b)	–	–	–	–	–	–
a) Prospectus	–	–	–	–	–	–
b) Rights	–	–	–	–	–	–
4) Bonds (a+b)	**3**	**1,478.0**	**3**	**1,352.0**	**3**	**1,200.0**
a) Prospectus	3	1,478.0	3	1,352.0	3	1,200.0
b) Rights	–	–			–	–
5) Total (1+2+3+4)	**54**	**13,482.0**	**38**	**3,675.0**	**9**	**1,877.7**
a) Prospectus	28	9,866.0	17	2,822.0	6	1,406.7
b) Rights	26	3,616.0	21	853.0	3	471.0

– : Nil/Negligible. P : Provisional.

Note :
1. Data exclude bonus shares, offers for sale and private placement.
2. Figures in parentheses refer to premium amount on capital issues. These are included in respective totals.
3. Preference shares include cumulative convertible preference shares and equi-preference shares.
4. Convertible debentures include partly convertible debentures.
5. Non-convertible debentures include secured premium notes and secured deep discount bonds.
6. Data are compiled from prospectus/circulars/advertisements issued by companies, replies given by the companies to the Reserve Bank's questionnaires, information received from stock exchanges, press reports, *etc.*

APPENDIX TABLE I.46 : ASSISTANCE SANCTIONED AND DISBURSED BY FINANCIAL INSTITUTIONS

(Rupees crore)

Institutions	2004-05 P		2003-04 P		2002-03	
	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
1	2	3	4	5	6	7
A. All India Development Banks (1to 5)	**32,094**	**16,907**	**21,708**	**14,632**	**22,273**	**17,225**
1. IDBI	16,489	6,882	3,938	4,986	5,898	6,615
2. IFCI	–	84	1,392	278	1,960	1,780
3. IDFC	6,414	3,739	5,720	2,703	2,304	949
4. SIDBI	9,190	6,194	8,246	4,414	10,904	6,789
5. IIBI	1	8	2,412	2,252	1,207	1,092
B. Specialised Financial Institutions (6 to 8)	**98**	**64**	**440**	**396**	**476**	**491**
6. IVCF	–	–	–	–	2	2
7. ICICI Venture	n.a.	n.a.	380	361	390	394
8. TFCI	98	64	60	35	84	95
C. Investment Institutions (9 to 11)	**10,293**	**8,972**	**23,197**	**16,989**	**5,965**	**7,903**
9. LIC	9,230	7,954	21,974	15,782	4,333	6,206
10. UTI #	–	–	–	–	307	415
11. GIC $	1,063	1,018	1,223	1,207	1,325	1,282
D. Total Assistance by All-India Financial Institutions (A+B+C)	**42,485**	**25,943**	**45,345**	**32,017**	**28,714**	**25,619**
E. State-level Institutions (12 and 13)	**n.a.**	**n.a.**	**1,134**	**857**	**2,780**	**2,704**
12. SFCs	n.a.	n.a.	1,134	857	1,856	1,454
13. SIDCs	n.a.	n.a.	n.a.	n.a.	924	1,250
F. Total Assistance by All Financial Institutions (AFIs) [D+E]	**42,485**	**25,943**	**46,479**	**32,874**	**31,494**	**28,323**

P : Provisional. – : Nil/Negligible. n.a. : Not available.

: With the repeal of UTI Act, UTI has stopped providing long-term finance. Hence data for 2002-03 relate to the period April-October 2002 only.

$: Data include General Insurance Corporation of India, New India Assurance Company Limited and United India Insurance Company Limited.

Source : Respective financial instiutions.

APPENDIX TABLE I.47 : TRENDS IN DOMESTIC STOCK INDICES

Year/Month	BSE Index (Base: 1978-79=100)				S&P CNX Nifty (Base: 03.11.1995 = 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
Financial Year								
2002-03	**3206 (-3.8)**	**3513**	**2834**	**3049**	**1037 (-3.7)**	**1147**	**923**	**978**
2003-04	**4492 (40.1)**	**6194**	**2924**	**5591**	**1427 (37.6)**	**1982**	**924**	**1772**
2004-05	**5,741 (27.8)**	**6,915**	**4,505**	**6493**	**1,805 (26.5)**	**2,169**	**1,389**	**2036**
2004								
April	5809	5926	5655	5655	1848	1892	1796	1796
May	5205	5757	4505	4760	1640	1833	1389	1484
June	4824	4964	4644	4795	1506	1551	1446	1506
July	4973	5170	4844	5170	1568	1632	1518	1632
August	5144	5253	5034	5192	1615	1655	1578	1632
September	5423	5617	5199	5584	1692	1754	1629	1746
October	5702	5777	5581	5672	1795	1820	1757	1787
November	5961	6234	5704	6234	1874	1959	1798	1959
December	6394	6603	6228	6603	2022	2081	1962	2081
2005								
January	6301	6679	6103	6556	1976	2115	1910	2058
February	6595	6714	6530	6714	2067	2103	2043	2103
March	6679	6915	6368	6493	2096	2169	1984	2036
April	6379	6606	6135	6154	1987	2069	1903	1903
May	6483	6715	6195	6715	2002	2088	1917	2088
June	6926	7194	6656	7194	2134	2221	2065	2221
July	7337	7635	7145	7635	2237	2319	2179	2312

Note : Figures in parentheses are percentage variations over the previous year.
Source : The Stock Exchange, Mumbai (BSE) and the National Stock Exchange of India Ltd. (NSE).

