RESERVE BANK OF INDIA

ANNUAL REPORT

2006-07

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RESERVE BANK OF INDIA

Report of the Central Board of Directors on the working of the Reserve Bank of India for the year ended June 30, 2007 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 2006-07

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

गवर्नर
Governor

LETTER OF TRANSMITTAL

Ref. No. SYD. 696 / 02.16.001 / 2007-2008

August 30, 2007
Bhadra 8, 1929 (Saka)

The Finance Secretary
Government of India
Ministry of Finance
New Delhi - 110 001.

Dear Sir,

In pursuance of Section 53(2) of the Reserve Bank of India Act, 1934, I transmit herewith the following documents:

(i) A copy of the Annual Accounts for the year ended June 30, 2007 signed by me, the Deputy Governors and the Chief General Manager and certified by the Bank's Auditors; and

(ii) Two copies of the Annual Report of the Central Board on the working of the Bank during the year ended June 30, 2007.

Yours faithfully,

(**Y. V. Reddy**)

केन्द्रीय कार्यालय भवन, शहीद भगतसिंह मार्ग, मुम्बई - 400 001. भारत
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CENTRAL BOARD / LOCAL BOARDS

GOVERNOR

Y.V. Reddy

DEPUTY GOVERNORS

Rakesh Mohan

V. Leeladhar

Shyamala Gopinath

Usha Thorat

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

Y.H. Malegam

Suresh D. Tendulkar

U.R. Rao

Lakshmi Chand

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

H. P. Ranina

Ashok S. Ganguly

Azim Premji

Kumar Mangalam Birla

Shashi Rajagopalan

Suresh Neotia

A. Vaidyanathan

Man Mohan Sharma

D. Jayavarthanavelu

Sanjay Labroo

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

Ashok Kumar Jha (up to April 30, 2007)

D. Subbarao (from May 10, 2007)

MEMBERS OF LOCAL BOARDS

WESTERN AREA

Y.H. Malegam

K. Venkatesan

Dattaraj V. Salgaocar

Jayanti Lal Bavjibhai Patel

Mahendra Singh Sodha (up to May 10, 2007)

EASTERN AREA

Suresh D. Tendulkar

A. K. Saikia

Sovan Kanungo

NORTHERN AREA

U.R. Rao

Mitha Lal Mehta

Ram Nath

Pritam Singh

SOUTHERN AREA

Lakshmi Chand

C. P. Nair

S. Ramachander

M. Govinda Rao

Devaki Jain

PRINCIPAL OFFICERS

(As on June 30, 2007)

EXECUTIVE DIRECTORS	R.B. Barman
	P.K. Biswas
	V.K. Sharma
	C. Krishnan
	Anand Sinha
	V.S. Das
CENTRAL OFFICE	
Customer Service Department	Kaza Sudhakar, Chief General Manager
Department of Administration and Personnel Management	H.N. Prasad, Principal Chief General Manager
Department of Banking Operations and Development	P. Saran, 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	G.S. Bhati, Principal Adviser (Officiating)
Department of Expenditure and Budgetary Control	Ramesh Chander, Chief General Manager-in-Charge
Department of External Investments and Operations	Smt. Meena Hemachandra, Chief General Manager
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	A.K. Ray, Officer-in-Charge
Financial Markets Department	Chandan Sinha, Chief General Manager
Foreign Exchange Department	Salim Gangadharan, Chief General Manager-in-Charge
Human Resources Development Department	Deepak Singhal, Chief General Manager
Inspection Department	Karuna Sagar, Chief General Manager
Internal Debt Management Department	G. Mahalingam, Chief General Manager
Legal Department	K.D. Zacharias, Legal Adviser-in-Charge
Monetary Policy Department	M.D. Patra, Adviser-in-Charge
Premises Department	Vijay Chugh, General Manager-in-Charge
Rajbhasha Department	Smt. Phulan Kumar, 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	N.S. Vishwanathan, Chief General Manager-in-Charge
COLLEGES	**PRINCIPALS/Chief General Manager**
Bankers Training College	Deepali Pant Joshi
Centre for Advanced Financial Learning, Mumbai	Himadri Bhattacharaya, Officer on Special Duty
College of Agricultural Banking, Pune	Sandip Ghose
Reserve Bank Staff College, Chennai	S. Karuppasamy
OFFICES	**REGIONAL DIRECTORS**
Chennai	F.R. Joseph
Kolkata	B. Mahapatra
Mumbai	A.N. Rao
New Delhi	H.R. Khan
BRANCHES	**REGIONAL DIRECTORS**
Ahmedabad	B. Srinivasan
Bangalore	Smt. D. Muthukrishnan
Bhopal	K.V.Rajan
Bhubaneswar	G. Jaganmohan Rao
Chandigarh	D.P.S. Rathore
Guwahati	Smt. Sewali Chowdhary
Hyderabad	R. Gandhi
Jaipur	B.P. Vijayendra
Jammu	O.P. Aggarwal
Kanpur	J.B. Bhoria
Nagpur	C.C. Mitra
Patna	K.K. Vohra
Thiruvananthapuram	S. Ramaswamy
	OFFICERS-IN-CHARGE
Belapur	A.K.Bera, Chief General Manager
Dehradun	Manoj Sharma, General Manager
Kochi	T.V. Gopalakrishnan, General Manager
Lucknow	Alakh Niranjan, General Manager
Panaji	M.A.R. Prabhu, Deputy General Manager
Raipur	A.K. Sharma, Deputy General Manager

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LIST OF ABBREVIATIONS

AA	-	Appellate Authority
ACA	-	Additional Central Assistance
ACU	-	Additional Competitive Underwriting
ACU	-	Asian Clearing Union
ADs	-	Authorised Dealers
ADB	-	Asian Development Bank
ADRs	-	American Depository Receipts
ADR	-	Asset Development Reserve
AFC	-	Asset Finance Company
AFI	-	Annual Financial Inspection
AFS	-	Available for Sale
AIBP	-	Accelerated Irrigation Benefit Programme
AIC	-	Agricultural Insurance Corporation
AIFI	-	All India Financial Institution
AL	-	Agricultural Labourer
AMCs	-	Authorised Money Changers
AML	-	Anti-Money Laundering
AMPI	-	Aggregated Micro-Prudential Indicators
ANBC	-	Adjusted Net Bank Credit
APMC	-	Agricultural Produce Marketing Committee
ARC	-	Asset Reconstruction Company
ASEAN	-	Association of Southeast Asian Nations
ASSOCHAM	-	Associated Chambers of Commerce and Industry of India
ATBs	-	Auction Treasury Bills
ATF	-	Aviation Turbine Fuel
ATM	-	Automated Teller Machine
BCBS	-	Basel Committee on Banking Supervision
BCR	-	Bid-to-Cover Ratio
BCSBI	-	Banking Codes and Standards Board of India
BCTT	-	Banking Cash Transaction Tax
BE	-	Budget Estimates
BFS	-	Board for Financial Supervision
BIFR	-	Board for Industrial and Financial Reconstruction
BIS	-	Bank for International Settlements
BoJ	-	Bank of Japan
BoP	-	Balance of Payments
BOT	-	Build Operate and Transfer
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	-	Bombay Stock Exchange Ltd., Mumbai
BSR	-	Basic Statistical Returns
BTC	-	Bankers' Training College
CA	-	Concurrent Audit
CAB	-	College of Agricultural Banking
CACP	-	Commission on Agricultural Costs and Prices
CAD	-	Current Account Deficit
CAFL	-	Centre for Advanced Financial Learning
CALCS	-	Capital Adequacy, Asset Quality, Liquidity, Compliance and System
CAM	-	Chest Accounting Module
CAMELS	-	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems and Control
CAPIO	-	Central Assistant Public Information Officer
CAS	-	Central Accounts Section
CBLO	-	Collateralised Borrowing and Lending Obligation
CBS	-	Consolidated Banking Statistics
CBS	-	Core Banking Solutions
CCB	-	Committee of the Central Board
CCIL	-	Clearing Corporation of India Limited
CCRS	-	Currency Chest Reporting System

LIST OF ABBREVIATIONS

CD	-	Certificates of Deposit
CDBMS	-	Central Database Management System
CDR	-	Corporate Debt Restructuring
CENVAT	-	Central Value Added Tax
CEO	-	Chief Executive Officer
CFES	-	Centralised Funds Enquiry System
CFMS	-	Centralised Funds Management System
CFSP	-	Committee on Financial Sector Plan
CFTS	-	Centralised Funds Transfer System
CGRA	-	Currency and Gold Revaluation Account
CIBIL	-	Credit Information Bureau of India Limited
CIC	-	Central Information Commission
CIPET	-	Central Institute of Plastics Engineering and Technology
CMIE	-	Centre for Monitoring Indian Economy
CoR	-	Certificate of Registration
CPC	-	Cheque Processing Centre
CPDO	-	Centralised Public Debt Office
CPI	-	Consumer Price Index
CPI-IW	-	Consumer Price Index for Industrial Workers
CPIO	-	Chief Public Information Officer
CP	-	Commercial Paper
CPPAPS	-	Committee on Procedures and Performance Audit on Public Services
CPSU	-	Central Public Sector Undertaking
CR	-	Contingency Reserve
CRAR	-	Capital to Risk Weighted Assets Ratio
CRC	-	Complaints Redressal Cell
CRCS	-	Central Registrar of Cooperative Societies
CRDC	-	Central Records and Documentation Centre
CRR	-	Cash Reserve Ratio
CSAA	-	Control Self Assessment Audit
CSCs	-	Common Service Centres
CSD	-	Customer Service Department
CSGL	-	Constituents' Subsidiary General Ledger
CSF	-	Consolidated Sinking Fund
CSO	-	Central Statistical Organisation
CST	-	Central Sales Tax
CTR	-	Cash Transaction Report
CTS	-	Cheque Truncation System
CVC	-	Central Vigilance Commission
CVPS	-	Currency Verification and Processing System
DAD	-	Deposit Accounts 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
DCCB	-	District Central Cooperative Bank
DCM	-	Department of Currency Management
DDT	-	Dividend Distribution Tax
DE	-	Designated Entity
DEAP	-	Department of Economic Analysis and Policy
DEBC	-	Department of Expenditure and Budgetary Control
DEIO	-	Department of External Investments and Operations
DEPB	-	Duty Entitlement Pass Book
DESACS	-	Department of Statistical Analysis and Computer Services
DFHI	-	Discount and Finance House of India
DFIs	-	Development Finance Institutions
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
DIT	-	Department of Information Technology

LIST OF ABBREVIATIONS

DIPP	-	Department of Industrial Policy and Promotion
DMIS	-	Document Management Information System
DMO	-	Debt Management Office
DNBS	-	Department of Non-Banking Supervision
DNS	-	Deferred Net Settlement
DoT	-	Department of Telecommunication
DPSS	-	Department of Payment and Settlement Systems
DRI	-	Differential Rate of Interest
DRAT	-	Debt Recovery Appellate Tribunal
DRG	-	Development Research Group
DRS	-	Disaster Recovery System
DRT	-	Debt Recovery Tribunal
DSS	-	Debt Swap Scheme
DTA	-	Domestic Tariff Area
DTL	-	Demand and Time Liabilities
D*v*P	-	Delivery *versus* Payment
EBPT	-	Earnings Before Provisions and Taxes
ECBs	-	External Commercial Borrowings
ECB	-	European Central Bank
ECR	-	Export Credit Refinance
ECS	-	Electronic Clearing Services
EEA	-	Exchange Equalisation Account
EEFC	-	Exchange Earners' Foreign Currency
EFT	-	Electronic Funds Transfer
EL	-	Equipment Leasing
EMEs	-	Emerging Market Economies
EMI	-	Equated Monthly Instalment
EOU	-	Export Oriented Unit
ESOP	-	Employees Stock Option Plan
EU	-	European Union
EXIM	-	Export-Import
FAO	-	Food and Agricultural Organisation
FAQs	-	Frequently Asked Questions
FATF	-	Financial Action Task Force
FBT	-	Fringe Benefit Tax
FCA	-	Foreign Currency Assets
FCAC	-	Fuller Capital Account Convertibility
FCCB	-	Foreign Currency Convertible Bond
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
FIs	-	Financial Institutions
FIIs	-	Foreign Institutional Investors
FIMMDA	-	Fixed Income Money Market and Derivatives Association of India
FIPB	-	Foreign Investment Promotion Board
FISIM	-	Financial Intermediation Services Indirectly Measured
FMD	-	Financial Markets Department
FRBM	-	Fiscal Responsibility and Budget Management
FRL	-	Full Reservoir Level
FRLs	-	Fiscal Responsibility Legislations
FSS	-	Ferritic Stainless Steel
GBK	-	Ganesh Bank of Kurundwad Ltd.
GCC	-	General Purpose Credit Card
GDCF	-	Gross Domestic Capital Formation
GDP	-	Gross Domestic Product
GDR	-	Global Depository Receipt
GDS	-	Gross Domestic Saving
GFCF	-	Gross Fixed Capital Formation
GFD	-	Gross Fiscal Deficit
GGB	-	Gurgaon Gramin Bank
GIPSA	-	General Insurer's (Public Sector) Association of India
GLC	-	General Line of Credit

LIST OF ABBREVIATIONS

GoI	-	Government of India
GQ	-	Golden Quadrilateral
GRF	-	Guarantee Redemption Fund
GSDP	-	Gross State Domestic Product
GST	-	Goods and Services Tax
HFT	-	Held for Trading
HLCCFM	-	High Level Coordination Committee on Financial and Capital Markets
HP	-	Hire Purchase
HRDD	-	Human Resources Development Department
HRMS	-	Human Resources Management System
HST	-	Harmonised Sales Tax
HTM	-	Held to Maturity
HUF	-	Hindu Undivided Family
IAS	-	Integrated Accounting System
IASC	-	Inspection and Audit Sub-Committee
IBA	-	Indian Banks' Association
IBL	-	Inter-bank Liabilities
IBS	-	International Banking Statistics
ICAR	-	Indian Council of Agricultural Research
ICC	-	International Credit Card
ICCOMS	-	Integrated Computerised Currency Operation and Management System
ICDS	-	Integrated Child Development Services
ICT	-	Information and Communication Technology
IDBI	-	Industrial Development Bank of India
IDFC	-	Infrastructure Development Finance Corporation
IDL	-	Intra-day Liquidity
IDMD	-	Internal Debt Management Department
IDR	-	Indian Depository Receipt
IDRBT	-	Institute for Development and Research in Banking Technology
IEA	-	International Energy Agency
IEM	-	Industrial Entrepreneurs Memoranda
IES	-	Integrated Establishment System
IFC	-	International Finance Corporation
IFCI	-	Industrial Financial Corporation of India Ltd.
IIBI	-	Industrial Investment Bank of India Ltd.
IIFCL	-	India Infrastructure Finance Company Limited
IIP	-	Index of Industrial Production
IIT	-	Indian Institute of Technology
IMD	-	India Millennium Deposits
IMF	-	International Monetary Fund
IMFC	-	International Monetary and Financial Committee
INFINET	-	Indian Financial Network
INR	-	Indian Rupee
IODP	-	Integrated Officer Development Programme
IPO	-	Initial Public Offer
IRB	-	Internal Rating Based
IRDA	-	Insurance Regulatory and Development Authority
IRDs	-	Interest Rate Derivatives
IRF	-	Interest Rate Future
IRS	-	Interest Rate Swap
IS	-	Information System
ISA	-	Information System Audit
ISO	-	International Organisation for Standardisation
IT	-	Information Technology
ITBs	-	Intermediate Treasury Bills
ITES-BPO	-	Information Technology Enabled Services and Business Process Outsourcing
ITO	-	Indian Trade Organisation
ITP	-	India-IMF Training Programme
JNNURM	-	Jawaharlal Nehru National Urban Renewal Mission
JV	-	Joint Venture
KCC	-	Kisan Credit Card