APPENDIX I.48 : MAJOR INDICATORS OF DOMESTIC EQUITY MAKRETS

Year/Month	The Stock Exchange, Mumbai (BSE)					National Stock Exchange of India Ltd. (NSE)				
	Coefficient of Variation @	Dispersion (Range) @	Price/ Earning Ratio $	Market Capitalisation (Rupees crore)	Turnover (Rupees crore)	Coefficient of Variation @	Dispersion (Range) @	Price/ Earning Ratio $	Market Capitalisation (Rupees crore)	Turnover (Rupees crore)
1	2	3	4	5	6	7	8	9	10	11
Financial Year										
2002-03	**4.8**	**679.14**	**14.51**	**5,72,198**	**3,14,073**	**5.2**	**223.80**	**15.24**	**5,37,133**	**6,17,989**
2003-04	**23.0**	**3,270.08**	**16.19**	**12,01,207**	**502,620**	**23.3**	**1057.85**	**16.11**	**11,20,976**	**10,99,535**
2004-05	**11.2**	**2,409.93**	**16.56**	**16,98,428**	**518,717**	**11.3**	**780.00**	**14.81**	**15,85,585**	**11,40,071**
2004										
April	1.3	270.49	19.31	12,55,347	44,864	1.4	96.35	19.92	11,71,828	1,00,951
May	6.6	1,252.14	17.28	10,23,129	45,938	7.5	444.05	14.86	9,50,494	98,920
June	1.8	319.75	14.76	10,47,258	36,990	1.8	104.45	12.18	9,79,700	84,898
July	1.9	326.55	14.82	11,35,589	39,449	2.1	114.15	13.08	10,66,087	93,836
August	1.2	219.09	15.28	12,16,567	38,195	1.3	76.75	13.50	11,43,075	86,856
September	2.5	418.15	16.10	13,09,318	39,603	2.4	124.6	14.14	12,27,550	88,508
October	0.9	195.36	17.31	13,37,190	34,608	0.9	62.95	15.00	12,53,825	75,698
November	2.0	530.19	17.94	15,39,595	35,742	2.0	161.05	15.67	14,46,292	82,035
December	1.7	374.86	18.15	16,85,989	50,226	1.7	118.45	16.04	15,79,161	1,15,593
2005										
January	2.7	576.46	16.29	16,61,532	43,888	3.1	206	14.41	15,57,444	99,732
February	0.7	183.8	15.75	17,30,940	49,686	0.8	60.05	14.40	16,14,597	99,989
March	2.6	547.23	16.05	16,98,428	59,528	2.8	185.1	14.98	15,85,585	1,13,055
April	2.4	471.55	15.25	16,35,766	37,809	2.8	166.80	14.16	15,17,908	82,718
May	2.2	519.96	14.94	17,83,221	43,359	2.3	170.80	13.77	16,54,995	86,802
June	2.4	538.29	15.75	18,50,377	58,480	2.1	155.95	14.02	17,27,502	1,11,397
July	1.9	490.29	16.01	19,87,169	61,902	1.8	139.70	14.31	18,48,740	1,23,008

@ : Based on BSE Sensex and S&P CNX Nifty, respectively.
$: Based on scrips included in the BSE Sensex and the S&P CNX Nifty respectively.
Source : The Stock Exchange, Mumbai (BSE) and the National Stock Exchange of India Ltd. (NSE).

APPENDIX TABLE I.49 : TURNOVER IN THE EQUITY DERIVATIVES MARKET

(Rupees crore)

Month/Year	The Stock Exchange, Mumbai (BSE)				The National Stock Exchange of India Ltd. (NSE)				
	Index Futures	Index Options $	Stock Futures	Stock Options $	Index Futures	Index Options $	Stock Futures	Stock Options $	Interest Rate Futures
1	2	3	4	5	6	7	8	9	10
2002-03	**1,810.99**	**1.98**	**644.30**	**21.17**	**43,952**	**9,247**	**286,532**	**1,00,133**	**–**
2003-04	**6,571.52**	**0.03**	**5,171.05**	**331.61**	**5,54,446**	**52,816**	**13,05,939**	**2,17,207**	**202**
2004-05	**13,599.66**	**2,297.23**	**212.85**	**2.58**	**7,72,147**	**1,21,943**	**14,84,056**	**1,68,836**	**–**
2003-04									
April	64.77	–	20.77	1.80	6,993	1,707	29,749	11,569	–
May	8.13	0.03	10.46	4.33	6,283	1,617	32,752	12,772	–
June	0.59	–	6.08	2.54	9,348	1,941	46,505	15,041	182
July	50.80	0.00	48.90	3.40	14,743	3,204	70,515	21,370	19
August	302.50	0.00	206.30	0.10	24,989	3,839	91,288	20,247	1
September	407.90	0.00	441.50	1.50	45,861	5,012	113,874	20,402	0
October	419.60	0.00	435.10	2.70	56,435	4,570	146,378	22,977	0
November	449.60	0.00	477.60	1.50	49,486	3,847	122,463	16,375	0
December	1,785.00	0.00	1,844.00	54.90	65,376	5,454	150,930	17,139	0
January	2,213.19	0.00	1,498.44	75.32	99,872	6,913	1,95,784	21,485	0
February	555.06	0.00	78.65	96.19	86,356	6,543	1,61,461	18,472	0
March	314.38	0.00	103.25	87.33	88,706	8,169	1,44,240	19,358	0
2004-05									
April	76.01	0.00	8.78	0.00	79,555	7,315	1,21,044	12,376	0
May	0.00	0.00	38.77	0.00	82,149	10,292	92,629	9,690	0
June	0.00	0.00	0.00	0.00	64,018	8,473	78,392	7,423	0
July	0.00	0.00	0.32	0.00	61,124	9,912	94,009	10,293	0
August	0.00	0.00	0.00	0.00	57,924	7,384	99,590	11,104	0
September	833.71	227.94	32.46	0.18	49,497	7,444	1,07,123	14,308	0
October	2,775.33	513.85	0.89	0.29	47,188	8,530	1,11,695	14,806	0
November	4,192.85	481.78	20.16	0.03	38,277	8,792	1,13,524	15,205	0
December	4,454.43	442.60	50.37	0.00	58,331	9,711	1,79,385	20,794	0
January	1,090.62	298.32	23.56	2.08	76,146	12,976	1,59,561	16,600	0
February	134.81	148.97	20.64	0.00	71,544	13,122	1,51,741	17,135	0
March	41.90	183.77	16.90	0.00	86,394	17,992	1,75,363	19,102	0
2005-06									
April	0.00	3.20	0.00	0.00	65,595	13,274	1,06,128	10,966	0
May	0.00	0.00	0.00	0.00	70,465	14,782	1,12,878	10,250	0
June	0.00	0.00	0.00	0.00	77,215	16,133	1,63,097	14,797	0
July	–	–	–	–	77,395	16,770	1,99,637	14,358	0

$: Notional turnover for call and put options. – : Negligible/Not available.

Note : Index futures were introduced in June 2000, index options in June 2001, stock options in July 2001 and stock futures in November 2001 both in the BSE and NSE.

Source : Securities and Exchange Board of India.

APPENDIX I.50 : SELECT ECONOMIC INDICATORS - WORLD

Item	2006$	2005$	2004	2003	2002	2001	2000	1999	1998
1	2	3	4	5	6	7	8	9	10
I. World Output (Per cent Change)	**4.4**	**4.3**	**5.1**	**4.0**	**3.0**	**2.5**	**4.6**	**3.7**	**2.8**
i) Advanced economies	3.0	2.6	3.4	2.0	1.6	1.2	3.8	3.5	2.6
ii) Other emerging market and developing countries	6.0	6.3	7.2	6.4	4.7	4.2	5.8	4.0	3.0
a) Developing Asia	7.1	7.4	8.2	8.1	6.5	5.8	6.5	6.2	4.1
b) Africa	5.4	5.0	5.1	4.6	3.6	4.0	3.2	2.8	3.0
c) Middle East	4.9	5.0	5.5	5.8	4.1	3.3	5.4	2.1	4.0
d) Western Hemisphere	3.7	4.1	5.7	2.2	-0.1	0.5	3.9	0.4	2.3
II. Inflation-CPI (Per cent Change)									
i) Advanced economies	1.9	2.0	2.0	1.8	1.5	2.1	2.2	1.4	1.5
ii) Other emerging market and developing countries	4.6	5.5	5.7	6.0	6.0	6.7	7.1	10.2	11.1
a) Developing Asia	3.4	3.9	4.2	2.6	2.1	2.7	1.9	2.6	7.9
III. Fiscal Balance #									
i) Advanced Economies	-2.8	-2.8	-2.9	-3.0	-2.4	-1.0	0.2	-1.1	-1.1
ii) Other emerging market and developing countries (Weighted Average)	-1.5	-1.6	-1.9	-3.0	-3.6	-3.3	-2.9	-3.9	-3.8
IV. Net Capital Flows* (US $ billion)									
Emerging market and developing countries**									
i) Net private capital flows (a+b+c)	193.9	175.1	196.6	149.5	75.8	60.9	60.8	89.1	84.8
a) Net private direct investment	222.3	217.4	186.4	151.9	144.4	184.7	174.3	173.3	159.8
b) Net private portfolio investment	16.0	2.3	28.8	-9.9	-90.0	-86.9	20.5	69.1	42.5
c) Net other private capital flows	-44.4	-44.6	-18.6	7.5	21.4	-36.9	-134.0	-153.3	-117.6
ii) Net official flows	-55.3	-65.0	-58.0	-58.1	8.5	1.8	-42.7	18.2	53.5
V. World Trade @									
Imports									
i) Advanced Economies	6.3	6.5	8.5	3.6	2.6	-0.8	11.7	8.1	5.9
ii) Newly industrialised Asian economies	9.4	7.3	15.8	9.1	8.1	-6.4	17.4	8.2	-8.2
Exports									
i) Advanced economies	6.8	5.9	8.1	2.8	2.2	-0.7	11.7	5.6	4.2
ii) Newly industrialised Asian economies	8.0	7.2	17.1	12.9	9.4	-4.4	17.1	9.2	1.4
Terms of Trade									
i) Advanced economies	-0.1	0.3	-0.4	0.8	1.0	0.2	-2.5	-0.3	1.3
ii) Newly industrialised Asian economies	0.4	-0.6	-2.7	-1.7	0.2	-0.5	-3.3	-2.4	0.2
VI. Current Account Balance (US $ billion)									
i) Advanced economies	-394.1	-381.0	-327.8	-231.9	-218.1	-201.6	-250.9	-108.1	35.8
ii) Other emerging market and developing countries	255.2	303.4	246.6	149.1	85.0	40.8	88.2	-17.4	-115.1
a) Developing Asia	96.9	97.1	103.3	85.8	72.2	40.8	46.3	48.7	49.3

$: Projections
\# : Central Government Balance as percentage of GDP
* : Net capital flows comprise net direct investment, net portfolio investment, and other long-term and short term net investment flows, including official and private borrowings
** : Emerging Market and Developing Countries include countries in transition, Korea, Singapore, Taiwan Province of China, Israel, Hong kong.
@ : Annual percentage change in world trade volume of goods and services

Source : World Economic Outlook, IMF, April 2005

APPENDIX TABLE I.51 : INDIA'S OVERALL BALANCE OF PAYMENTS

Item	Rupees crore			US $ million		
	2004-05 (P)	2003-04 (R)	2002-03	2004-05 (P)	2003-04 (R)	2002-03
1	2	3	4	5	6	7
A. Current Account						
1. Exports, f.o.b.	3,62,661	2,96,767	2,60,079	80,831	64,723	53,774
2. Imports, c.i.f.	5,33,778	3,68,102	3,11,776	1,18,961	80,177	64,464
3. Trade Balance	-1,71,117	-71,335	-51,697	-38,130	-15,454	-10,690
4. Invisibles, Net	1,41,621	1,19,287	82,357	31,699	26,015	17,035
a) 'Non-Factor' Services	65,158	30,146	17,644	14,630	6,591	3,643
of which: Software Services Exports	*77,609*	*55,986*	*46,424*	*17,300*	*12,200*	*9,600*
b) Income	-17,916	-18,250	-16,690	-3,979	-3,972	-3,446
c) Private Transfers	91,736	1,04,819	79,229	20,459	22,833	16,387
d) Official Transfers	2,643	2,572	2,174	589	563	451
5. Current Account Balance	-29,496	47,952	30,660	-6,431	10,561	6,345
B. Capital Account						
1. Foreign Investment, Net (a+b)	53,319	67,592	20,098	11,944	14,776	4,161
a) Direct Investment of which :	13,698	15,694	15,594	3,037	3,420	3,217
i) In India	24,869	21,447	24,397	5,526	4,674	5,036
Equity	*15,113*	*10,938*	*13,415*	*3,353*	*2,387*	*2,766*
Re-invested earnings	*8,159*	*8,271*	*8,866*	*1,816*	*1,800*	*1,832*
Other Capital	*1,597*	*2,238*	*2,116*	*357*	*487*	*438*
ii) Abroad	-11,171	-5,753	-8,803	-2,489	-1,254	-1,819
Equity	*-6,319*	*-1,287*	*-2,959*	*-1,408*	*-282*	*-611*
Re-invested earnings	*-3,146*	*-4,099*	*-5,342*	*-700*	*-892*	*-1,104*
Other Capital	*-1,706*	*-367*	*-502*	*-381*	*-80*	*-104*
b) Portfolio Investment	39,621	51,898	4,504	8,907	11,356	944
In India	39,621	52,002	4,675	8,907	11,378	979
Abroad	0	-104	-171	0	-22	-35
2. External Assistance, Net	8,521	-12,500	-15,020	1,922	-2,742	-3,128
Disbursements	16,984	15,269	13,902	3,808	3,341	2,878
Amortisation	-8,463	-27,769	-28,922	-1,886	-6,083	-6,006
3. Commercial Borrowings, Net	26,567	-6,942	-8,220	5,947	-1,526	-1,692
Disbursements	43,168	30,073	16,976	9,629	6,577	3,514
Amortisation	-16,601	-37,015	-25,196	-3,682	-8,103	-5,206
4. Short Term Credit, Net	16,957	6,683	4,670	3,792	1,420	970
5. Banking Capital, of which:	17,586	28,656	50,333	4,002	6,231	10,425
NRI Deposits, Net	*-4,888*	*16,869*	*14,424*	*-1,067*	*3,642*	*2,978*
6. Rupee Debt Service	-1,858	-1,756	-2,306	-417	-376	-474
7. Other Capital, Net @	22,433	12,846	2,811	4,985	2,759	578
8. Total Capital Account	1,43,525	94,579	52,366	32,175	20,542	10,840
C. Errors & Omissions	1,878	1,463	-989	415	318	-200
D. Overall Balance [A(5)+B(8)+C]	**1,15,907**	**1,43,994**	**82,037**	**26,159**	**31,421**	**16,985**
E. Monetary Movements (F+G)	-1,15,907	-1,43,994	-82,037	-26,159	-31,421	-16,985
F. IMF, Net	0	0	0	0	0	0
G. Reserves and Monetary Gold (Increase-, Decrease +)	**-1,15,907**	**-1,43,994**	**-82,037**	**-26,159**	**-31,421**	**-16,985**

P : Provisional
R : Revised
@ : Includes delayed export receipts, advance payments against imports.