LIST OF ABBREVIATIONS

KYC	-	Know Your Customer
LAF	-	Liquidity Adjustment Facility
LAN	-	Local Area Network
LBS	-	Locational Banking Statistics
LC	-	Letter of Credit
LD	-	Legal Department
LDCs	-	Least Developed Countries
LFC	-	Leave Fare Concession
LIBOR	-	London Inter Bank Offered Rate
LIC	-	Life Insurance Corporation of India
LoI	-	Letter of Intent
LPA	-	Long-Period Average
LPG	-	Liquefied Petroleum Gas
LSE	-	London School of Economics and Political Science
LVPS	-	Large Value Payment Systems
M&A	-	Merger and Acquisition
MA&SI	-	Management Audit & Systems Inspection
MAT	-	Minimum Alternate Tax
MBC	-	Mutual Benefit Company
MBFCs	-	Mutual Benefit Financial Companies
MBS	-	Mortgage-Backed Securities
MEs	-	Medium Enterprises
MEIs	-	Macroeconomic Indicators
MF	-	Mutual Fund
MFI	-	Micro Finance Institution
MICR	-	Magnetic Ink Character Recognition
MIS	-	Management Information System
MMBCS	-	Magnetic Media Based Clearing System
MNCs	-	Multinational Companies
MNSB	-	Multilateral Net Settlement Batch
MoU	-	Memorandum of Understanding
MPC	-	Monetary Policy Committee
MPD	-	Monetary Policy Department
MPI	-	Macro-Prudential Indicator
MPLS	-	Multi-Protocol Label Switching
MRO	-	Mumbai Regional Office
MSCI	-	Morgan Stanley Capital International
MSMED	-	Micro, Small and Medium Enterprises Development
MSP	-	Minimum Support Price
MSS	-	Market Stabilisation Scheme
MTFP	-	Medium Term Fiscal Plan
MUC	-	Minimum Underwriting Commitment
NABARD	-	National Bank for Agriculture and Rural Development
NAIS	-	National Agricultural Insurance Scheme
NASSCOM	-	National Association of Software and Service Companies
NAV	-	Net Asset Value
NBFCs	-	Non-Banking Financial Companies
NBFC-ND-SI	-	Non-Deposit Taking Systemically Important Non-Banking Finance Companies
NBFI	-	Non-Banking Financial Institution
NCAER	-	National Council of Applied Economic Research
NCF	-	National Commission on Farmers
NCT	-	National Capital Territory
NDA	-	Net Domestic Assets
NDC	-	National Development Council
NDC	-	No Dues Certificate
NDF	-	Non-Deliverable Forward
NDS	-	Negotiated Dealing System
NDS-OM	-	Negotiated Dealing System – Order Matching
NDTL	-	Net Demand and Time Liabilities
NEER	-	Nominal Effective Exchange Rate
NEFT	-	National Electronic Funds Transfer
NEIIP	-	North East Industrial and Investment Promotion Policy
NEP	-	National Electricity Policy
NER	-	North-Eastern Region
NFA	-	Net Foreign Assets
NFEA	-	Net Foreign Exchange Assets

LIST OF ABBREVIATIONS

NGO	-	Non-Government Organisations
NHAI	-	National Highways Authority of India
NHB	-	National Housing Bank
NHDP	-	National Highway Development Programme
NIBM	-	National Institute of Bank Management
NIF	-	National Investment Fund
NIMC	-	National Implementing and Monitoring Committee
NOF	-	Net Owned Funds
NPAs	-	Non-Performing Assets
NREGF	-	National Rural Employment Guarantee Fund
NREGS	-	National Rural Employment Guarantee Scheme
NR(E) RA	-	Non-Resident (External) Rupee Account
NRI	-	Non-Resident Indian
NRNR	-	Non Resident Non Repatriable
NRO	-	Non-Resident Ordinary
NSC	-	National Statistical Commission
NSDL	-	National Securities Depository Limited
NSE	-	National Stock Exchange
NSE-MIBOR	-	National Stock Exchange-Mumbai Interbank Offer Rate
NSSO	-	National Sample Survey Organisation
NSS	-	National Settlement System
NSSF	-	National Small Saving Fund
OBC	-	Other Backward Class
OBE	-	Off-Balance Sheet Exposure
OBU	-	Offshore Banking Unit
OCBs	-	Overseas Corporate Bodies
OD	-	Overdraft
OECD	-	Organisation for Economic Cooperation and Development
OLTAS	-	Online Tax Accounting System
OMC	-	Oil Marketing Company
OMO	-	Open Market Operation
OMS	-	Open Market Sales
OPAC	-	Online Public Access Catalogue
OPEC	-	Organisation of Petroleum Exporting Countries
ORFS	-	Online Returns Filing System
OSS	-	Off-site Surveillance
OTC	-	Over-the-Counter
OTCEI	-	Over-the-Counter Exchange of India
OTS	-	One-Time Settlement
PACS	-	Primary Agricultural Cooperative Societies
PAD	-	Public Accounts Department
PAIS	-	Personal Accident Insurance Scheme
PAN	-	Permanent Account Number
PAR	-	Performance Appraisal Reporting
PBC	-	People’s Bank of China
PCARDB	-	Primary Cooperative Agricultural and Rural Development Bank
PDs	-	Primary Dealers
PDO	-	Public Debt Office
PDS	-	Public Distribution System
P/E Ratio	-	Price Earnings Ratio
PFIs	-	Public Financial Institutions
PFM	-	Pension Fund Management
PFRDA	-	Pension Fund Regulatory and Development Authority
PGPBF	-	Post Graduate Programme in Banking and Finance
PIOs	-	Persons of Indian Origin
P&L	-	Profit and Loss
PLF	-	Plant Load Factor
PMLA	-	Prevention of Money Laundering Act
PMRY	-	Prime Minister’s Rozgar Yojana
PMS	-	Portfolio Management Service
PPP	-	Purchasing Power Parity
PRD	-	Press Relations Division
PSBs	-	Public Sector Banks
PSBR	-	Public Sector Borrowing Requirement
PST	-	Provincial Sales Tax

LIST OF ABBREVIATIONS

PSUs - Public Sector Undertakings
QST - Quebec Sales Tax
R&D - Research & Development
RBS - Risk-Based Supervision
RBSB - Reserve Bank Services Board
RBSC - Reserve Bank Staff College
RC - Reconstruction Company
RCC - Regional Complaints Committee
RCS - Registrar of Cooperative Societies
RD - Revenue Deficit
RE - Revised Estimates
REER - Real Effective Exchange Rate
RFIs - Refinancing Institutions
RIDF - Rural Infrastructure Development Fund
RNBCs - Residuary Non-banking Companies
RO - Regional Office
RPCD - Rural Planning and Credit Department
RRBs - Regional Rural Banks
RST - Retail Sales Tax
RTGS - Real Time Gross Settlement
RTI - Right to Information
RTO - Recovery Time Objective
RTP - Reserve Tranche Position
SAARC - South Asian Association for Regional Cooperation
SACP - Special Agricultural Credit Plan
SAFTA - South Asian Free Trade Agreement
SARFAESI - Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SBI - State Bank of India
SBS - Shredding and Briquetting System
SCs - Securitisation Companies
SC - Scheduled Caste
SCB - Scheduled Commercial Bank
SCRA - Securities Contracts (Regulation) Act
SDDS - Special Data Dissemination Standard
SDL - State Development Loan
SDR - Special Drawing Right
SEB - State Electricity Board
SEBI - Securities and Exchange Board of India
SEDF - Small Enterprises Development Fund
SEFT - Special Electronic Funds Transfer
SEZs - Special Economic Zones
SGRY - Sampoorna Gramin Rozgar Yojana
SGSY - Swarnajayanti Gram Swarozgar Yojana
SHGs - Self-Help Groups
SIDBI - Small Industries Development Bank of India
SIPS - Systemically Important Payment Systems
SJSRY - Swarna Jayanti Shahari Rozgar Yojana
SLAF - Second Liquidity Adjustment Facility
SLBC - State Level Bankers' Committee
SLCC - State Level Coordination Committee
SLR - Statutory Liquidity Ratio
SLRS - Scheme for Liberation and Rehabilitation of Scavengers
SMEs - Small and Medium Enterprises
SPMCIL - Security Printing and Minting Corporation Ltd.
SPV - Special Purpose Vehicle
SR - Security Receipt
SRP - Supervisory Review Process
SSCs - Special Sub-Committees
SSGs - Special State Government Securities
SSIs - Small Scale Industries
SSSs - Securities Settlement Systems
StCB - State Cooperative Bank
ST - Scheduled Tribe
STC - Standing Technical Committee
STC - State Trading Corporation
STP - Straight Through Processing
STPI - Software Technology Parks of India

LIST OF ABBREVIATIONS

STR	-	Suspicious Transaction Report
STRIPS	-	Separate Trading for Registered Interest and Principal of Securities
STT	-	Securities Transaction Tax
SUCBs	-	Scheduled Urban Cooperative Banks
SWIFT	-	Society for Worldwide Interbank Financial Telecommunication
TAC	-	Technical Advisory Committee
TAFCUBs	-	Task Force for Cooperative Urban Banks
TAG	-	Technical Advisory Group
TBs	-	Treasury Bills
TDS	-	Tax Deduction at Source
TFC	-	Twelfth Finance Commission
TFCI	-	Tourism Finance Corporation of India Ltd.
TFP	-	Total Factor Productivity
TLIs	-	Term Lending Institutions
TPA	-	Tripartite Agreement
TPDS	-	Targeted Public Distribution System
TRAI	-	Telecom Regulatory Authority of India
UBD	-	Urban Banks Department
UCBs	-	Urban Cooperative Banks
UIN	-	Unique Identification Number
UNCITRAL	-	United Nations Commission on International Trade Law
UNCTAD	-	United Nations Conference on Trade and Development
UNDP	-	United Nations Development Programme
UNME	-	Urban Non Manual Employee
UNSNA	-	United Nation System of National Accounts, 1993
USDA	-	US Department of Agriculture
UTI	-	Unit Trust of India
UTLBC	-	Union Territory Level Bankers' Committee
UWB	-	United Western Bank
VaR	-	Value at Risk
VAT	-	Value Added Tax
VCF	-	Venture Capital Funds
VPN	-	Virtual Private Networks
WADR	-	Weighted Average Discount Rate
WAN	-	Wide Area Network
WAP	-	Wireless Application Protocol
WDM	-	Wholesale Debt Market
WGC	-	World Gold Council
WI	-	When Issued
WMA	-	Ways and Means Advance
WOS	-	Wholly Owned Subsidiaries
WPI	-	Wholesale Price Index
WSS	-	Weekly Statistical Supplement
WTI	-	West Texas Intermediate
Y-o-Y	-	Year-on-Year
YTM	-	Yield-to-Maturity
ZTC	-	Zonal Training Centre

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*For the Year July 1, 2006 to June 30, 2007**

PART ONE : THE ECONOMY : REVIEW AND PROSPECTS

I ECONOMIC REVIEW

I. MACROECONOMIC POLICY ENVIRONMENT

I.1.1 Global economic activity remained buoyant for the fourth successive year during 2006 and available information suggests that the growth momentum is likely to continue during 2007, *albeit* with some moderation. Global economic growth accelerated from 4.9 per cent during 2005 to 5.5 per cent during 2006, and has averaged 4.9 per cent per annum during the four-year period 2003-2006. A positive feature of the global economic activity during 2006 was the broadening of growth across major regions/countries. The moderation of economic activity in the US since the second half of 2006 has been largely offset by the acceleration of activity in the euro area and in Japan; emerging and developing countries, led by China and India, have provided stable support to the global economy with sustained high growth. The rising global activity is, however, leading to closing of output gaps in many countries; strong demand, in conjunction with strong gains recorded by global commodity prices, was reflected in inflationary pressures in major economies. With headline inflation crossing the targets/comfort zones in major countries, many central banks pursued monetary tightening to contain inflationary expectations.

I.1.2 In an environment of strong global growth, the Indian economy continued to exhibit robust growth during 2006-07. Real GDP growth accelerated to 9.4 per cent in 2006-07 from 9.0 per cent in 2005-06, boosted by the double-digit growth in the services and industrial sectors. Real GDP growth, thus, averaged 7.6 per cent per annum during the Tenth Five Year Plan period (2002-03 to 2006-07) – the fastest pace of expansion in any Plan period so far – significantly higher than that of 5.7 per cent per annum during the 1980s and the 1990s. Growth in per capita income (*i.e.*, per capita net national product at factor cost) accelerated from 7.4 per cent in 2005-06 to 8.4 per cent during 2006-07. Per capita income growth averaged 6.1 per cent per annum during the Tenth Plan period and 7.1 per cent per annum during the last four years (2003-04 to 2006-07), more than double of 3.4 per cent per annum recorded during the 1980s and the 1990s. The acceleration of economic activity is being supported by a significant rise in domestic savings and investment, and productivity gains. A notable feature of the economic growth during 2006-07 was the further strengthening of the manufacturing activity. Consequently, in view of the sustained high growth since 2003-04, capacity utilisation has risen in a number of industries which, along with supply shocks from primary articles, were reflected in a rise in the various measures of inflation during 2006-07. The Reserve Bank, accordingly, took a series of pre-emptive monetary measures to contain inflationary expectations. The monetary measures were also accompanied by fiscal and supply side measures.

I.1.3 The sustained strengthening of domestic economic activity over the past few years has been underpinned by proactive policy measures to improve the productivity and competitiveness of the Indian economy. A number of steps covering the various sectors of the economy – real, fiscal, external, monetary and financial sectors – were taken during the year to sustain the current growth momentum, and make it more inclusive in an environment of macroeconomic and financial stability. These policy measures are covered in the first part of this Chapter while the developments in the various sectors of the economy are covered in the subsequent parts of this Chapter.

* : 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 2007. For the purpose of analysis and for providing proper perspective on policies, reference to past years as also prospective periods, wherever necessary, has been made in this Report.

REAL SECTOR POLICIES

Agriculture and Allied Activities

I.1.4 In view of the renewed focus on faster, more broad-based and inclusive growth, reversal of the deceleration and containment in volatility in agricultural growth remained the highest priority of the Government. A number of steps were taken to improve the availability of irrigation facilities, crop yields, flow of institutional credit and rural infrastructure while also providing some relief to debt stressed farmers.

I.1.5 A National Rainfed Area Authority was created in November 2006 to support upgradation and management of dryland and rainfed agriculture. The Authority would coordinate all schemes relating to watershed development and other aspects of land use. The Union Budget 2007-08 allocated Rs.100 crore for the new Rainfed Area Development Programme. It also proposed to revamp the Accelerated Irrigation Benefit Programme (AIBP) in order to complete more irrigation projects in the quickest possible time. The outlay under AIBP was budgeted to increase from Rs.7,121 crore in 2006-07 to Rs.11,000 crore in 2007-08 (inclusive of the grant component of Rs.3,580 crore to the State Governments). In line with the pilot project launched in March 2005, to repair, renovate and restore water bodies in 13 States, similar projects are planned for other States with assistance from the World Bank. The Union Budget 2007-08 urged the State Governments to come forward with proposals so that the whole country can be covered in the next two years. Depletion of ground water has assumed grave proportions, with the Central Ground Water Board identifying 1,065 assessment blocks in the country as ‘over-exploited’ or ‘critical’. The Union Budget 2007-08 provided for 100 per cent subsidy to small and marginal farmers and 50 per cent subsidy to other farmers to erect structures which would divert rain water into dug wells. Of the proposed seven million structures, about two million structures would be on land belonging to small and marginal farmers. In this regard, a sum of Rs.1,800 crore would be transferred to the National Bank for Agriculture and Rural Development (NABARD). The amount would be held in escrow account and would be disbursed through the lead bank of the district concerned to the beneficiaries.