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 DGCI&S on account of differences in coverage, valuation and timing.

APPENDIX TABLE I.52 : INDIA'S FOREIGN TRADE

Item	Rupees crore			US $ million			SDR million		
	April-March			April-March			April-March		
	2004-05	2003-04	2002-03	2004-05	2003-04	2002-03	2004-05	2003-04	2002-03
1	2	3	4	5	6	7	8	9	10
I. Exports	**3,56,069 (21.4)**	**2,93,367 (15.0)**	**2,55,137 (22.1)**	**79,247 (24.1)**	**63,843 (21.1)**	**52,719 (20.3)**	**53,202 (19.1)**	**44,663 (12.3)**	**39,785 (14.6)**
a. POL @	30,518 (86.1)	16,397 (31.5)	12,469 (23.4)	6,792 (90.3)	3,568 (38.5)	2,577 (21.6)	4,560 (82.7)	2,496 (28.4)	1,944 (15.8)
b. Non-oil	3,25,551 (17.5)	2,76,969 (14.1)	2,42,668 (22.0)	72,455 (20.2)	60,274 (20.2)	50,143 (20.2)	48,642 (15.4)	42,167 (11.4)	37,841 (14.6)
II. Imports	**4,81,064 (34.0)**	**3,59,108 (20.8)**	**2,97,206 (21.2)**	**107,066 (37.0)**	**78,149 (27.3)**	**61,412 (19.4)**	**71,878 (31.5)**	**54,672 (18.0)**	**46,345 (13.8)**
a. Oil and POL	1,34,094 (41.9)	94,520 (10.7)	85,367 (27.9)	29,844 (45.1)	20,569 (16.6)	17,640 (26.0)	20,036 (39.2)	14,390 (8.1)	13,312 (20.0)
b. Non-oil	3,46,970 (31.1)	264,588 (24.9)	2,11,839 (18.7)	77,222 (34.1)	57,580 (31.5)	43,773 (17.0)	51,842 (28.7)	40,282 (21.9)	33,033 (11.5)
III. Trade Balance (I-II)	**-1,24,995**	**-65,741**	**-42,069**	**-27,819**	**-14,307**	**-8,693**	**-18,676**	**-10,009**	**-6,560**
a. Oil Balance (I.a-II.a)	-1,03,576	-78,123	-72,898	-23,052	-17,001	-15,063	-15,476	-11,894	-11,367
b. Non-oil Balance (I.b-II.b)	-21,419	12,382	30,829	-4,767	2,694	6,370	-3,200	1,885	4,807

P : Provisional. @ : Petroleum, oil and lubricants.

Note : Figures in brackets relate to percentage variations over the previous year.

Source : DGCI & S.

APPENDIX TABLE I.53 : INDIA'S EXPORTS OF PRINCIPAL COMMODITIES

Commodity Group	Rupees crore					US $ million				
				Percentage Variation					Percentage Variation	
	2004-05 P	2003-04	2002-03	(2)/(3)	(3)/(4)	2004-05 P	2003-04	2002-03	(7)/(8)	(8)/(9)
1	2	3	4	5	6	7	8	9	10	11
I. Primary Products	**54,805 (15.4)**	**45,500 (15.5)**	**42,133 (16.5)**	**20.4**	**8.0**	**12,197 (15.4)**	**9,902 (15.5)**	**8,706 (16.5)**	**23.2**	**13.7**
A. Agricultural & Allied Products	**35,963 (10.1)**	**34,616 (11.8)**	**32,473 (12.7)**	**3.9**	**6.6**	**8,004 (10.1)**	**7,533 (11.8)**	**6,710 (12.7)**	**6.3**	**12.3**
of which :										
1. Tea	1,784	1,637	1,652	9.0	-0.9	397	356	341	11.4	4.4
2. Coffee	1,008	1,086	994	-7.2	9.2	224	236	205	-5.1	15.1
3. Rice	6,642	4,168	5,831	59.3	-28.5	1,478	907	1,205	63.0	-24.7
4. Oil Meal	3,101	3,348	1,487	-7.4	125.1	690	729	307	-5.3	137.1
5. Marine Products	5,695	6,106	6,928	-6.7	-11.9	1,268	1,329	1,432	-4.6	-7.2
B. Ores & Minerals	**18,842 (5.3)**	**10,885 (3.7)**	**9,660 (3.8)**	**73.1**	**12.7**	**4,193 (5.3)**	**2,369 (3.7)**	**1,996 (3.8)**	**77.0**	**18.7**
II. Manufactured Goods	**261,358 (73.4)**	**2,22,829 (76.0)**	**194,765 (76.3)**	**17.3**	**14.4**	**58,168 (73.4)**	**48,492 (76.0)**	**40,245 (76.3)**	**20.0**	**20.5**
of which :										
A. Leather & Manufactures	**10,286 (2.9)**	**9,939 (3.4)**	**8,945 (3.5)**	**3.5**	**11.1**	**2,289 (2.9)**	**2,163 (3.4)**	**1,848 (3.5)**	**5.8**	**17.0**
B. Chemicals & Related Products	**53,347 (15.0)**	**43,405 (14.8)**	**36,080 (14.1)**	**22.9**	**20.3**	**11,873 (15.0)**	**9,446 (14.8)**	**7,455 (14.1)**	**25.7**	**26.7**
1. Basic Chemicals, Pharmaceuticals & Cosmetics	30,092	26,862	22,545	12.0	19.1	6,697	5,846	4,658	14.6	25.5
2. Plastic & Linoleum	13,243	8,054	5,912	64.4	36.2	2,947	1,753	1,222	68.2	43.5
3. Rubber, Glass, Paints & Enamels *etc.*	7,744	6,837	5,799	13.3	17.9	1,724	1,488	1,198	15.8	24.2
4. Residual Chemicals & Allied Products	2,268	1,652	1,824	37.2	-9.4	505	360	377	40.4	-4.6
C. Engineering Goods	**73,870 (20.7)**	**57,005 (19.4)**	**43,715 (17.1)**	**29.6**	**30.4**	**16,441 (20.7)**	**12,405 (19.4)**	**9,033 (17.1)**	**32.5**	**37.3**
D. Textiles and Textile Products	**56,677 (15.9)**	**58,779 (20.0)**	**56,221 (22.0)**	**-3.6**	**4.5**	**12,614 (15.1)**	**12,791 (19.0)**	**11,617 (20.9)**	**-1.4**	**10.1**
of which :										
1. Cotton Yarn, Fabrics, Made-ups, *etc.*	14,389	15,600	16,217	-7.8	-3.8	3,202	3,395	3,351	-5.7	1.3
2. Natural Silk Yarn, Fabrics, Made-ups etc. incl. Silk Waste	1,824	1,745	1,520	4.5	14.8	406	380	314	6.9	20.9
3. Manmade Yarn, Fabrics, Made-ups, *etc.*	8,353	8,093	6,639	3.2	21.9	1,859	1,761	1,372	5.6	28.4
4. Readymade Garments	27,077	28,634	27,536	-5.4	4.0	6,026	6,231	5,690	-3.3	9.5
5. Jute & Jute Manufactures	1,214	1,114	908	8.9	22.7	270	242	188	11.4	29.2
6. Coir & Coir Manufactures	456	357	355	27.7	0.7	102	78	73	30.6	6.0
7. Carpets	2,679	2,691	2,578	-0.4	4.4	596	586	533	1.8	10.0
E. Gems and Jewellery	**61,581 (17.3)**	**48,586 (16.6)**	**43,701 (17.1)**	**26.7**	**11.2**	**13,705 (17.3)**	**10,573 (16.6)**	**9,030 (17.1)**	**29.6**	**17.1**
F. Handicrafts	**1,543 (0.4)**	**2,296 (0.8)**	**3,801 (1.5)**	**-32.8**	**-39.6**	**343 (0.4)**	**500 (0.8)**	**785 (1.5)**	**-31.3**	**-36.4**
III. Petroleum, Crude & Products	**30,518 (8.6)**	**16,397 (5.6)**	**12,469 (4.9)**	**86.1**	**31.5**	**6,792 (8.6)**	**3,568 (5.6)**	**2,577 (4.9)**	**90.3**	**38.5**
IV. Others	**9,388 (2.6)**	**8,640 (2.9)**	**5,770 (2.3)**	**8.7**	**49.7**	**2,089 (2.6)**	**1,880 (2.9)**	**1,192 (2.3)**	**11.1**	**57.7**
Total Exports (I+II+III+IV)	**3,56,069**	**2,93,367**	**2,55,137**	**21.4**	**15.0**	**79,247**	**63,843**	**52,719**	**24.1**	**21.1**

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 & its components and saddlery & harness.
3. Engineering goods comprise 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 and Textile Products includes: (a) cotton yarn, fabrics, made-ups etc., (b) natural silk yarn, fabrics made-ups etc. including silk waste, (c) manmade yarn, fabrics, made-ups etc., (d) manmade staple fibre, (e) woolen yarn, fabrics, made-ups etc., (f) readymade garments, (g) jute & jute manufactures, (h) coir & coir manufactures and (i) carpets.

Source : DGCI& S.

APPENDIX TABLE I.54 : INDIA'S IMPORTS OF PRINCIPAL COMMODITIES

Commodity Group	Rupees crore					US $ million				
				Percentage Variation					Percentage Variation	
	2004-05 P	2003-04	2002-03	(2)/(3)	(3)/(4)	2004-05 P	2003-04	2002-03	(7)/(8)	(8)/(9)
1	2	3	4	5	6	7	8	9	10	11
I. Bulk Imports	**1,88,173**	**1,35,380**	**1,17,598**	**39.0**	**15.1**	**41,880**	**29,461**	**24,300**	**42.2**	**21.2**
	(39.1)	**(37.7)**	**(39.6)**			**(39.1)**	**(37.7)**	**(39.6)**		
A. Petroleum, Petroleum Products & Related Material	**1,34,094**	**94,520**	**85,367**	**41.9**	**10.7**	**29,844**	**20,569**	**17,640**	**45.1**	**16.6**
	(27.9)	**(26.3)**	**(28.7)**			**(27.9)**	**(26.3)**	**(28.7)**		
B. Bulk Consumption Goods	**13,540**	**14,120**	**11,668**	**-4.1**	**21.0**	**3,014**	**3,073**	**2,411**	**-1.9**	**27.4**
	(2.8)	**(3.9)**	**(3.9)**			**(2.8)**	**(3.9)**	**(3.9)**		
1. Cereals & Cereal Preparations	112	89	119	25.2	-24.7	25	19	24	28.1	-20.7
2. Edible Oil	10,756	11,683	8,780	-7.9	33.1	2,394	2,543	1,814	-5.8	40.1
3. Pulses	1,719	2,285	2,737	-24.8	-16.5	383	497	566	-23.1	-12.1
4. Sugar	954	63	33	–	91.0	212	14	7	–	-
C. Other Bulk Items	**40,538**	**26,740**	**20,563**	**51.6**	**30.0**	**9,022**	**5,819**	**4,249**	**55.0**	**37.0**
	(8.4)	**(7.4)**	**(6.9)**			**(8.4)**	**(7.4)**	**(6.9)**		
1. Fertilisers	5,531	3,312	3,028	67.0	9.4	1,231	721	626	70.8	15.2
a) Crude	995	615	894	61.8	-31.2	222	134	185	65.5	-27.6
b) Sulphur & Unroasted Iron pyrites	484	396	403	22.2	-1.8	108	86	83	25.0	3.4
c) Manufactured	4,052	2,301	1,731	76.1	33.0	902	501	358	80.1	40.0
2. Non-Ferrous Metals	5,630	4,360	3,226	29.1	35.2	1,253	949	667	32.1	42.3
3. Paper, Paperboard & mgfd. Incl. Newsprint	3,156	3,022	2,175	4.4	38.9	702	658	449	6.8	46.3
4. Crude Rubber, Incl. Synthetic & Reclaimed	1,774	1,290	883	37.5	46.1	395	281	182	40.7	53.9
5. Pulp & Waste Paper	2,126	1,880	1,662	13.1	13.1	473	409	343	15.7	19.2
6. Metalliferrous Ores & Metal Scrap	10,651	5,955	5,022	78.9	18.6	2,370	1,296	1,038	82.9	24.9
7. Iron & Steel	11,670	6,921	4,567	68.6	51.5	2,597	1,506	944	72.4	59.6
II. Non-Bulk Imports	**2,92,891**	**2,23,727**	**1,79,608**	**30.9**	**24.6**	**65,186**	**48,688**	**37,113**	**33.9**	**31.2**
	(60.9)	**(62.3)**	**(60.4)**			**(60.9)**	**(62.3)**	**(60.4)**		
A. Capital Goods	**1,01,398**	**83,994**	**65,325**	**20.7**	**28.6**	**22,567**	**18,279**	**13,498**	**23.5**	**35.4**
	(21.1)	**(23.4)**	**(22.0)**			**(21.1)**	**(23.4)**	**(22.0)**		
1. Manufactures of Metals	3,986	3,169	2,363	25.8	34.1	887	690	488	28.6	41.3
2. Machine Tools	2,660	2,114	1,195	25.8	76.9	592	460	247	28.7	86.3
3. Machinery Except Electrical & Electronics	29,433	21,797	17,256	35.0	26.3	6,551	4,744	3,566	38.1	33.0
4. Electrical Machinery Except Electronics	5,142	4,008	3,214	28.3	24.7	1,144	872	664	31.2	31.3
5. Electronic Goods Incl. Computer Software	46,678	36,253	29,488	28.8	22.9	10,389	7,889	6,093	31.7	29.5
6. Transport Equipments	10,886	14,833	9,183	-26.6	61.5	2,423	3,228	1,897	-24.9	70.1
7. Project Goods	2,614	1,820	2,626	43.6	-30.7	582	396	543	46.9	-27.0
B. Mainly Export Related Items	**74,807**	**58,436**	**49,914**	**28.0**	**17.1**	**16,649**	**12,717**	**10,314**	**30.9**	**23.3**
	(15.6)	**(16.3)**	**(16.8)**			**(15.6)**	**(16.3)**	**(16.8)**		
1. Pearls, Precious & Semi-Precious Stones	42,341	32,757	29,341	29.3	11.6	9,423	7,129	6,063	32.2	17.6
2. Chemicals, Organic & Inorganic	23,971	18,527	14,640	29.4	26.5	5,335	4,032	3,025	32.3	33.3
3. Textile Yarn, Fabric, etc.	6,737	5,780	4,696	16.6	23.1	1,499	1,258	970	19.2	29.6
4. Cashew Nuts, Raw	1,757	1,372	1,236	28.1	11.0	391	299	255	31.0	16.9
C. Others	**1,16,687**	**81,297**	**64,369**	**43.5**	**26.3**	**25,970**	**17,692**	**13,301**	**46.8**	**33.0**
	(24.3)	**(22.6)**	**(21.7)**			**(24.3)**	**(22.6)**	**(21.7)**		
of which :										
1. Gold and Silver	48,636	31,506	20,753	54.4	51.8	10,824	6,856	4,288	57.9	59.9
2. Artificial Resins & Plastic Materials	6,272	4,972	3,784	26.2	31.4	1,396	1,082	782	29.0	38.4
3. Professional, Scientific & Optical Goods	6,681	5,653	5,484	18.2	3.1	1,487	1,230	1,133	20.9	8.6
4. Coal, Coke & Briquittes etc.	12,587	6,483	5,999	94.2	8.1	2,801	1,411	1,240	98.6	13.8
5. Medicinal & Pharmaceutical Products	3,051	2,958	2,865	3.2	3.2	679	644	592	5.5	8.7
6. Chemical Materials & Products	3,541	2,902	2,187	22.0	32.7	788	632	452	24.8	39.7
7. Non-Metallic Mineral Manufactures	2,034	1,504	1,136	35.2	32.5	453	327	235	38.3	39.5
Total Imports (I+II)	**4,81,064**	**3,59,108**	**2,97,206**	**34.0**	**20.8**	**1,07,066**	**78,149**	**61,412**	**37.0**	**27.3**