I.1.6 The Ministry of Agriculture had formulated an Action Plan in October 2006 for increasing the production and productivity of wheat in the country. Under this plan, 50 per cent of the area under wheat is being targeted for enhancing productivity by identifying about 138 districts in the States of Bihar, Uttar Pradesh, Madhya Pradesh, Maharashtra, Rajasthan, Gujarat, Punjab, Haryana and West Bengal. The interventions proposed in the Action Plan include improved package of practices of wheat; increasing the seed replacement rate to 33 per cent from the present 13 per cent; promoting the application of macronutrient and gypsum; popularising zero till machines and sprinklers; and subsidising diesel used for irrigation. Stagnation in the production and productivity of pulses is a matter of concern. A critical issue is the availability and quality of certified seeds. In view of this, the Union Budget 2007-08 proposed to expand the Integrated Oilseeds, Oil palm, Pulses and Maize Development Programme.

I.1.7 The Green Revolution of the 1960s was brought about by thousands of agricultural extension workers who worked side by side with farmers under a Training and Visit (T&V) programme. In order to revive the extension system, the Union Budget 2007-08 proposed to draw up a new programme to replicate the T&V with suitable changes. Furthermore, the Union Budget proposed that the Indian Council of Agricultural Research (ICAR) would set up a teaching-cum-demonstration model of water harvesting in each of the 32 select State agricultural universities and ICAR institutes. In this regard, an interest free loan of Rs.3 crore to each institution to create a corpus fund has been provided for. The yield from the fund will be used for implementing the training programme.

I.1.8 The National Development Council (NDC) in its 53rd meeting held on May 29, 2007 adopted a resolution that agricultural development strategies must be reoriented to rejuvenate agriculture to meet the needs of farmers. The NDC resolved that the Central and State Governments needed to take a number of steps to achieve 4 per cent annual growth in the agricultural sector during the Eleventh Plan (Box I.1). Furthermore, the Central Government committed Rs.25,000 crore for public investment in agriculture in the next four years.

I.1.9 The credit flow to the agricultural sector exceeded the target for the third consecutive year during 2006-07. As against the target of Rs.1,75,000 crore, the actual disbursements of farm credit by the banking system in 2006-07 were Rs.2,03,296 crore. For 2007-08, the Union Budget has fixed a target of Rs.2,25,000 crore as farm credit with an addition of five million new farmers to the banking system. The Union Budget, 2006-07 provided for the continuance of the two per cent interest subvention scheme for

Box I.1
National Development Council: Resolution on Agriculture

Actions to be taken by the Central Government

(i) A Food Security Mission to be launched as a Central scheme with the objective of producing over the next four years an additional eight million tonnes of wheat, 10 million tonnes of rice and two million tonnes of pulses over the base year (triennium ending 2006-07).

(ii) A new Additional Central Assistance (ACA) to State Plans to be introduced to incentivise States to draw up plans for their agriculture sector taking into account agro-climatic conditions, natural resource issues and technology integrating livestock, poultry and fisheries.

(iii) Additional resources to be provided for irrigation *via* Accelerated Irrigation Benefit Programme (AIBP), including a component on modernisation, linked to adoption of improved participatory irrigation management and command area development. Schemes involving intra-State linking of rivers could also be considered for AIBP.

(iv) Additional resources to be provided for the National Strategic Research Fund. Initiatives to be taken to improve the skill development in the farming community for employing modern methods of agriculture.

(v) The pattern of Rural Infrastructure Development Fund (RIDF) allocation by NABARD to be restructured so as to build it properly into the State and District plans.

(vi) Steps to be initiated to restructure the fertiliser subsidy programme for proper delivery to the farmers as also for providing balanced plant nutrition without adverse effects on soils. The use of bio-fertilisers, organic manure and micro-nutrients to enhance soil health will be promoted.

Actions to be taken by the State Governments

(i) Plan for each district to be formulated utilising resources available from all existing schemes. State agricultural plans to be formulated based on district plans aimed at achieving the States' agricultural growth objective. Each State will ensure that the baseline share of agriculture in its total State Plan expenditure is maintained to enable it to access the new ACA.

(ii) Special efforts to be made to complete projects under the AIBP without time and cost overrun and prioritise irrigation projects according to their agriculture production targets. States to also endeavour for better water management and improved water use efficiency.

(iii) Highest priority to be accorded to ensure adequate supply of quality seeds of crops and fodder at reasonable prices and at the right time to help in reducing the existing yield gaps.

(iv) A major expansion and revamping of State agricultural extension systems to be undertaken involving the State Agricultural Universities and *Krishi Vigyan Kendras*, while using public private partnership (PPP), wherever possible.

(v) Signing of the Memorandum of Understanding (MoU) (if not done so far) to be expedited for early implementation of the Vaidyanathan Committee recommendations and monitorable deadlines to be set for revamping the co-operative credit structure.

(vi) Development of modern markets to be encouraged by amending the Agricultural Produce Marketing Committee (APMC) Act and notifying the rules thereunder. A variety of instruments including cooperatives of farmers and contract farming to be used for reforms in agricultural marketing. The process of notifying rules under the amended APMC legislation should be completed during 2007-08.

Concrete proposals to implement these steps will be spelt out in detail both by the Central Government and the State Governments at the earliest.

short-term crop loans up to Rs.1 lakh granted by banks in *kharif* and *rabi* of 2005-06. Furthermore, in accordance with the Union Budget announcement, crop loans up to a principal amount of Rs.3 lakh were provided at seven per cent rate of interest beginning *kharif* 2006-07 for which the Government provided interest rate subvention of two per cent. The Union Budget, 2007-08 announced the continuance of this scheme for 2007-08 also. A National Agricultural Innovation Project, launched in July 2006, was aimed at enhancing livelihood security by involving farmer groups, Panchayati Raj Institutions and private sector. In order to improve the flow of credit from the cooperatives, a package for revival of the short-term rural cooperative credit structure was announced in January 2006. The Union Budget 2007-08 asked the regional rural banks (RRBs) to undertake an aggressive branch expansion programme and open at least one branch in the 80 uncovered districts of the country in 2007-08.

I.1.10 In view of the growing volume of farm credit, the demand for refinance from NABARD is expected to increase. In order to augment the resources of NABARD, the Union Budget 2007-08 proposed to allow it to issue rural bonds to the extent of Rs.5,000 crore, guaranteed by the Government and eligible for suitable tax exemption.

I.1.11 The Government has decided to implement immediately two of the recommendations of the Interim Report of the Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan). First, a Financial Inclusion Fund is being established with NABARD for meeting the cost of developmental and promotional interventions. Second, a Financial Inclusion Technology Fund will be established to meet the cost of technology adoption. Each fund will have an overall corpus of Rs.500 crore, with initial funding to be contributed by the Central Government, the Reserve Bank and the NABARD.

I.1.12 A special plan is being implemented over a period of three years in 31 distressed districts in four States involving a total amount of Rs.16,979 crore. Of this, Rs.12,400 crore is for water related schemes. In order to provide subsidiary income to the farmer, the special plan includes a scheme for induction of high yielding milch animals and related activities.

I.1.13 The National Agricultural Insurance Scheme (NAIS) is proposed to be continued in its present form for *kharif* and *rabi* 2007-08. The Union Budget made a provision of Rs.500 crore for the scheme. The NAIS, however, suffers from the lack of reliable methodology for estimating and reporting crop yields. Since yield assessment is made on the basis of crop cutting experiments by the State Agricultural Departments, there are problems of delay in the settlement of claims. In this context, rainfall-based insurance schemes are considered as more transparent and less cumbersome to administer, especially because most of the crop insurance claims in India are linked to rainfall variations. Events such as adverse rainfall can be independently verified and measured. The Agricultural Insurance Corporation (AIC) has been running a pilot weather insurance scheme since *kharif* 2004. Accordingly, the Government has advised the AIC to start a weather-based crop insurance scheme on a pilot basis in two or three States, in consultation with the concerned State Governments, as an alternative to the NAIS. The scheme would be operated on an actuarial basis with an element of subsidy. The Union Budget for 2007-08 allocated Rs.100 crore for this purpose.

I.1.14 In order to meet the funding requirement for rural infrastructure, the Union Budget 2007-08 raised the corpus of the Rural Infrastructure Development Fund (RIDF)-XIII to Rs.12,000 crore. A separate window for rural roads under RIDF which was opened in 2006-07 with a corpus of Rs.4,000 crore is proposed to be continued under RIDF-XIII in 2007-08.

I.1.15 The National Rural Employment Guarantee Scheme (NREGS), a demand-driven scheme carrying a legal guarantee for employment, was launched on February 2, 2006. The Union Budget 2007-08 made an initial allocation of Rs.12,000 crore (including the North Eastern Region component) for the NREGS. The Government intends to expand the coverage of the NREGS from the current level of 200 districts to 330 districts. In addition, Rs.2,800 crore has been provided for *Sampoorna Gramin Rozgar Yojana* (SGRY) for rural employment in the districts not covered by the NREGS. The Union Budget also increased allocation for *Swaranjayanti Gram Swarozgar Yojana* (SGSY), intended to promote self employment among the rural poor, from Rs.1,200 crore in 2006-07 to Rs.1,800 crore in 2007-08.

Manufacturing and Infrastructure

I.1.16 The acceleration of activity in the manufacturing sector since 2003-04 has been, *inter alia*, facilitated by improvement in investor friendly and sector specific policies. The policy framework was further rationalised and simplified during 2006-07 and 2007-08 so far to entrench the growth momentum, with a focus on upgrading the infrastructural facilities in the country. Initiatives to upgrade human skills to cope with the growing demand for the skilled labour were intensified during the year. Steps were also taken to strengthen the small and medium enterprises (SMEs) segment.

I.1.17 Work on the golden quadrilateral (GQ) is nearly complete while considerable progress has been made in the North-South, East-West corridor project, which is expected to be completed by 2009. The phases of the National Highway Development Programme (NHDP), *viz.,* NHDP-III, NHDP-V and NHDP-VI are in advanced stages of planning or implementation. Under the NHDP-III, the Government has approved upgradation and four-laning of 12,109 km of National Highways on build, operate and transfer (BOT) basis. Approval has also been granted for the six laning of 6,500 km of the National Highways (including 5,700 km of the GQ) under NHDP-V and for construction of 1,000 km of expressways under the NHDP-VI. So far, the National Highways Authority of India (NHAI) has given Rs.2,072 crore as viability gap funding but has also received Rs.1,900 crore[1]. The

[1] The concept of viability gap funding was included in the policy announced by the Government in 1997 for private sector participation to provide incentives for facilitating their participation. The NHAI started giving viability gap funding from the year 2001-02 for their BOT projects. A sum of Rs.1,900 crore has been given by the concessionaires (private participants) to the NHAI.

private sector investment leveraged under the NHDP was Rs.25,366 crore from the year 2001 to January 2007 with a corresponding public component of Rs.3,423 crore.The Union Budget 2007-08 proposed to increase the provision for the NHDP from Rs.9,945 crore in 2006-07 to Rs.10,667 crore in 2007-08.

I.1.18 Consistent with the notification of the Micro, Small and Medium Enterprises Development Act, 2006 in October 2006, the definition of the micro, small and medium enterprises has been modified. For enterprises engaged in the manufacture or production of goods, micro, small and medium enterprises have been defined as those in which investment in plant and machinery does not exceed Rs.25 lakh, Rs.5 crore and Rs.10 crore, respectively. For enterprises engaged in providing or rendering of services, micro, small and medium enterprises have been defined as those where the investment in equipment does not exceed Rs.10 lakh, Rs.2 crore and Rs.5 crore, respectively.

I.1.19 The list of items reserved for exclusive manufacturing by the SSI sector has been further pruned down. During 2006-07, 392 items were dereserved: 180 in May 2006, 87 in January 2007 and 125 in March 2007. As a result, the number of items reserved for exclusive manufacturing by the SSI sector has declined to 114 in March 2007 from 836 in 1990.

I.1.20 A new National Pharmaceutical Policy was announced in July 2006 to strengthen the drug regulatory system and the patent office. The draft Amendment Bill to the National Institute of Pharmaceutical Education and Research Act, 1998 has been approved by the Cabinet, which would empower the Central Government to set up similar institute or its centres in any part of the country. The Government has approved the setting up of three more extension centres of the Central Institute of Plastics Engineering & Technology (CIPET) at Jaipur, Panipat and Aurangabad.

I.1.21 The public private partnership (PPP) model has enabled greater private sector participation in the creation and maintenance of infrastructure. In order to quicken the project preparation under the scheme, the Union Budget 2007-08 proposed to set up a revolving fund with a corpus of Rs.100 crore. The fund will contribute up to 75 per cent of the preparatory expenditure in the form of interest free loan that will be eventually recovered from the successful bidder.

I.1.22 The Government formulated a policy to boost investment in natural gas pipelines and city gas distribution (CGD) projects in a transparent and fair manner. A number of gas projects for supply to vehicles and households are expected to come up, which would not only bring down pollution level but also improve the quality of life with smooth, efficient and economical supply of gas through pipelines.

I.1.23 The Government notified the Semiconductor Policy in March 2007, providing capital subsidy to the investors setting up chip manufacturing units in India. The Government expects to attract an investment of Rs.24,000 crore in the next three years. An appraisal committee will be formed to receive expression of interest from interested parties and submit its recommendations.

I.1.24 Amendments to the Special Economic Zone (SEZ) Rules were notified in August 2006 and March 2007. While the amendments made in August 2006 relate to the definition of trading activity and investment in plant and machinery, the amendment in March 2007 sought to simplify procedures to provide more amenities to SEZ developers and sub-contractors undertaking work within these zones.

I.1.25 In order to promote industrial activity and investment in the North Eastern region, the North East Industrial and Investment Promotion Policy (NEIIPP), which came into effect from April 1, 2007, envisages incentives for expansion of capacity/modernisation and diversification. It also provides for enhancement of capital investment subsidy from 15 per cent of the investment in plant and machinery to 30 per cent; the limit for automatic approval of subsidy at the enhanced rate will be Rs.1.5 crore per unit. Furthermore, it includes incentives for service industries, bio-technology industry and power generating industries.

I.1.26 The Union Budget 2007-08 extended the ongoing Technology Upgradation Fund Scheme for textile and jute industry up to the close of Eleventh Plan Period, *i.e.*, up to 2011-12. A cluster approach for the development of the handloom sector introduced in 2005-06 has been further strengthened to take up an additional 100-150 clusters in 2007-08.

I.1.27 The Information Technology (IT) Amendment Bill was introduced in the Parliament on December 15, 2006 to put in place technology applications, security practices and procedures relating to such applications. The Bill has also addressed the issue of technological neutrality in IT laws as recommended by UNCITRAL Model Law on Electronic Signature. In order to ensure penetration of the IT and IT-enabled services (ITES) in the rural areas, the Government has formulated a proposal to establish 100,000 Common Service Centres (CSCs) in rural areas, which will serve not only as the front-end for most government services but also as a means to connect the citizens of rural India to the world wide web. The scheme will be implemented through PPP. An outlay of Rs.5,742 crore has been approved; of this, the share of the Central Government and the State Governments would be Rs.856 crore and Rs.793 crore, respectively. The balance would be invested by the private sector.

I.1.28 In order to sustain the manufacturing growth as well as to make available more input materials at competitive rates to domestic manufacturers, the Government cut customs duties across various categories in January 2007. The Union Budget 2007-08 announced further reduction in peak customs duty to 10 per cent as well as rationalisation of other taxes. The customs duties on most chemicals and plastics were reduced from 12.5 per cent to 7.5 per cent, while those on seconds and defectives of steel were cut from 20 per cent to 10 per cent; duties on polyester fibres and yarns were cut from 10 per cent to 7.5 per cent. Full exemption from duty was granted for all coking coal, irrespective of the ash content, and for dredgers. With the aim of conserving natural resources as well as to raise revenue, customs duties were imposed on export of iron ores and chrome ores. Recognising the growth and employment potential of the gem and jewellery industry, cut and polished diamonds were fully exempted from customs duties.

FISCAL POLICY

I.1.29 Fiscal policy resumed the process of fiscal correction in 2006-07 as stipulated under the Fiscal Responsibility and Budget Management (FRBM) Rules, 2004, while at the same time pursuing the objectives of economic growth, equity and macroeconomic stability. The revised estimates of the finances of the Central Government indicate reductions in all key deficit indicators, *viz.*, revenue deficit, fiscal deficit and primary deficit by 0.1 percentage point of GDP from the corresponding budget estimates. The provisional accounts, released subsequently in May 2007, indicated a reduction of further 0.1-0.2 percentage point of GDP in the revenue and fiscal deficits over the revised estimates. Robust growth, increased tax revenues and prudent expenditure management policies contributed to the improvement in all key deficit indicators by more than the minimum stipulated reductions under the FRBM Rules, 2004, whereby the fiscal deficit is envisaged to decline by at least 0.3 percentage point of GDP and the revenue deficit by 0.5 percentage point every year till 2008-09. The gross tax/GDP ratio improved to 11.5 per cent in 2006-07 as per provisional accounts from 10.3 per cent in 2005-06. The expenditure management policy measures were aimed at stabilising expenditure pattern and curtailing of non-Plan revenue expenditure.

I.1.30 The tax policy for 2006-07 focused on a rational and stable tax rate regime, expansion in the tax payer base and improvement in the efficiency of tax administration. The income and corporation tax rates were kept unchanged and no new taxes were introduced.

I.1.31 As many cooperative banks function at par with commercial banks, the income tax exemption given to cooperative banks, excluding Primary Agricultural Credit Societies (PACS) and Primary Cooperative Agricultural and Rural Development Banks (PCARDB), was withdrawn. In a bid to narrow the differential of the minimum alternate tax (MAT) with corporate tax rate, the MAT rate was increased from 7.5 per cent of book profit to 10 per cent. The rate of the securities transaction tax (STT) was raised by 25 per cent across the board on account of the increase in implicit capital gains in securities transactions. The fringe benefit tax (FBT) was rationalised by exempting expenditures on free sample of medicines and medical equipment for doctors, expenses on brand ambassador and celebrity endorsement, free or subsidised transport and allowances for the employees to their place of work, and employer contributions, up to Rs.1 lakh per annum per employee, to an approved superannuation fund. Furthermore, valuation of benefits with respect to ‘tour and travel’ and ‘hospitality, hotel boarding and lodging’ provided by airline and shipping industry was reduced from 20 per cent to 5 per cent for application of the FBT. The ‘one-by-six’ scheme - which mandated the filing of income tax returns if the person falls under any one of the expenditure/asset criteria even if his/her total income was below the threshold limit - was abolished from April 2006.

I.1.32 In the case of indirect taxes, in line with the objective of bringing customs duty to the mean level of the East Asian countries, the peak rate on non-agricultural products was reduced from 15 per cent to 12.5 per cent. In order to make the input tariff rates lower than output tariff rates, customs duties on capital goods and raw materials were reduced to ensure availability of inputs at competitive rates to domestic manufacturers. Continuing with the Government’s objective of converging the excise duty rates to the Central Value Added Tax (CENVAT) rate, the excise duty on two items attracting a higher rate of 24 per cent, *viz.,* aerated drinks and small cars, was reduced to the CENVAT rate of 16 per cent. In order to widen the service tax base in line with the rising share of services in GDP, 15 new services were included under the tax net including certain financial services. In line with the objective of introducing the Goods and Services Tax (GST) with effect from April 1, 2010 and consequently with the aim of converging the service tax rate and the CENVAT rate, the service tax rate was raised from 10 per cent to 12 per cent.

I.1.33 In order to increase transparency and to augment the Centre's receipts by means of identifying and reducing the extent of tax and non-tax arrears, two statements *viz*., 'Tax Revenue Raised But Not Realised' and 'Arrears On Non-Tax Revenues' were introduced in the 2006-07 budget. In order to provide information on revenue forgone on account of various tax exemptions, details on tax expenditures under various taxes were also provided.

Union Budget 2007-08

I.1.34 The Union Budget 2007-08 noted that the Indian economy appeared to have entered a phase of high growth. The fiscal consolidation strategy for 2007-08 was based on the need to sustain the momentum of progress made under the FRBM roadmap with the aim of achieving the FRBM goals by 2008-09. In view of the growing necessity for expenditure on social sectors and physical infrastructure, the approach to fiscal consolidation continued to be essentially revenue-led, with a focus on outcomes and improvement of the allocative efficiencies of public expenditure.

I.1.35 The underlying focus of the tax proposals in the Union Budget 2007-08 was to sustain the growth in tax revenues by creating an increasingly efficient, liberal and equitable tax system through reasonable tax rates, fewer exemptions and wider tax base. Overall, the direct tax measures in the Union Budget 2007-08 are estimated to yield additional resources of Rs.3,000 crore whereas the indirect tax proposals are revenue neutral.

I.1.36 While leaving the overall rates of personal and corporate income taxes unchanged, the threshold limit of exemption from income tax in the case of all assessees was increased by Rs.10,000. The deduction in respect of medical insurance premium was increased to a maximum of Rs.15,000 (Rs.20,000 in the case of senior citizens). In order to encourage investments in small and medium enterprises, the surcharge on companies with a taxable income of Rs.1 crore or less was removed. The rate of dividend distribution tax (DDT) was raised from 12.5 per cent to 15 per cent on dividends distributed by companies and to 25 per cent on dividends paid by money market mutual funds and liquid mutual funds. With a view to expanding the existing tax base, it was decided to (a) bring the profits of Software Technology Parks of India (STPI) units and Export Oriented Units (EOUs) within the ambit of the MAT; (b) extend the provisions of tax deduction at source (TDS) to payments made to contractors by individuals and Hindu Undivided Families (HUF) engaged in business and having turnover above a specified limit; and (c) expand the scope of the FBT to include the benefits provided under the Employees' Stock Option Plan (ESOP). Amongst the major reliefs granted under the direct taxes, cash withdrawals by the Central and State Governments were exempted from the scope of the Banking Cash Transactions Tax (BCTT) while the BCTT exemption limits for individuals and HUFs were raised from Rs.25,000 to Rs.50,000. The 100 per cent deduction provided for 10 years in respect of profits and gains provided for infrastructure facilities was extended to cross-country natural gas distribution network. To facilitate the creation of urban infrastructure, the Budget proposed to sanction the issue of tax-free bonds through State Pooled Finance Entities formed for raising funds for a group of urban local bodies. The weighted deduction of 150 per cent given for expenditure relating to in-house research and development was extended for five more years up to March 31, 2012. The tax exemption given to venture capital funds was limited only to investments in venture capital undertakings in biotechnology, information technology relating to hardware and software development, nanotechnology, seed research and development, research and development of new chemical entities in the pharmaceutical sector, dairy industry, poultry industry and production of bio-fuels. The Finance Act, 2007, which was passed in May 2007, extended the benefit of tax exemption to hotel-cum-convention centres and to developing, operating and maintaining any infrastructural facilities.

I.1.37 In the case of indirect taxes, continuing with the policy of reducing the customs duty rates to ASEAN levels, the peak rate of customs duty for non-agricultural imports was reduced from 12.5 per cent to 10 per cent. The simple average tariff for non-agricultural goods would, thus, be reduced from 12.2 per cent to about 9.4 per cent. The concessional rate of 5 per cent duty available to the publicly funded research institutions was extended to all research institutions registered with the Directorate of Scientific and Industrial Research with the aim of advancing research and development in the country. The strategy with respect to excise duties is to continue the policy of expanding the tax base rather than rates and moving towards the CENVAT rate. In this direction, the Union Budget 2007-08 kept the general CENVAT rates unchanged. The *ad valorem* component of excise duty on petrol and diesel was reduced from 8 per cent to 6 per cent in order to share the burden of higher international crude prices.

I.1.38 While leaving the general service tax rate unchanged, the tax base was broadened by bringing several new services into the tax net. These included services outsourced for mining of mineral, oil or gas; renting of immovable property for use in commerce or business; development and supply of content for use in telecom and advertising purposes; asset management services provided by individuals; and design services. The value of services in the execution of a work contract would also attract the service tax. On the other hand, in the interest of small service providers and consumers, the exemption limit for small service providers was raised from Rs.4 lakh to Rs.8 lakh.

I.1.39 With the aim of increasing the investment by the Government in secondary and higher education, an additional surcharge of 1 per cent, over and above the existing 2 per cent, was imposed on all taxes.

I.1.40 The Union Budget noted that under the Fiscal Responsibility legislations, the progress of fiscal consolidation in respect of both the Centre and the State Governments has been satisfactory. The Value Added Tax (VAT) was considered to be 'an unqualified success' in view of the acceleration in the VAT revenues in the implementing States. The Union Budget proposed, based on the mutual agreement between the Centre and the States, to phase out the Central Sales Tax (CST), commencing with a reduction of the CST rate from 4 per cent to 3 per cent from April 1, 2007. The Union Budget provided an amount of Rs.5,495 crore for compensation of losses to the States, if any, on account of the VAT as well as the CST. In the spirit of ongoing cooperative fiscal federalism between the Centre and the States, the Union Budget announced that the Empowered Committee of State Finance Ministers would prepare a roadmap for introducing a national level Goods and Services Tax (GST) with effect from April 1, 2010 (Box I.2).

I.1.41 Reiterating the high priority to strengthen the tax administration, a series of administrative goals were set for the ensuing year. These include the expansion in the coverage of the Annual Information Returns; extension of the Refund Banker System to more areas; extension of the e-payment facility through more banks; making electronic filing of returns mandatory for more categories of assessees; creation of new Large Tax Payer Units; and making the permanent account number (PAN) the sole identification number for all participants in the securities market.

I.1.42 As regards the expenditure policy, the focus was on reduction of non-developmental expenditures and enhancement of expenditure on critical social sectors such as rural employment, education and health and increased outlays on physical infrastructure. Simultaneously, emphasis was also laid on improving the quality of implementation, and efficiency and accountability of the delivery mechanism. Emphasis has shifted from outlays to outcomes so as to ensure that the budgetary provisions are not only spent within the year but also that the intended outcomes are actually achieved. In this direction, a major initiative in recent years has been the preparation of the Performance Budget and the Outcome Budget by the various Ministries/ Departments which would be merged and presented as a single document, effective from 2007-08. The document would indicate goals of the Ministry/ Department, policy framework, budget estimates, scheme-wise analysis of physical performance and linkage between financial outlays and outcomes. Furthermore, to rationalise expenditure by the various Ministries/Departments, a set of austerity measures has been implemented such as a ban on creation of posts, pruning of foreign travel expenditure and strict monitoring of the implementation of schemes/ programmes to avoid cost and time overruns. Continuing with the initiatives taken for ensuring better cash management, the quarterly exchequer control based cash and expenditure management system has been extended to cover 23 Demands for Grants from the existing 14.

I.1.43 Social sector infrastructure is being developed through outlays for certain flagship programmes relating to rural employment, education, health, water supply and other welfare programmes, and pursuing as well as monitoring the achievement of physical targets set out in these programmes. The allocations for education, health and family welfare were increased significantly in 2007-08. The increased allocation for education is to be channelled into *Sarva Shiksha Abhiyan* and Mid-day Meal schemes. The Union Budget 2007-08

Box I.2
Goods and Services Tax

Goods and Services Tax (GST) is a comprehensive value added tax (VAT) on goods and services levied and collected on the value added at each stage of sale and purchase wherein the manufacturers and dealers claim credit for 'input tax' while the final consumer bears the incidence of the full tax. Introduction of the GST widens the tax base while reducing the compliance and administration costs. The seamless credit mechanism under the GST system not only 'builds-in' voluntary compliance but also improves international competitiveness by removing cascading effect of taxes. It enhances production and distributional efficiency, as it is neutral to business structures and processes, product substitutes and geographical locations.

The GST has been introduced in more than 140 countries. It has been in vogue in Europe for the past 50 years and is being increasingly preferred by countries in the Asia-Pacific region. In countries such as Singapore, Australia and New Zealand, almost all items are taxed at a single rate, whereas in countries such as Canada, multiple rates exist. In the case of China, the GST applies only to specific goods and services. While the standard GST rate ranges between 15-20 per cent, it ranges between 22-25 per cent in Scandinavian countries where social security coverage is higher.

In Australia, a national level GST model is implemented and the proceeds are collected by the Federal Government and are passed on to the States. The GST at 10 per cent is levied on most goods and services sold in the country. Items such as basic food for human consumption, some health services and education courses, some activities of charitable institutions, childcare, religious services, water and sewerage services are exempt from the GST. Input-taxed sales include financial supplies (*e.g.*, the loans by banks) and residential rent. Variations in the GST rate or base cannot be made without the unanimous agreement of the States, the Commonwealth Government and both the houses of the Commonwealth Parliament.

In Canada, a system of dual-VAT operates, with the GST being levied by the Federal Government and the Provincial Sales Tax (PST) by the provincial Governments. In general, there are various models of dual-VAT tax systems with differences in rates and in their administration. The province of Quebec administers its own PST or the Quebec Sales Tax (QST), levied at the rate of 7.5 per cent on the federal GST (6 per cent). In Ontario, the Retail Sales Tax (RST), at 8 per cent, is administered by the province, while the Federal Government collects the GST. There is also the instance of a Harmonised Sales Tax (HST) operating in the three maritime provinces (New Brunswick, Nova Scotia and Newfoundland). Under the HST, the GST is combined with the PST, and is administered federally and levied on a harmonised base in place of the earlier federal and provincial sales taxes at a federal-provincial rate of 14 per cent. Of this, the federal GST is 6 per cent and the PST is 8 per cent.

Country practices in the implementation of the GST, thus, differ, primarily with respect to whether the GST is a single rate (centrally levied and administered) or is in the form of 'dual-VAT' (levied, at single or multiple rates, at both the Centre and State/Provincial levels). In most of the 'dual-VAT' GST models, the stress is on harmonisation of tax base rather than tax rates across the sub-national levels.