P : Provisional.

Note : Figures in brackets represent percentage to total imports.

Source : DGCI & S.

APPENDIX TABLE I.55 : INVISIBLES BY CATEGORY OF TRANSACTIONS

Item	Rupees crore			US $ million		
	2004-05 (P)	2003-04 (R)	2002-03	2004-05 (P)	2003-04 (R)	2002-03
1	2	3	4	5	6	7
I. Non Factor Services, net	**65,158**	**30,146**	**17,644**	**14,630**	**6,591**	**3,643**
Receipts	2,29,682	1,14,436	1,00,419	51,326	24,949	20,763
Payments	1,64,524	84,290	82,775	36,696	18,358	17,120
Travel, net	-2,280	2,762	-164	-497	611	-29
Receipts	22,537	18,873	15,991	5,029	4,122	3,312
Payments	24,817	16,111	16,155	5,526	3,511	3,341
Transportation, net	2,282	4,255	-3,567	509	929	-736
Receipts	22,645	14,958	12,261	5,048	3,260	2,536
Payments	20,363	10,703	15,828	4,539	2,331	3,272
Insurance, net	1,315	255	96	294	57	19
Receipts	4,564	1,927	1,783	1,016	420	369
Payments	3,249	1,672	1,687	722	363	350
G.N.I.E., net	640	323	312	142	70	65
Receipts	1,812	1,299	1,417	403	282	293
Payments	1,172	976	1,105	261	212	228
Miscellaneous, net	63,201	22,551	20,967	14,182	4,924	4,324
Receipts	1,78,124	77,379	68,967	39,830	16,865	14,253
Payments	1,14,923	54,828	48,000	25,648	11,941	9,929
II. Income, net	**-17,916**	**-18,250**	**-16,690**	**-3,979**	**-3,972**	**-3,446**
Receipts	21,098	19,668	17,049	4,694	4,287	3,522
Payments	39,014	37,918	33,739	8,673	8,259	6,968
III. Private Transfers, net	**91,736**	**1,04,819**	**79,229**	**20,459**	**22,833**	**16,387**
Receipts	93,533	1,06,427	83,115	20,859	23,183	17,189
Payments	1,797	1,608	3,886	400	350	802
IV. Official Transfers, net	**2,643**	**2,572**	**2,174**	**589**	**563**	**451**
Receipts	2,785	2,572	2,174	621	563	451
Payments	142	0	0	32	0	0
V. Invisibles, net (I to IV)	**1,41,621**	**1,19,287**	**82,357**	**31,699**	**26,015**	**17,035**
Receipts	3,47,098	2,43,103	2,02,757	77,500	52,982	41,925
Payments	2,05,477	1,23,816	1,20,400	45,801	26,967	24,890

P : Provisional. R : Revised.

GNIE : Government, Not Included Elsewhere.