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proposed to expand the coverage of the Mid-day Meal scheme to upper primary classes in 3,427 educationally backward districts. In order to contain the drop-out ratio and encourage students to continue their education beyond Class VIII, the Union Budget introduced a National Means-cum-Merit-Scholarship with a corpus fund of Rs.750 crore in 2007-08 (with similar amounts added every year for the next three years). The *National Rural Health Mission,* in the second year of its operation, is enabling institutional integration of all the health schemes at the district and lower levels. The *Integrated Child Development Services* (ICDS), in its second phase, was expanded by sanctioning 173 ICDS projects, 107,274 *Anganwadi* centres and 25,961 mini-*Anganwadi* centres. The Government is committed to cover all habitations and settlements during the Eleventh Plan Period and planned for a wider reach under the ICDS. Based on the recommendations of the Oversight Committee on implementation of the reservation for the OBC communities, a National Mission for Education through information and communication technology (ICT) is being launched for meeting the requirement for enhanced number of students.

State Governments

I.1.44 The States continued to pursue fiscal correction and consolidation programme during 2006-07 and made further progress in terms of the path of fiscal restructuring prescribed by the Twelfth Finance Commission (TFC). The improvement in the fiscal position of the States was facilitated by the larger grants and shareable Central taxes, as recommended by the TFC. Fiscal Responsibility Legislations (FRLs) have been enacted by 26 State Governments (as at end-July 2007). All States, excepting Uttar Pradesh, have implemented the Value Added Tax (VAT) in *lieu* of sales tax. The Medium Term Fiscal Plans (MTFP) of various States focus on removing tax distortions and prioritising expenditure.

I.1.45 The States, while presenting their budgets for 2007-08, have taken into account the priorities as laid down in the Eleventh Five Year Plan (2007-12). Allocations for the social and infrastructure sectors are proposed to be raised in 2007-08 by some of the States, *viz.,* Madhya Pradesh, Kerala, Maharashtra, Himachal Pradesh, Andhra Pradesh, Assam and West Bengal. Many States have proposed to implement the infrastructure projects through the framework of public private partnership. The States have also undertaken the development of urban infrastructure under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

I.1.46 In order to augment their revenues, the States in their budgets for 2007-08 announced measures for mobilisation of additional resources through simplification/rationalisation of tax structure, better enforcement and tax compliance. Some States proposed to review user charges in sectors such as power, water and transport. By adopting an outcome-oriented budgetary framework, the States, including Himachal Pradesh, Jammu and Kashmir, Arunachal Pradesh and West Bengal, have emphasised the translation of outlays into defined outcomes through monitorable performance indicators. Several States made commitments to contain revenue expenditure through restrictions on fresh recruitment and on creation of new posts. A few more States announced the introduction of a contributory pension scheme for their newly recruited staff to contain rising pension obligations. A few States also proposed a comprehensive review of the functioning of the State PSUs and their restructuring. In order to restore financial viability of electricity boards, some States signed Memorandum of Understanding (MoU) with the Central Government for bringing reforms in the power sector. Some States, including Madhya Pradesh, have also proposed to introduce "Gender Budget" to ensure empowerment and active participation of women in various development schemes.

EXTERNAL SECTOR POLICIES

I.1.47 With the aim of providing further momentum to export growth and for creating employment, the Government of India announced (April 2007) the Annual Supplement 2007 to the Foreign Trade Policy (2004-09). While deepening the incentives provided under the focus products and the focus markets schemes, the Annual Supplement also sought to reduce the transaction costs in foreign trade. In order to support agriculture exports, the *Vishesh Krishi* and *Gram Udyog Yojana* schemes are being expanded to include more commodities such as coconut oil, soyabean oil, potato flakes, meals and flours, and cardamom. For handloom and handicraft industries, arrangements are being made to provide for tools, machinery and equipment within the present duty-free entitlement ceiling so as to enable these rural-based activities to modernise and scale up operations to meet the market challenges. Similarly, in order to promote exports of gems and jewellery, tools, machinery and equipment needed by this sector would be covered within the present duty-free entitlement limit. With a view to facilitating the export of services from India, all the services rendered abroad and charged on exports from India would be exempted from the payment of service tax. As regards steps for reducing transaction costs and delays, the Annual Supplement announced on-line verification of documents under the various export promotion schemes, discontinuation of the restrictive requirement of block-wise fulfilment of export obligations and reduction of the length of the existing *Aayat Niryat Form.*

Foreign Exchange Transactions[2]

I.1.48 During the year, a number of measures were initiated to further simplify and liberalise the external payments regime and deepen the foreign exchange market, drawing from the recommendations of the Committee on Fuller Capital Account Convertibility (FCAC) (Chairman: Shri S.S. Tarapore) (2006). The Internal Task Force, which was constituted on the basis of the recommendations of the FCAC, reviewed

[2] A detailed discussion of foreign exchange management is presented in Chapter IV ("Development and Regulation of Financial Markets") of the Report.

and made recommendations on 169 issues encompassing all areas under the foreign exchange management. The policy initiatives undertaken to further liberalise cross-border capital flows, both inflows and outflows, included increase in the overseas investment limits for joint ventures/wholly owned subsidiaries abroad by the Indian companies; higher portfolio investment limits for Indian companies as well as for domestic mutual funds; higher ceilings for investments by foreign institutional investors in Government securities; and enhanced prepayment limits for the external commercial borrowings (ECB). With regard to current account transactions, measures taken included liberalisation of the remittance scheme for resident individuals; extension of time for realisation of export proceeds; rationalisation of write-off of unrealised export bills; and liberalisation of project and service exports. Domestic producers/ users of certain metals, and actual users of aviation turbine fuel were permitted to hedge in international commodity exchanges. Greater flexibility in terms of higher limits/cancellation and rebooking was provided to exporters/importers and corporates with regard to their forward contracts. Ceiling for remittances by resident individuals was increased from US $ 25,000 per calendar year to US $ 50,000 per financial year in December 2006 and further to US $ 1,00,000 per financial year in April 2007. Resident individuals were also permitted to book forward contracts up to an annual limit of US $ 1,00,000 which can be freely cancelled and rebooked to manage/hedge their foreign exchange exposures, including anticipated exposures. A review of the ECB guidelines was undertaken in August 2007, keeping in view the prevailing macroeconomic situation and experience gained in administering the ECB policy. Accordingly, ECB of more than US $ 20 million per borrower company per financial year, under automatic/ approval routes have been permitted only for foreign currency expenditures for permissible end-uses. These borrowers would be required to park the proceeds overseas for use as foreign currency expenditures. ECB of up to US $ 20 million per borrower company per financial year have been permitted for foreign currency expenditures for permissible end-uses under the automatic route and these funds are required to be parked overseas, not to be remitted to India. ECB of up to US $ 20 million for rupee expenditure for permissible end-uses shall require prior approval of the Reserve Bank under the approval route, and shall continue to be parked overseas until actual requirement in India.

MONETARY POLICY FRAMEWORK[3]

I.1.49 The conduct of monetary policy during 2006-07 was guided by the policy challenge to manage the transition to a higher growth path while containing inflationary pressures. The Reserve Bank emphasised the need to be watchful in view of the increased demand pressures in the form of an upturn in investment in infrastructure, shortening capital expenditure cycle, increasing consumption demand, high monetary growth, invigorated by the pick-up in activity in all constituent sectors of the economy. Although there was no conclusive evidence of overheating in the Indian economy, the Reserve Bank indicated the need to reckon with the dangers of possible overheating. It was emphasised that persistence of high inflation not only operates as a tax on the poor but also undermines economic growth and macroeconomic stability. In the prevailing conditions of growth, price and financial stability, unequivocal relative emphasis on stability was warranted and a determined and co-ordinated effort by all to contain inflation without unduly impacting the growth momentum was an economic necessity. The shifting stance of monetary policy to greater emphasis on price and financial stability over 2006/2007 is indicated by the following: “ensuring a monetary and interest rate environment that enables continuation of the growth momentum consistent with price stability while being in readiness to act in a timely and prompt manner on any signs of evolving circumstances impinging on inflation expectations” (April 2006) to “reinforcing the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment that supports export and investment demand in the economy so as to enable continuation of the growth momentum” and “to respond swiftly with all possible measures as appropriate to the evolving global and domestic situation impinging on inflation expectations and the growth momentum” (January 2007).

I.1.50 The Annual Policy Statement for 2007-08 reiterated the stance set out in January 2007. In its First Quarter Review of the Annual Statement on Monetary Policy (July 2007), the Reserve Bank noted that while the stance of monetary policy would “continue to reinforce the emphasis on price stability

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

and well-anchored inflation expectations and thereby sustain the growth momentum, contextually, financial stability may assume greater importance in the months to come" as "recent developments in financial markets in India and potential uncertainties in global markets warrant a higher priority for managing appropriate liquidity conditions in the policy hierarchy at the current juncture."

I.1.51 In recognition of the cumulative and lagged effects of monetary policy, the pre-emptive monetary tightening measures, which were initiated in September 2004, continued during 2006-07 and 2007-08. Since September 2004, the repo rate and the reverse repo rate have been increased by 175 and 150 basis points, respectively, while the cash reserve ratio (CRR) has been raised by 250 basis points. In view of the need to maintain asset quality against the backdrop of strong and sustained growth in credit, monetary measures were reinforced by tightening of provisioning norms and risk weights. In the context of large capital inflows and implications for liquidity and monetary management, the interest rate ceilings on non-resident deposits have been reduced by 75-100 basis points since January 2007.

I.1.52 While persevering with the policy measures to contain inflation and inflation expectations, the Reserve Bank continued with its initiatives of greater credit penetration and financial inclusion. In order to channel greater flow of credit to the priority sector – which includes agriculture, small scale units, micro credit, education loans and housing loans up to specified limits – guidelines for the priority sector lending were revised.

FINANCIAL SECTOR POLICIES[4]

I.1.53 The financial sector plays an important role in the efficient allocation of resources and this aspect assumes all the more significance in the context of an economy such as India which is on a rising growth trajectory. In view of the critical role played by the financial sector in supporting the acceleration in growth, the Reserve Bank continued to take measures during 2006-07 to strengthen the financial sector. Provisioning norms and risk weights were tightened to ensure asset quality in the face of sustained high credit growth to certain sectors. The Reserve Bank also took measures to strengthen the accounting and disclosure norms in order to enforce greater market discipline. Final guidelines for the implementation of the New Capital Adequacy Framework (Basel II) were issued. In consonance with the stated policy of benchmarking the Indian financial sector to international best practices in a phased manner, commercial banks will start implementing Basel II norms from end-March 2008. The objective of strengthening the urban cooperative banks was persevered with during 2006-07 by encouraging Memorandum of Understanding with the State Governments, setting up of State level Task Forces, and merger of weak banks with stronger banks. With regard to non-banking financial companies (NBFCs), the regulatory framework was strengthened by placing prudential limits on banks' exposure to NBFCs while also specifying capital adequacy norms and exposure norms for Non-Deposit taking Systemically Important NBFCs (NBFC-ND-SI). Alongside its initiatives to strengthen the financial sector, the Reserve Bank continued to take measures for protecting customers' rights, and enhancing the quality of customer service. A separate Customer Service Department was set up in the Reserve Bank in July 2006 to promote the interests of the customers.

Policies for Financial Markets

I.1.54 During 2006-07, initiatives to further widen and deepen the various segments of the domestic financial markets were intensified. The implementation of the provision of Fiscal Responsibility and Budget Management (FRBM) Act, 2003, which prohibits the Reserve Bank from participating in the primary market from April 2006 onwards, necessitated several structural and developmental measures for the Government securities market. These included revamping the primary dealer (PD) system to ensure a more dynamic and active participation of PDs in the auctions; allowing banks to undertake PD business; allowing stand-alone PDs to diversify their activities; standardising settlement cycle; permitting short-selling of Government dated securities; and introduction of 'when issued' market.

I.1.55 In order to make the Indian capital markets more efficient, transparent, investor friendly and liberal, a number of steps were taken during 2006-07 by Securities and Exchange Board of India (SEBI). Grading of initial public offerings (IPOs) was made

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

mandatory so as to check the quality of public offers in the primary market. Companies with a listing history of less than six months were permitted to raise money through preferential allotment. To enable quick information dissemination on trading in corporate bonds, SEBI allowed the Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited (NSE) to set up and maintain bond reporting platforms. Furthermore, effective January 1, 2007, all transactions above Rs.1 lakh are required to be reported within 30 minutes of closing the deal and settlements have to be reported within one trading day from completion of trades on the BSE.

I.1.56 To encourage foreign institutional investment, SEBI widened the range of international entities that can invest in the stock markets in India by including an institution incorporated outside India as a pension fund, mutual fund, investment trust, insurance company and reinsurance company as a registered foreign institutional investor (FII). The list would also include international or multilateral agencies, foreign governmental agency or a foreign central bank. In order to improve the quality of FII investments into the capital market, SEBI raised the registration and renewal fee for FIIs and reduced the validity period of the registration certificate.

I.1.57 SEBI approved norms for divestment of brokers' stakes in stock exchanges. It was decided to cap institutional investment in stock exchanges at 5 per cent, either in consortium or as a single entity. SEBI permitted listed companies to send a statement containing the salient features of the balance sheet, profit and loss account and auditors report to each shareholder instead of the earlier requirement of sending a copy of the complete and full balance sheet, profit and loss account and Director's report.

I.1.58 The Union Budget 2007-08 continued to lay emphasis on the Indian capital market with a focus on investor protection norms. In order to strengthen the Know Your Customer (KYC) norms and to ensure a sound audit trail of all transactions, the PAN was made the sole identification number for all participants in the securities market. To channelise resources to the infrastructure sector, dedicated infrastructure mutual funds were proposed to be introduced. The Union Budget also proposed to allow short-selling settled by delivery, and securities lending and borrowing to facilitate delivery by institutions. It also proposed to put in place an enabling mechanism to permit Indian companies to unlock a part of their holdings in group companies for meeting their financing requirements by issue of exchangeable bonds. Individuals have been allowed to invest in overseas securities allowing portfolio risk diversification to domestic investors.

Legal Framework

I.1.59 During 2006-07, significant amendments to the major banking legislations, *viz.*, the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949 were carried out, which would provide greater flexibility to the Reserve Bank in its conduct of monetary policy while also strengthening its regulatory powers (Box I.3).

Box I.3
Legislative Amendments for Conduct of Monetary Policy

The Reserve Bank of India (Amendment) Act, 2006 was passed in June 2006. The amendment to the Act, *inter alia*, removed the ceiling as well as the floor of the CRR prescribed for scheduled banks. The Reserve Bank has, thus, been provided with the discretion to decide the percentage of scheduled banks' demand and time liabilities to be maintained as CRR without any ceiling or floor. Furthermore, consequent to the amendment, no interest will be paid on the CRR balances so as to enhance the efficacy of the CRR, as payment of interest attenuates its effectiveness as an instrument of monetary policy (see Chapter III for details). The definition of "repo" and "reverse repo" provided under the amended Act would facilitate transactions of market participants/banks in these instruments. The amendment Act also provides the Reserve Bank with the statutory backing for regulating the money market and trading of over-the-counter derivatives.

The Banking Regulation (Amendment) Act, 2007 (replacing the Banking Regulation (Amendment) Ordinance, 2007 which came into effect on January 23, 2007) was notified in the gazette on March 28, 2007. Consequent upon the amendment to Section 24 of the Banking Regulation Act, 1949, the floor rate of 25 per cent for the statutory liquidity ratio (SLR) has been removed and the Reserve Bank has also been empowered to determine the SLR-eligible assets.

The amendments to the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949 have provided the Reserve Bank greater manoeuvrability in monetary management as it now has the flexibility to change the reserve requirements for scheduled banks depending on the evolving macroeconomic and monetary conditions.

I.1.60 The Government Securities Act was passed by the Parliament in August 2006 (Box. I.4). Amongst other major legislative developments, the Credit Information Companies (Regulation) Act, 2005 came into force with effect from December 14, 2006. The Credit Information Companies Rules, 2006 framed by the Central Government and the Credit Information Companies Regulations, 2006 framed by the Reserve Bank under the said Act have been notified. The salient features of the Act, *inter alia*, include (a) prohibition to commence or carry on business of credit information without obtaining a certificate of registration (CoR) from the Reserve Bank; (b) laying down the procedure for making application for grant/cancellation of CoR and appeal against order of rejection of an application for grant of CoR; (c) requirement of minimum capital; (d) management of credit information companies; (e) conferring powers upon the Reserve Bank to determine policy in relation to functioning of credit information companies and giving directions to these companies and other players in the business of credit information; (f) functions of credit information by credit information companies; (g) collection and furnishing of credit information; (h) powers and duties of auditors; (i) obtaining of membership by credit institutions of credit information companies; (j) information privacy principles; (k) alterations of credit information files and credit reports; (l) regulation of unauthorised access to credit information; (m) offences and penalties; (n) obligations as to fidelity and secrecy; (o) resolution of disputes between credit institutions and credit information companies or between credit institutions and their borrowers; (p) exemption from any or all the provisions of the proposed legislation to any credit information company or credit institution; and (q) amendment of certain enactments specified in the Schedule to the Bill so as to permit disclosure of credit information under the proposed legislation.

I.1.61 The Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Laws (Amendment) Act, 2006 came into force from October 16, 2006. The Act amended the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980. The amended Act, *inter alia*, provides for the following: (i) increase in the number of whole-time directors from two to four so as to have more functional directors in view of expansion of activities of the nationalised banks; (ii) the Central Government, on the recommendation of the Reserve Bank, to nominate a person possessing necessary experience and expertise in regulation or supervision of commercial banks as director instead of nominating an officer of the Reserve Bank; (iii) removal of the provision for nominee directors from amongst the officials of SEBI/NABARD/public financial institutions (PFIs) *etc.*; (iv) nomination of up to three shareholder

Box I.4
Government Securities Act, 2006

Management of Government debt involves issuance and servicing of Government securities. The servicing of Government debt requires timely payment of interest and principal to the holders of Government securities and settlement of claims in the event of death of the holder. The issue of Government securities and their servicing is attended to by the Reserve Bank through the Public Debt Offices, the branches of State Bank of India/associate banks and the district treasuries/sub-treasuries.

The legal framework relating to issuance and servicing of Government securities was provided by the Public Debt Act, 1944. In view of the sharp increase in the volume of the public debt and other changes in the external environment, some of the provisions of the Act and the Rules framed thereunder were found to be onerous, and, at times, impeded further development of the debt market. Accordingly, the Government Securities Act, 2006 was enacted, which seeks to replace the Public Debt Act, 1944 and repeal the Indian Securities Act, 1920.

The Act proposes to consolidate and amend the law relating to issue and management of Government securities by the Reserve Bank. The Act, *inter alia*, provides for (i) definition of terms such as 'bond ledger account', 'constituent subsidiary ledger account' and 'Government security'; (ii) recognition of title to Government security of deceased sole holder or joint holders; (iii) nomination by holders of Government securities; (iv) acceptance of micro films, facsimile copies of documents, magnetic tapes and computer printouts as documents of evidence; (v) suspension of the holders of subsidiary general ledger account from trading with the facility of that account in the event of misuse of the said facility; (vi) stripping of a Government security separately for interest and principal; (vii) creation of pledge, hypothecation or lien in respect of Government securities. The Act also empowers the Reserve Bank to call for information, cause inspection and issue directions as well as to make regulations with the prior approval of the Central Government for carrying out the purposes of the Act.

The Rules under the Act are yet to be notified.

directors on the board on the basis of percentage of shareholding instead of the existing provision of one to six directors, so as to provide for a more equitable representation on the basis of percentage of ownership; (v) elected directors to fulfil 'fit and proper' status as per the criteria notified by the Reserve Bank from time to time; (vi) the Reserve Bank empowered to appoint one or more additional directors if found necessary in the interest of banking policy/public interest/interest of the bank or the depositors; (vii) nationalised banks enabled to raise capital by preferential allotment or private placement or public issue in accordance with the procedure as may be specified by regulation with the previous approval of the Central Government and after consultation with the Reserve Bank; (viii) the Central Government to hold at all times not less than 51 per cent of the paid-up capital consisting of equity shares; (ix) the voting rights of preference shares of the nationalised banks to be restricted only to resolutions directly affecting their rights subject to a ceiling of one per cent of total voting rights of all the shareholders holding preference share capital only; (x) shareholders empowered to discuss, adopt and approve the Directors' report, the annual accounts and the balance sheet at the annual general meeting; and (xi) the Central Government empowered to supersede the boards of directors on the recommendation of the Reserve Bank in public interest, or for preventing the affairs of the bank being conducted in a manner detrimental to the depositor's or bank's interest, or for securing the proper management of the nationalised banks; the supersession will be for a period not exceeding 6 months which may be extended up to a maximum of one year.

I.1.62 The Securities Contracts (Regulation) Amendment Act, 2007, which had amended the Securities Contract (Regulation) Act, 1956 so as to provide a legal framework for trading in securitised debt including mortgage backed debt, was passed in May 2007. The Act, *inter alia*, provides for (a) including securitisation certificates or instruments under the definition of 'securities'; and (b) obtaining approval from the Securities and Exchange Board of India for issue of securitisation certificate or instrument and procedure thereof.

I.1.63 The State Bank of India (Subsidiary Banks Laws) Amendment Act, 2007 which had amended the State Bank of Saurashtra Act, 1950, the State Bank of Hyderabad Act, 1956 and the State Bank of India (Subsidiary Banks) Act, 1959, came into effect on July 9, 2007. The Act, *inter alia*, provides for enhancing the capital of the subsidiary banks, enabling them to raise resources from the market and flexibility in the management of these banks. The major provisions of the Act include (a) increasing the authorised capital of subsidiary banks of the State Bank of India (SBI) to Rs.500 crore; (b) fixing of their issued capital by SBI with the approval of the Reserve Bank; (c) raising of their issued capital through preferential allotment/ private placement/public issue in accordance with the specified procedure, with the approval of SBI and the Reserve Bank; (d) issuance of bonus shares to the equity shareholders with the approval of SBI and the Reserve Bank; (e) reduction of SBI's shareholding from 55 per cent to 51 per cent; (f) removal of the restriction on individual shareholdings in excess of 200 shares and an increase in the percentage of voting rights of shareholders (other than SBI) from one per cent to ten per cent of the issued capital of the subsidiary bank concerned; (g) restriction of the voting rights of preference shares of subsidiary bank only to resolutions directly affecting their rights; (h) nomination of an official of SBI or of the subsidiary bank as the Chairman of the Board of a subsidiary bank, with the approval of the Reserve Bank; (i) nomination by the Reserve Bank of one director, with necessary expertise and experience in the matters relating to regulation or supervision of commercial banks, and another additional director, as and when considered necessary, in the interest of banking policy and depositors' interest *etc.*; (j) increase in the number of elected directors representing shareholders of subsidiary bank to a maximum of three; (k) specifying of the eligibility criteria, including 'fit and proper' criteria, for elected directors of subsidiary bank with the Reserve Bank having the power to remove elected directors not found 'fit and proper'; (l) holding of board meetings through video conference or through other electronic means; (m) supersession of the board of directors of subsidiary bank by the Reserve Bank in the public/ depositor's interest or for securing proper management of the subsidiary banks on the recommendation of SBI; and (n) framing of the regulation by the board of a subsidiary bank after consultation with the SBI and with the previous approval of the Reserve Bank.

I.1.64 The Banking Regulation (Amendment) Bill, 2005, introduced in the *Lok Sabha* on May 13, 2005, seeks to amend some of the provisions of the Banking Regulation Act, 1949 with a view to strengthening the regulatory powers of the Reserve Bank. The Bill includes provisions for (i) removing the restriction on voting rights and introducing the requirement of prior approval of the Reserve Bank for acquisition of shares or voting rights above the specified limit (empowering the Reserve Bank to satisfy itself that the applicant is a 'fit and proper person' to acquire shares or voting rights and to impose such further conditions that the Bank may deem fit to impose); (ii) amending Section 12 of the Act to enable banking companies to issue preference shares subject to regulatory guidelines framed by the Reserve Bank; (iii) empowering the Reserve Bank to direct a banking company to disclose in its financial statement or furnish to the Reserve Bank separately, such statements and information relating to the business of any associate enterprise, as the Reserve Bank considers necessary and also to cause an inspection to be made of any associate enterprise; (iv) empowering the Reserve Bank to supersede the board of directors of a banking company and appoint an administrator; (v) amending Section 56 of the Act to remove the provision facilitating primary credit societies to carry on the business of banking without obtaining a license from the Reserve Bank; and (vi) empowering the Reserve Bank to order special audit of a co-operative bank in public interest or in the interest of the co-operative bank or its depositors. The Standing Committee on Finance of the Parliament has submitted its report on the Bill.

I.1.65 The State Bank of India (Amendment) Bill, 2006 introduced in Lok Sabha on December 18, 2006 seeks to amend the State Bank of India Act, 1955. The Bill, *inter alia*, provides for (i) raising the authorised capital of the State Bank of India (SBI) to Rs.5,000 crore; (ii) the issued capital of SBI to consist of equity shares or equity and preference shares; (iii) right of registered shareholders to nominate; (iv) qualifications for election as directors; (v) powers of the Reserve Bank to appoint additional directors; (vi) supersession of the Central Board in certain cases; and (vii) transfer of unpaid or unclaimed dividend. The State Bank of India Amendment Ordinance 2007 was promulgated on June 21, 2007 to amend the State Bank of India Act, 1955 to enable the transfer of the Reserve Bank's shareholding in the SBI to the Central Government. The transfer was aimed at allowing the Reserve Bank to focus on its regulatory and supervisory functions and removing the conflict of interest in due discharge of its duties as the banking regulator and also the owner.

I.1.66 The Payments and Settlements Bill, 2006 was introduced in the Lok Sabha on July 25, 2006. The Bill seeks to designate the Reserve Bank as the authority to regulate payment and settlement systems. The Bill contains provisions for (i) compulsory requirement of an authorisation by the Reserve Bank to operate payment systems; (ii) empowering the Reserve Bank to regulate and supervise the payment systems by determining standards, calling for information, returns, documents, *etc.*; (iii) empowering the Reserve Bank to audit and inspect by entering the premises where payment systems are being operated; (iv) empowering the Reserve Bank to issue directions; and, (v) overriding other laws and providing for settlement and netting to be final and irrevocable at the determination of the amount of money, securities or foreign exchange payable by participants. The Bill was referred to the Standing Committee on Finance for its consideration and the Report of the Committee was presented to the Lok Sabha in May 2007.

II. THE REAL ECONOMY

I.2.1 Continuing the high growth phase that started in 2003-04, the Indian economy exhibited robust growth during 2006-07. Real GDP growth accelerated to 9.4 per cent in 2006-07 from 9.0 per cent achieved in the previous year on the back of a further firming up of activity in the industrial and the services sectors. Both these sectors recorded double-digit growth, which more than offset the deceleration in the agricultural sector (Table 1.1 and Appendix Tables 2 and 3). The services sector continued to be the mainstay of the economy, contributing 71.5 per cent to overall growth. The sustained resurgence in industrial activity in the recent period has reinforced the growth process, and has imparted stability to the growth process.

I.2.2 Real GDP growth averaged 8.6 per cent during the four-year period 2003-04 to 2006-07 and 7.6 per cent during the 10th Plan period (2002-03 to 2006-07), significantly higher than that of 5.7 per cent during the 1980s and 1990s. The actual growth during the 10th Plan period was quite close to the target of 8.0 per cent. Amongst major sectors, growth of the industrial sector averaged 8.0 per cent during 2002-03 to 2006-07, higher than that of 5.7 per cent during the 1990s and 6.4 per cent during the 1980s. Growth of the services sector has exhibited a consistent uptrend from 6.3 per cent during the 1980s and 7.1 per cent during the 1990s to 9.5 per cent during the 10th Plan period. Growth in agriculture and allied activities averaged 2.3 per cent during the 10th Plan period, lower than that of 3.2 per cent during the 1990s and 4.4 per cent during

Table 1.1: Growth Rates of Real GDP (at 1999-2000 Prices)

(per cent)

Sector	1990-91 to 1999-2000 (Average)	2000-01 to 2006-07 (Average)	2002-03 to 2006-07 (10th Plan)	2004-05@	2005-06*	2006-07#	2006-07 Q1	2006-07 Q2	2006-07 Q3	2006-07 Q4
1	2	3	4	5	6	7	8	9	10	11
1. Agriculture and Allied Activities	**3.2**	**2.5**	**2.3**	**0.0 (20.2)**	**6.0 (19.7)**	**2.7 (18.5)**	**2.8**	**2.9**	**1.6**	**3.8**
1.1 Agriculture	3.3	2.5	2.3	- 0.2	6.3	n.a.	n.a.	n.a.	n.a.	n.a
2. Industry	**5.7**	**7.0**	**8.0**	**8.4 (19.6)**	**8.0 (19.4)**	**11.0 (19.7)**	**10.6**	**11.3**	**10.8**	**11.2**
2.1 Mining and Quarrying	4.8	4.6	5.6	7.5	3.6	5.1	3.7	3.9	5.5	7.1
2.2 Manufacturing	5.6	7.7	8.7	8.7	9.1	12.3	12.3	12.7	11.8	12.4
2.3 Electricity, Gas and Water Supply	7.3	4.8	5.9	7.5	5.3	7.4	5.8	8.1	9.1	6.9
3. Services	**7.1**	**8.6**	**9.5**	**10.0 (60.2)**	**10.3 (60.9)**	**11.0 (61.8)**	**11.6**	**11.7**	**10.9**	**10.0**
3.1 Trade, Hotels, Restaurants, Transport Storage and Communication	7.5	10.3	11.1	10.9	10.4	13.0	12.4	14.2	13.1	12.4
3.2 Financing, Insurance, Real Estate and Business Services	8.1	7.9	8.8	8.7	10.9	10.6	10.8	11.1	11.2	9.3
3.3 Community, Social and Personal Services	6.5	6.0	6.6	7.9	7.7	7.8	11.3	8.3	6.7	5.7
3.4 Construction	5.6	9.9	11.8	14.1	14.2	10.7	10.5	11.1	10.0	11.2
4. Real GDP at Factor Cost	**5.7**	**6.9**	**7.6**	**7.5 (100.0)**	**9.0 (100.0)**	**9.4 (100.0)**	**9.6**	**10.2**	**8.7**	**9.1**

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

Note : 1. Figures in parentheses denote percentage 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 : National Accounts Statistics, Central Statistical Organisation.

the 1980s. The step up in the growth rate of the economy since 2003-04 onwards has been driven by a higher investment rate, supported by a sizeable increase in the rate of gross domestic saving. Moreover, there are indications of some improvement in capital use[5], a turnaround in total factor productivity in manufacturing since 2002-03, and a steady improvement in productivity growth in the services sector. At the same time, the rising capacity utilisation during the year in the context of strong domestic growth for the fourth successive year was associated with incipient inflationary pressures.