APPENDIX TABLE I.56 : COMPOSITION OF CAPITAL INFLOWS

Item	2004-05 P	2003-04 R	2002-03	2001-02	2000-01	1995-96	1990-91
1	2	3	4	5	6	7	8
Total Capital Inflows(Net) (in US $ million)	**32175**	**20542**	**10840**	**8551**	**8840**	**4089**	**7056**
Of Which :							(in per cent)
1. Non- Debt Creating Inflows	**44.9**	**78.2**	**55.5**	**95.2**	**76.8**	**117.5**	**1.5**
a) Foreign Direct Investment **	17.2	22.8	46.5	71.6	45.6	52.4	1.4
b) Portfolio Investment	27.7	55.4	9.0	23.6	31.2	65.1	0.1
2. Debt Creating Inflows	**28.8**	**2.1**	**-12.3**	**12.3**	**78.8**	**57.7**	**83.3**
a) External Assistance	6.3	-13.3	-28.6	14.1	4.8	21.6	31.3
b) External Commercial Borrowings #	15.3	-7.4	-15.7	-18.6	48.6	31.2	31.9
c) Short term Credits	11.8	6.9	8.9	-9.3	6.2	1.2	15.2
d) NRI Deposits $	-3.3	17.7	27.5	32.2	26.2	27.0	21.8
e) Rupee Debt Service	-1.3	-1.8	-4.4	-6.1	-7.0	-23.3	-16.9
3. Other Capital @	**26.3**	**19.7**	**56.8**	**-7.5**	**-55.6**	**-75.2**	**15.2**
4. Total (1 to 3)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Memo Item :							
Stable flows +	**60.5**	**37.7**	**82.0**	**85.7**	**62.5**	**33.7**	**84.7**

P : Provisional R : Revised

** : Data on FDI have been revised since 2000-01 with expanded coverage to approach international best practices. FDI data for previous years would not be comparable with those figures.

: Refers to medium and long-term borrowings.

$: Including NR (NR) Rupee Deposits.

@: Includes leads and lags in exports (difference between the custom and the banking channel data), Banking Capital (assets and liabilities of Banks excluding NRI deposits), loans to non-residents by residents, Indian investment abroad and India's subscription to International Institutions and quota payments to IMF.

+ : Stable flows are defined to represent all capital flows excluding portfolio flows and short-term trade credits.

APPENDIX TABLE I.57 : EXTERNAL ASSISTANCE

Item	Rupees crore			US $ million		
	2004-05P	2003-04R	2002-03R	2004-05P	2003-04R	2002-03R
1	2	3	4	5	6	7
1 Loans	14,662	15,276	13,898	3,350	3,418	2,925
2. Grants	2,490	2,077	1,839	569	465	387
3. Gross Utilisation (1+2)	17,152	17,353	15,737	3,919	3,882	3,312
4. Repayments	9,580	27,970	28,976	2,186	6,249	6,091
5. Interest Payments	3,261	3,843	5,390	744	860	1,133
6. Net (3-4-5)	4,311	-14,461	-18,629	989	-3,226	-3,912

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.2.

Source : Controller of Aid, Accounts and Audit, Government of India.

APPENDIX TABLE I.58 : 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)@
	SDRs	Gold $	Foreign Currency Assets	Reserve Tranche Position in IMF	Total (2+3+ 4+5)	SDRs	Gold $	Foreign Currency Assets	Reserve Tranche Position in IMF	Total (7+8+ 9+10)		
1	2	3	4	5	6	7	8	9	10	11	12	13
Mar-94	339	12,794	47,287	938	61,358	108	4,078	15,068	299	19,553	13,841	6,595
Mar-95	23	13,752	66,005	1,050	80,830	7	4,370	20,809	331	25,517	16,352	2,511
Mar-96	280	15,658	58,446	1,063	75,447	82	4,561	17,044	310	21,997	15,054	-1,298
Mar-97	7	14,557	80,368	1,046	95,978	2	4,054	22,367	291	26,714	19,272	4,218
Mar-98	4	13,394	1,02,507	1,117	1,17,022	1	3,391	25,975	283	29,650	22,200	2,929
Mar-99	34	12,559	1,25,412	2,816	1,40,821	8	2,960	29,522	663	33,153	24,413	2,213
Mar-00	16	12,973	1,52,924	2,870	1,68,783	4	2,974	35,058	658	38,694	28,728	4,315
Mar-01	11	12,711	1,84,482	2,873	2,00,077	2	2,725	39,554	616	42,897	34,034	5,306
Mar-02	50	14,868	2,49,118	2,977	2,67,013	10	3,047	51,049	610	54,716	43,876	9,842
Mar-03	19	16,785	3,41,476	3,192	3,61,472	4	3,534	71,890	672	76,100	55,394	11,518
Jun-03	6	17,182	3,65,001	4,535	3,86,724	1	3,698	78,546	976	83,221	59,407	4,013
Sep-03	17	17,967	3,99,870	5,516	4,23,370	4	3,919	87,213	1,203	92,339	64,582	9,188
Dec-03	13	19,225	4,45,232	6,002	4,70,472	3	4,215	97,617	1,316	1,03,151	69,417	14,022
Mar-04	10	18,216	4,66,215	5,688	4,90,129	2	4,198	1,07,448	1,311	1,12,959	76,298	20,904
Jun-04	8	18,655	5,24,865	5,980	5,49,508	2	4,057	1,14,151	1,301	1,19,511	81,509	5,211
Sep-04	7	19,349	5,26,605	6,015	5,51,976	1	4,192	1,14,083	1,303	1,19,579	81,403	5,105
Dec-04	22	19,969	5,45,466	6,221	5,71,678	5	4,582	1,25,164	1,427	1,31,178	84,467	8,169
Mar-05	20	19,686	5,93,121	6,289	6,19,116	5	4,500	1,35,571	1,438	1,41,514	93,666	17,368
Jun-05	18	19,375	5,75,864	6,791	6,02,048	4	4,453	1,32,352	1,561	1,38,370	94,995	1,329

$: Gold has been valued close to international market price.

@ : Variations over the previous March.

Note : 1. Gold holdings include acquisition of gold worth US $ 191 million 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 1,485.22 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 into US dollar was 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.

APPENDIX TABLE I.59 : INDIA'S EXTERNAL DEBT
(As at end-March)