I.2.3 Reflecting the sustained high growth over the past four years, India's share in world GDP (measured in terms of purchasing power parity (PPP) rates) increased from 4.3 per cent in 1991 and 5.4 per cent in 2000 to 6.3 per cent in 2006. According to the IMF data, measured in PPP terms, India was the world's fourth largest economy after the US, China and Japan during 2006. At market exchange rates, India was the 13th largest economy during 2006; India's share in world GDP at market exchange rates initially fell from 1.7 per cent during 1982-1985 to 1.1 per cent in 1993 before rising to 1.8 per cent in 2006.

AGGREGATE SUPPLY

Agriculture

I.2.4 According to the CSO's revised estimates, real GDP growth originating from agricultural and allied activities decelerated from 6.0 per cent in 2005-06 to 2.7 per cent in 2006-07, partly attributable to the base effect of the preceding year and some setbacks to the production from an uneven monsoon (Table 1.1). Overall agricultural production, in terms of the Index of Agricultural Production, is likely to

[5] The incremental capital-output ratio, which is an indicator of efficiency of capital use, declined from an average of 5.3 during 2001-02 to 2002-03 to 3.8 during 2003-04 to 2005-06. Recent studies also indicate some evidence of improvement in productivity [see Barry Bosworth and Susan Collins (2006), "Accounting for Growth: Comparing China and India" and Goldman Sachs (2007), Global Economics Paper 152].

post an increase of around 5.2 per cent during 2006-07 (8.5 per cent a year ago) on account of lower growth in the total foodgrains production (3.6 per cent during 2006-07 as compared with 5.2 per cent during 2005-06) (Appendix Table 4).

I.2.5 During 2006, the rainfall under the South-West monsoon was close to normal; the distribution of the rainfall was, however, uneven, both temporally and spatially (Table 1.2). The monsoon arrived over Kerala on May 26, almost a week prior to the normal date. There was, however, a prolonged hiatus in the South-West monsoon during the middle of June and early-July, 2006. Consequently, monsoon could cover the entire country only by July 24, with a delay of 9 days. The initial deficiency in the rainfall was compensated by the excess rainfall during the first three weeks of August 2006. As a result, the cumulative rainfall for the South-West monsoon season was close to normal at 99 per cent of the Long-Period Average (LPA). Month-wise, the rainfall was below normal in June 2006 (13 per cent below LPA), near normal in July and September 2006 (2 per cent and 1 per cent below LPA, respectively), and excess in August 2006 (5 per cent above the LPA). Of the 36 meteorological sub-divisions, cumulative rainfall for the season, on the whole, was deficient/scanty/no rain in 10 sub-divisions (4 sub-divisions during last year). Among the four homogenous regions, the rainfall was deficient in North-East India, North-West India and South Peninsula (83 per cent, 94 per cent and 95 per cent of the LPA, respectively), largely offset by the excess rainfall over Central India (116 per cent of the LPA). Of the 533 meteorological districts, 130 districts (25 per cent) experienced a moderate drought, while 30 districts (6 per cent) experienced severe drought[6] conditions at the end of the season. In view of the near normal rainfall for the season, on the whole, the reservoir position at the end of the South-West monsoon season was comfortable, with the total live water storage at 91 per cent of the Full Reservoir Level (FRL) (higher than that of 81 per cent in 2005 and the average of 71 per cent in the last 10 years), which augured well for the ensuing *rabi* crops. As against a near normal South-West monsoon during 2006, the North-East monsoon 2006 (October 1 to December 31) turned out to be deficient (cumulative rainfall being 21 per cent below normal) and was unevenly distributed.

Table 1.2: Spatial Distribution of Rainfall

Year	South-West Monsoon (June-September)					North-East Monsoon (October-December)				
	Cumulative Rainfall: Above(+)/ Below (-) Normal (per cent)	Excess Rainfall	Normal Rainfall	Deficient Rainfall	Scanty/ No Rain	Cumulative Rainfall: Above(+)/ Below (-) Normal (per cent)	Excess Rainfall:	Normal Rainfall	Deficient Rainfall	Scanty/ No Rain
		Number of Sub-Divisions					Number of Sub-Divisions			
1	2	3	4	5	6	7	8	9	10	11
1998	6	12	21	3	0	47	28	6	1	1
1999	-4	3	26	7	0	19	20	7	6	3
2000	-8	5	23	8	0	-47	0	4	13	19
2001	-8	1	30	5	0	13	14	10	9	3
2002	-19	1	14	19	2	-33	3	7	12	14
2003	2	7	26	3	0	9	9	9	6	12
2004	-13	0	23	13	0	-11	8	10	17	1
2005	-1	9	23	4	0	10	11	6	5	14
2006	-1	6	20	10	0	-21	3	6	14	13
2007*	+7	14	18	4	0					

*: up to August 8, 2007.

Note : Excess : +20 per cent or more. Normal : +19 per cent to -19 per cent. Deficient : -20 per cent to -59 per cent. Scanty : -60 per cent or less. No Rain : -100 per cent. All distributions are with respect to the long period average.

Source : India Meteorological Department.

[6] According to India Meteorological Department (IMD), the departure of aridity index from the normal value is expressed in percentage and accordingly drought is categorised as severe (more than 50 per cent), moderate (26-50 per cent) and mild (up to 25 per cent).

I.2.6 Uneven and delayed rainfall during the South-West monsoon season led to some reduction in the area coverage under *kharif* crops in 2006 season; this decline was largely offset by improved sowing under *rabi* crops on account, *inter alia*, of favourable soil moisture conditions and remunerative open market and support prices. Significant improvement in the area sown was observed in the case of *rabi* crops such as wheat, pulses, maize and barley, which more than offset the decline witnessed in oilseeds.

I.2.7 As per the Fourth Advance Estimates, the foodgrains production during 2006-07 was 216.1 million tonnes, an increase of 3.6 per cent over the previous year, led by higher production of wheat. The *rabi* foodgrains production was estimated at 105.6 million tonnes, the highest since 1999-2000. Among non-foodgrains, the production of sugarcane and cotton scaled new peaks during 2006-07; the production of oilseeds was, however, lower on account of decline in acreage (Table 1.3 and Appendix Table 4).

I.2.8 Notwithstanding some improvement in foodgrains production during 2006-07, the production of major crops has witnessed stagnation in recent years. For instance, the production of rice, wheat and pulses during 2006-07 was still below the previous peaks touched in 2001-02, 1999-2000 and 1998-99, respectively (Table 1.4). This stagnation in production was on account of plateauing of yields, which could be attributed to a variety of factors such as limited varietal breakthrough, almost non-existent extension services, low resilience to moisture stress and pest infestation, low water use efficiency, inequity in water use and irrigation development, and decline in agricultural investment. Furthermore, yields differ vastly across States and, in many States, yields are much below the realisable potential of existing varieties. For instance, the unutilised potential in the case of wheat is only 6 per cent in Punjab, while it is as high as 84 per cent in Madhya Pradesh. In the case of rice, the potential yield increase is over 100 per cent in Assam, Bihar, Chattisgarh and Uttar Pradesh.

1.2.9 The share of private investment in agricultural gross investment declined to below 76 per cent in 2005-06 from 83 per cent in 2002-03 (Table 1.5). Farmers are likely to increase their investment in agriculture when a higher percentage of the benefits of production is assured to them. The markets may often be constrained to respond fully to thousands of small producers who interact with them on a one-to-one basis, with small quantities of produce. Small and marginal farmers may be well served by cooperative laws that are user-sensitive, user-owned, user-controlled and which enable them to enter markets with adequate bargaining power.

Table 1.3: Agricultural Production

Crop	2003-04	2004-05	2005-06	2006-07 #
1	2	3	4	5
1. Growth Rate (Per cent) $				
All Crops	**16.1**	**-0.3**	**8.5**	**5.2**
a. Foodgrains	16.4	-3.5	4.7	4.2
b. Non-foodgrains	15.6	3.7	12.4	6.3
2. Production (Million Tonnes)				
a. Foodgrains	**213.2**	**198.4**	**208.6**	**216.1**
i. Rice	88.5	83.1	91.8	92.8
ii. Wheat	72.2	68.6	69.4	74.9
iii. Coarse Cereals	37.6	33.5	34.1	34.3
iv. Pulses	14.9	13.1	13.4	14.2
b. Non-foodgrains				
i. Oilseeds+	25.2	24.4	28.0	23.9
ii. Sugarcane	233.9	237.1	281.2	345.3
iii. Cotton@	13.7	16.4	18.5	22.7
iv. Jute and Mesta ±	11.2	10.3	10.8	11.3
v. Tea*	850.5	830.7	930.9	722.5 $$
vi. Coffee*	270.0	275.0	274.0	300.0 ##

: Production based on Fourth Advance Estimates released on July 19, 2007.
$: Growth rates are based on Index of Agricultural Production with base triennium ended 1993-94=100.
+ : For nine oilseeds out of eleven in all.
@ : Million bales of 170 kg. each.
± : Million bales of 180 kg. each.
* : Million kilograms.
$$: Estimated production for April-October.
: Relates to April-October including re-exports.
Source : Ministry of Agriculture, Government of India.

Table 1.4: Production of Major Crops

(Million tonnes)

Year	Rice	Wheat	Pulses	Total Foodgrains	Oilseeds
1	2	3	4	5	6
1990-91	74.3	55.1	14.3	176.4	18.6
1995-96	77.0	62.1	12.3	180.4	22.1
1996-97	81.7	69.4	14.3	199.4	24.4
1997-98	82.5	66.4	13.0	192.3	21.3
1998-99	86.1	71.3	14.9	203.6	24.8
1999-2000	89.7	76.4	13.4	209.8	20.7
2000-01	85.0	69.7	11.1	196.8	18.4
2001-02	93.3	72.8	13.4	212.9	20.7
2002-03	71.8	65.8	11.1	174.8	14.8
2003-04	88.5	72.2	14.9	213.2	25.2
2004-05	83.1	68.6	13.1	198.4	24.4
2005-06	91.8	69.4	13.4	208.6	28.0
2006-07	92.8	74.9	14.2	216.1	23.9

Source : Ministry of Agriculture, Government of India.

Table 1.5: Gross Capital Formation in Agriculture

Year	Investment in Agriculture (Rupees crore)			Share in Agricultural Gross Investment (per cent)		Investment in Agriculture (per cent of GDP at constant prices)
	Total	Public	Private	Public	Private	
1	2	3	4	5	6	7
			Old series (at 1993-1994 prices)			
1990-91	14,836	4,395	10,441	29.6	70.4	1.9
1995-96	15,690	4,849	10,841	30.9	69.1	1.6
1996-97	16,176	4,668	11,508	28.9	71.1	1.5
1997-98	15,942	3,979	11,963	25.0	75.0	1.4
1998-99	14,895	3,870	11,025	26.0	74.0	1.3
1999-2000	17,304	4,221	13,083	24.4	75.6	1.4
			New series (at 1999-2000 prices)			
1999-2000	43,473	7,716	35,757	17.7	82.3	2.2
2000-01	38,735	7,155	31,580	18.5	81.5	1.9
2001-02	47,043	8,746	38,297	18.6	81.4	2.2
2002-03	46,823	7,962	38,861	17.0	83.0	2.1
2003-04	45,132	9,376	35,756	20.8	79.2	1.9
2004-05	48,576	10,267	38,309	21.1	78.9	1.9
2005-06*	54,539	13,219	41,320	24.2	75.8	1.9

* : Quick Estimates.
Source : Central Statistical Organisation.

I.2.10 As a result of rising consumption, poor storage, overexploitation and wastage, water is emerging as a critical constraint on agricultural development in India. Almost 60 per cent area under principal crops remains unirrigated at the national level. India receives about 350 million hectare meter rain water annually, but almost half of it finds its way back to the sea. The per capita water storage in India is only 210 cubic meter as against 1,110 cubic meter in China and 3,145 cubic meter in Brazil. There is huge gap of 14 million hectare between irrigation potential created and utilised, and the irrigation intensity is only 135 per cent. Subsidised/ free supply of power and water has resulted in overexploitation and inefficient use of water in agriculture, which has led to receding groundwater table as also water logging and salination.

I.2.11 The Green Revolution launched in the mid-1960s enabled the country to meet the objective of national food security as it ensured sufficient food production to meet the market demand. The increase in the production of foodgrains coupled with remunerative support prices offered by the Government led to unprecedented foodgrains stocks of 65 million tonnes as at end-June 2002. The subsequent depletion in the stocks of foodgrains coupled with the decline in production and productivity and its impact on the overall prices situation, as was evident during 2006-07, has once again highlighted the issue of food security. Enhanced and stable growth of the agriculture sector is important as it plays a vital role not only in generating purchasing power among the rural population by creating on-farm and off-farm employment opportunities but also through its contribution to price stability. The National Commission on Farmers (Chairman: Prof. M.S. Swaminathan) has recommended various measures to revive the agricultural sector in India (Box I.5). The National Development Council in its 53rd meeting held on May 29, 2007 adopted a resolution to reorient agricultural development strategies to meet the needs of the farmers and called upon the Central and the State Governments to evolve a strategy to rejuvenate agriculture (see Box I.1).

I.2.12 Amongst the major agricultural crops, the output of horticultural crops accounts for 23.5 per cent of the gross output of the agricultural sector. The country produced around 185 million tonnes of horticultural crops during 2005-06 (4.2 per cent higher than a year ago). The total production of fruits and vegetables was 54.4 million tonnes and 113.5 million tonnes, respectively, during 2005-06. India is the second largest producer of fruits and vegetables in the world, with shares of 15 per cent and 11 per cent of the world production, respectively. The National

Box I.5
National Commission on Farmers (Chairman: Prof. M.S. Swaminathan): Major Recommendations

The Government of India constituted a National Commission on Farmers (NCF) under the chairmanship of Shri Sompal on February 10, 2004 to examine various issues confronting the Indian farmers and to suggest appropriate interventions for improving the economic viability and sustainability of diversified agriculture, including horticulture, livestock, dairy and fisheries, and for doubling the farmers' income. The Commission was subsequently re-constituted under the chairmanship of Prof. M.S. Swaminathan on November 18, 2004. The NCF submitted five Reports between December 2004 and October 2006 to the Government of India. The major recommendations of the Commission are:

- Prime farm land must be conserved for agriculture and should not be diverted for non-agricultural purposes.
- Livestock Feed and Fodder Corporations, National Livestock Development Council and National Biotechnology Regulatory Authority may be established with farmers' representatives.
- User-friendly insurance instruments covering production, post-harvest operations and market risks be introduced.
- The policy and legal framework governing the cooperatives may be reviewed.
- The Minimum Support Price (MSP) of crops should be linked to the input costs. The Government should procure the staple grains needed for the Public Distribution System (PDS) at the prices that private traders are willing to pay to farmers. The MSP should be at least 50 per cent more than the weighted average cost of production and should be expanded to cover all crops of importance for ensuring food and income security to the small farmers. The Commission on Agricultural Costs and Prices (CACP) should be an autonomous statutory organisation. The PDS should be universal and should undertake the task of enlarging the food security basket.
- The Indian Trade Organisation (ITO) may be established to safeguard the interests of farmers.
- A few Centres of Excellence on the model of the Indian Institute of Technology (IITs)/Indian Institute of Management (IIMs) should be established to enhance competitiveness of the agriculture graduates.
- As price fluctuation/competition from products imported from abroad are among the major problems facing a large number of small farmers engaged in the cultivation of plantation crops, a Price Stabilisation Fund may be considered. Agriculture Risk Fund and Food Guarantee Act should be formulated.
- A multi-stakeholder National Food Security and Sovereignty Board chaired by the Prime Minister may be set up.
- There is a need for an Agriculture Credit Policy and both credit and insurance literacy in villages. Drought prone areas should have a 4-5 year repayment cycle for crop loans, taking into account the management of risk. NABARD should function like a National Bank for Farmers.
- The Ministry and Departments of Agriculture, both at the Centre and the States, may be restructured to become Ministry/Department of Agriculture and Farmers' Welfare in order to highlight their critical role in ensuring the income and work security of over 600 million members of India's population.