Item	Rupees crore			US $ million		
	2005P	2004R	2003R	2005P	2004R	2003R
1	2	3	4	5	6	7
I. Multilateral	**1,38,977**	**1,31,069**	**1,42,720**	**31,763**	**29,288**	**30,002**
A. Government borrowing	1,27,514	1,20,073	1,29,727	29,143	26,826	27,271
i) Concessional	1,04,934	1,01,490	1,02,559	23,983	22,674	21,559
a) IDA	1,03,501	1,00,065	1,01,122	23,655	22,356	21,257
b) Others #	1,433	1,425	1,437	328	318	302
ii) Non-concessional	22,580	18,583	27,168	5,160	4,152	5,712
a) IBRD	16,444	14,074	19,069	3,758	3,144	4,009
b) Others ##	6,136	4,509	8,099	1,402	1,008	1,703
B. Non-Government borrowing	11,463	10,996	12,993	2,620	2,462	2,731
i) Concessional	0	0	0	0	0	0
ii) Non-concessional	11,463	10,996	12,993	2,620	2,462	2,731
a) Public sector	8,532	7,916	9,255	1,950	1,770	1,945
IBRD	4,456	4,402	4,378	1,018	984	920
Others ##	4,076	3,514	4,877	932	786	1,025
b) Financial institutions	2,584	2,828	3,177	591	634	668
IBRD	252	380	525	58	85	110
Others ##	2,332	2,448	2,652	533	549	558
c) Private sector	347	252	561	79	58	118
IBRD	0	0	298	0	0	63
Others	347	252	263	79	58	55
II. Bilateral	**75,350**	**77,085**	**79,918**	**17,222**	**17,278**	**16,802**
A. Government borrowing	57,172	58,121	60,242	13,067	12,988	12,664
i) Concessional	56,923	57,742	59,687	13,010	12,901	12,547
ii) Non-concessional	249	379	555	57	87	117
B. Non-Government borrowing	18,178	18,964	19,676	4,155	4,290	4,138
i) Concessional	8,887	8,876	8,013	2,031	1,983	1,685
a) Public sector	5,843	5,759	5,152	1,335	1,287	1,083
b) Financial institutions	3,044	3,117	2,861	696	696	601
c) Private sector	0	0	0	0	0	0
ii) Non-concessional	9,291	10,088	11,663	2,124	2,307	2,453
a) Public sector	4,390	4,852	5,116	1,003	1,110	1,076
b) Financial institutions	2,842	3,120	3,572	650	710	751
c) Private sector	2,059	2,116	2,975	471	487	626
III. International Monetary Fund	**0**	**0**	**0**	**0**	**0**	**0**
IV. Trade Credit	**21,702**	**20,480**	**23,647**	**4,960**	**4,680**	**4,973**
a) Buyers' credit	12,793	11,002	13,344	2,924	2,532	2,807
b) Suppliers' credit	3,960	4,457	5,113	905	1,026	1,075
c) Export credit component of bilateral credit	4,949	5,021	5,190	1,131	1,122	1,091
d) Export credit for defence purposes	0	0	0	0	0	0

(Continued)

APPENDIX TABLE I.59 : INDIA'S EXTERNAL DEBT *(Concld.)*

(As at end-March)

Item	Rupees crore			US $ million		
	2005P	2004R	2003R	2005P	2004R	2003R
1	2	3	4	5	6	7
V. Commercial Borrowing	**1,17,886**	**96,016**	**1,07,119**	**26,942**	**22,101**	**22,530**
a) Commercial bank loans	59,278	50,611	46,953	13,548	11,650	9,875
b) Securitised borrowings $ (including FCCBs)	54,875	41,616	57,747	12,541	9,579	12,146
c) Loans/securitised borrowings, etc. with multilateral/bilateral guarantee and IFC(W)	3,733	3,789	2,419	853	872	509
d) Self Liquidating Loans	0	0	0	0	0	0
VI. NRI and FC (B and O) Deposits (above one-year maturity)	**1,42,637**	**135,618**	**1,10,022**	**32,599**	**31,216**	**23,160**
VII. Rupee Debt *	**10,064**	**11,860**	**13,405**	**2,300**	**2,721**	**2,822**
a) Defence	8,882	10,543	11,946	2,030	2,427	2,515
b) Civilian +	1,182	1,317	1,459	270	294	307
VIII. Total Long-term Debt (I to VII)	**5,06,616**	**4,72,128**	**4,76,831**	**1,15,786**	**1,07,284**	**1,00,289**
IX. Short-term Debt	**32,922**	**19,251**	**22,180**	**7,524**	**4,431**	**4,669**
a) NRI deposits (upto 1 year maturity)	0	1,321	9,320	0	304	1,962
b) Others (trade related)	32,922	17,930	12,860	7,524	4,127	2,707
X. GRAND TOTAL	**5,39,538**	**4,91,379**	**4,99,011**	**1,23,310**	**1,11,715**	**1,04,958**
Concessional Debt						
As percentage of Total Debt	33.5	36.1	36.8	33.5	36.1	36.8
Short Term Debt						
As percentage of Total Debt	6.1	4.0	4.4	6.1	4.0	4.4
Memo Items:						
Debt Indicators:						
1. Debt Stock - GDP Ratio (in per cent)	17.4	17.8	20.3	17.4	17.8	20.3
2. Debt-Service Ratio (per cent) (for fiscal year) (Including debt-servicing on non-civilian credits)	6.2	16.3	16.4	6.2	16.3	16.4

P : Provisional. R : Revised.

: Refers to Debt outstanding to Institutions like IFAD, OPEC & EEC(SAC).

: Refers to debt outstanding against loans from ADB.

$: Includes net investment by 100 per cent FII debt funds, Resurgent India Bonds (RIBs) and India Millennium Deposits (IMDs).

* : 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.

Note : Multilateral loans do not include revaluation of IBRD pooled loans and exchange rate adjustment under IDA loans for pre-1971 credits.

APPENDIX TABLE I.60 : INDICES OF REAL EFFECTIVE EXCHANGE RATE (REER) AND NOMINAL EFFECTIVE EXCHANGE RATE (NEER) OF THE INDIAN RUPEE

Year/Month	36 - country bilateral trade weights (Base : 1985 = 100)		5 - country bilateral trade weights (Base : 1993-94 = 100)	
	REER	NEER	REER	NEER
1	2	3	4	5
1993-94	61.59	44.69	100.00	100.00
1994-95	66.04	43.37	105.81	96.09
1995-96	63.62	39.73	102.29	87.69
1996-97	63.81	38.97	103.43	86.38
1997-98	67.02	40.01	105.84	86.43
1998-99	63.44	36.34	97.79	76.45
1999-00	63.29	35.46	96.74	74.22
2000-01	66.53	35.52	100.76	73.77
2001-02	68.43	35.75	102.09	73.18
2002-03	72.76	37.05	97.88	68.78
2003-04	74.14	36.25	99.60	67.36
2004-05 (P)	76.95	35.64	101.91	66.09
2004-05				
April	77.14	36.98	103.12	68.61
May	75.49	35.94	101.38	67.27
June	76.62	35.87	101.19	66.14
July (P)	75.80	35.22	100.40	65.10
August (P)	76.34	35.14	101.21	65.08
September (P)	77.28	35.37	102.28	65.48
October (P)	76.61	35.17	101.36	65.36
November (P)	76.56	34.91	101.42	64.90
December (P)	77.48	35.60	101.46	65.48
January (P)	77.92	35.85	102.84	66.35
February (P)	78.18	35.93	103.49	66.81
March (P)	77.95	35.69	103.13	66.48
2005-06 (P)				
April	79.68	36.09	104.32	67.05
May	81.07	36.60	105.81	67.88
June	81.65	36.71	108.06	68.98

P **:** Provisional.

Note : 1. 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).

2. The 36-Country REER & NEER have been estimated using the common price index and the exchange rate for the Euro, thus representing 31 countries and the Euro area w.e.f. March 1, 2002.