The key recommendations covering the entire farming spectrum have been incorporated in the Revised Draft National Policy for Farmers. The Ministry of Agriculture, Government of India, held a Conference of State Ministers on December 23, 2006 to discuss the recommendations of the NCF. The State Ministers of Agriculture and Allied Sectors have supported the recommendations made by the NCF and have also given a number of suggestions. The suggestions made by the NCF are under consideration of the Government of India.

Horticulture Mission launched during 2004-05 aims at doubling the horticulture production by 2011-12.

I.2.13 The livestock sector provides an important source of supplementary income to the small and marginal farmers and women in rural areas of the country, besides providing cheap nutritional food to millions in the country, especially in the arid and semi-arid regions of the country. The output of the livestock sector increased from 24.8 per cent of the GDP originating in the agriculture and allied activities during 1999-2000 to 27.0 per cent during 2005-06. The milk group accounted for about 68 per cent of the value of output in the livestock sector during 2005-06. With a production of 97 million tonnes in 2005-06, India was the largest global producer of milk (about 14.5 per cent of the world milk production).

Food Management

I.2.14 The procurement of foodgrains (rice and wheat) during 2006-07 at 35.9 million tonnes (mt) was 13.8 per cent lower than that in the preceding year, mainly on account of decline in procurement of wheat from 14.8 mt to 9.2 mt (Table 1.6 and Appendix Table 5). The offtake of rice and wheat during 2006-07 at 36.8 mt was lower by 12.9 per cent over the previous year, mainly due to the fall in the offtake of wheat under the Targeted Public Distribution System (TPDS) and Other Welfare Schemes (OWS). The total stock of foodgrains with the Food Corporation of India (FCI) and other Government agencies rose to 25.1 mt as on May 1, 2007 from 22.8 mt a year ago after touching an intra-year low of 12.6 mt on October 1, 2006. The stocks of rice as well as wheat at 13.5 mt and 11.6 mt were higher than the respective buffer stock norms of 12.2 mt and 4.0 mt.

Industrial Performance

I.2.15 According to the CSO's revised estimates, real GDP growth originating from the industrial sector increased from 8.0 per cent in 2005-06 to 11.0 per cent in 2006-07, driven by strong manufacturing activity (Table 1.1 and Appendix Table 2). The upsurge in the industrial growth entered the fifth year of expansion on the back of strong investment and consumption demand. The industrial growth, thus, averaged 9.1 per cent during the three-year period ended 2006-07 and 8.0 per cent during the five-year period 2002-03 to 2006-07.

I.2.16 Based on the movements in the Index of Industrial Production (IIP), industrial growth accelerated from 8.2 per cent during 2005-06 to 11.5 per cent during 2006-07, the highest growth achieved since 1995-96 (13.1 per cent) [Appendix Table 6 and Chart I.1]. Growth during the year was driven mainly by the manufacturing sector, which contributed 91.1 per cent to the industrial growth. The growth of the manufacturing sector at 12.5 per cent in 2006-07 was

Table 1.6: Management of Foodstocks

(Million tonnes)

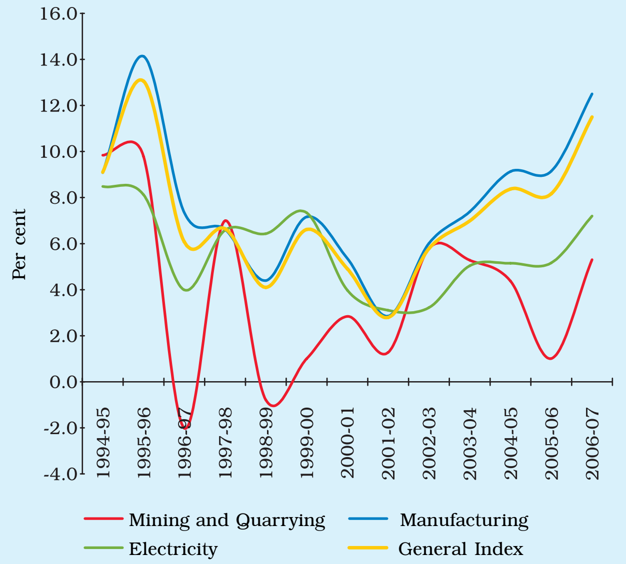
Year/Month	Opening Stock of Foodgrains			Procurement of Foodgrains			Foodgrains Off-take					Closing Stock	Norms
	Rice	Wheat	Total	Rice	Wheat	Total	PDS	OWS	OMS - Domestic	Exports	Total		
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2004-05	13.1	6.9	20.7	24.0	16.8	40.8	29.7	10.6	0.2	1.0	41.5	18.0	
2005-06	13.3	4.1	18.0	26.9	14.8	41.7	31.4	9.8	1.1	0.0	42.2	16.6	
2006-07	13.7	2.0	16.6	26.7	9.2	35.9	31.6	5.1	0.0	0.0	36.8	17.8	
2006													
January	12.6	6.2	19.3	4.0	0.0	4.0	2.7	0.8	0.1	0.0	3.6	19.5	20.0
February	14.0	4.9	19.5	2.9	0.0	2.9	2.7	0.6	0.3	0.0	3.6	18.3	
March	14.1	3.5	18.3	1.9	0.0	1.9	2.8	0.9	0.2	0.0	3.6	16.6	
April	13.7	2.0	16.6	1.7	8.7	10.3	2.5	0.3	0.0	0.0	2.8	22.8	16.2
May	12.8	9.0	22.8	1.6	0.6	2.2	2.9	0.4	0.0	0.0	3.0	22.3	
June	12.0	9.3	22.3	1.5	0.0	1.5	2.6	0.6	0.0	0.0	3.1	20.5	
July	11.1	8.2	20.5	0.8	0.0	0.8	2.7	0.4	0.0	0.0	3.1	17.1	26.9
August	9.5	7.3	17.1	0.5	0.0	0.5	2.7	0.4	0.0	0.0	3.1	15.5	
September	7.8	6.7	15.5	0.2	0.0	0.2	2.6	0.5	0.0	0.0	2.8	12.6	
October	6.0	6.4	12.6	8.0	0.0	8.0	2.5	0.3	0.0	0.0	2.7	18.7	16.2
November	12.5	6.0	18.7	2.0	0.0	2.0	2.5	0.4	0.0	0.0	2.9	17.8	
December	12.1	5.6	17.8	2.6	0.0	2.6	2.6	0.3	0.0	0.0	3.0	17.5	
2007													
January	12.0	5.4	17.5	4.3	0.0	4.3	2.7	0.4	0.0	0.0	3.1	18.1	20.0
February	12.6	5.4	18.1	2.4	0.0	2.4	2.7	0.5	0.0	0.0	3.1	19.1	
March	14.0	5.1	19.1	1.2	0.0	1.2	2.7	0.5	0.0	0.0	3.2	17.8	
April	13.2	4.6	17.8	0.9	7.9	8.7	2.5	0.2	0.0	0.0	2.8	25.1	16.2
May	13.5	11.6	25.1	1.5	2.6	4.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
June	n.a.	n.a.	n.a.	1.3	0.7	2.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
July	n.a.	n.a.	n.a.	0.8	0.0	0.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	26.9

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

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.

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

Chart I.1: Sectoral Growth of Index of Industrial Production



the highest since 1995-96 (14.1 per cent). The 'Machinery and equipments', 'basic metal and alloy industries' and 'chemicals and chemical products' groups remained the main drivers of growth, contributing almost 50 per cent to the manufacturing growth. At the two-digit level classification, 16 out of 17 manufacturing industry groups registered positive growth during the year (Appendix Tables 7 and 8).

I.2.17 The mining and electricity sectors also recorded higher growth during the year; however, their growth continued to lag behind the manufacturing growth (Table 1.7). The mining sector recorded a growth of 5.3 per cent in 2006-07, reversing the decelerating trend of the previous three years – from 5.3 per cent in 2003-04 to 1.0 per cent in 2005-06. Growth in the mining sector in 2006-07 benefited from the recovery in the crude oil production in Mumbai High (where the production was affected on account of fire in July 2005), as well as increased mining activity in respect of coal and other minerals. The growth of electricity generation edged higher in 2006-07 on the back of higher plant load factor (PLF) in thermal power plants as also double-digit growth in hydro-power generation. Notwithstanding the higher power generation, the country faces power shortage of about 10 per cent and a peaking shortage of over 13 per cent. In some States, the peaking shortage is as high as 25 per cent.

I.2.18 In terms of use-based classification, marked acceleration in growth was observed in respect of basic, capital and intermediate goods sectors. These three sectors more than offset the deceleration in the consumer goods sector (Table 1.7 and Appendix Table 9). The growth of the basic goods sector – the highest since 1995-96 – benefited from increased production of cement, high speed diesel, and various iron and steel products such as carbon steel, bars and rods, pipes and tubes. The intermediate goods sector, which had recorded subdued growth in 2005-06, bounced back and recorded a growth of 11.9 per cent in 2006-07, also the highest since 1995-96 (19.3 per cent). The growth was driven largely by yarn, polyester fibre, viscose staple fibre, PVC pipes and tubes and glazed tiles/ceramic tiles. The pickup in the intermediate goods sector has added strength to the already firmly entrenched industrial growth. The growth in the capital goods sector accelerated from 15.8 per cent in 2005-06 to 18.2 per cent in 2006-07, reflecting sustained investment demand in the country. The growth in the sector was largely on account of complete tractors, boilers, diesel engines, textile machinery, material handling equipment and process-control instruments. The continued robust expansion of the capital goods sector facilitated substantial capacity additions across a number of industries (Box I.6). The consumer goods sector, on the other hand, witnessed moderation in growth on account of decline in production of some non-durable goods such as food items, drugs, edible oils and durables.

I.2.19 The capacity utilisation of the industries is estimated at 81.8 per cent in 2006-07 as compared

Table 1.7: Index of Industrial Production: Sectoral and Use-Based Classification of Industries

(Per cent)

Sector	Weight in the IIP	Growth Rate		Weighted Contribution #	
		2005-06	2006-07P	2005-06	2006-07P
1	2	3	4	5	6
Sectoral Classification					
Mining	10.5	1.0	5.3	1.0	3.4
Manufacturing	79.4	9.1	12.5	93.2	91.1
Electricity	10.2	5.2	7.2	5.7	5.5
Use-Based Classification					
Basic Goods	35.6	6.7	10.3	25.4	27.2
Capital Goods	9.3	15.8	18.2	20.0	17.6
Intermediate Goods	26.5	2.5	11.9	8.4	27.0
Consumer Goods (a+b)	28.7	12.0	10.1	46.3	28.5
a) Consumer Durables	5.4	15.3	9.2	14.9	6.7
b) Consumer Non-durables	23.3	11.0	10.4	31.4	21.8
General	**100.0**	**8.2**	**11.5**	**100.0**	**100.0**

P : Provisional.

: Figures may not add up to 100 due to rounding off.

Source : Central Statistical Organisation.

Box I.6
Capacity Addition in Indian Industry: Role of the Capital Goods Sector

In view of strengthening of growth in the manufacturing sector since 2002-03, the capacity utilisation has remained high. This is being exhibited in the double-digit growth in the domestic production of capital goods and robust growth in the import of capital goods (Table A). Growth in imports of capital goods has also been boosted by the phased reduction/rationalisation of import tariffs.

Some of the capital goods such as metals, machine tools, and machinery, among others, have witnessed strong growth both in terms of domestic production and imports (Table B).

Capital goods are durables, which are used as accessories, equipments, plant and machinery in industrial sectors for production (directly or indirectly) as well as for rendering various services. Broadly, these comprise industrial machinery, electrical and non-electrical machinery, machine tools, automobiles, construction equipments and plant equipments, which have witnessed robust performance in recent years that supports the ongoing capacity expansions. Other indicators such as the cost of projects announced, number of proposed projects and the projects under implementation also point towards increased investment expenditure on adding new capacities. The capacity addition is well diversified across most sectors of the industry. In terms of cost of projects which are under implementation, the manufacturing sector constitutes a major component followed by electricity, services and construction sectors.

Table A: Select Indicators of Industrial Performance

(Growth rates in per cent)

Category	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7
1. IIP	2.8	5.8	7.0	8.4	8.2	11.5
2. Capital goods production	-3.4	10.5	13.6	13.9	15.8	18.2
3. Machinery and Equipment	1.3	1.6	15.8	19.8	11.9	12.8
4. Capital goods imports	10.5	36.6	35.4	37.5	49.9	40.6
5. Project under implementation	10.6	-1.4	5.4	13.5	12.2	54.2
6. Project addition	7.6	-5.6	-0.8	29.2	44.2	51.0
7. IEM	-24.4	13.8	91.7	87.0	32.0	80.9

IEM : Industrial Entrepreneurs Memoranda.
Note : Growth rates of imports are based on data in US $ terms.
Source : CSO, DIPP, DGCI&S and CMIE.

Within the manufacturing sector, metal and metal products, machinery, and chemicals are amongst the major industries that have recorded robust growth in capital expenditure.

The robust performance of the capital goods sector in the current cycle is in contrast with the previous period of strong industrial growth witnessed during 1993-96 when this sector did not play a significant role. The ongoing trend in capital goods production, growing imports and increasing capital expenditure by corporates highlight the new capacity additions, which are expected to further strengthen the growth performance of the Indian manufacturing sector.

Table B: Capital Goods: Production and Imports of Major Items

(Growth rates in per cent)

Item	Imports 2005-06	Imports 2006-07	Item	Production 2005-06	Production 2006-07
1	2	3	1	2	3
Machinery except Electrical & Electronics	46.8	38.4	Textile Machinery	50.3	35.8
Electrical Machinery except Electronics	25.9	30.0	Switchgear (circuit breakers)	13.5	8.1
Electronic Goods including Computer Software	32.7	19.4	Control panels/ boards/ disks	44.8	17.6
Transport Equipments	104.2	74.4	Computer system and its peripherals	10.7	11.5
Project Goods	48.0	98.7	Commercial vehicles	11.7	33.0
Machine Tools	79.4	39.3	Material handling equipment	90.0	115.5
			Cranes	36.6	66.5
			Boilers	60.2	48.5
			Furnaces	35.9	22.8
			Machine tools	10.5	0.2

Note : Growth rates of imports are based on data in US dollar terms.
Source : CSO and DGCI&S.

with 82.4 per cent estimated in 2005-06 (Table 1.8). Some of the industries like sugar, salt, some edible oils, penicillin, well/offshore platforms, ship building and repair, tape recorders, turbines, high explosive nitro glycerine base, among others, recorded moderation in the overall capacity utilisation. However, industries such as matches, textile machinery, electric fans, paints, enamels and varnishes, diesel engines, optical whitening agent, air and gas compressor, soaps, pipes and tubes, paper and paper board, zip fasteners, lighting, fitting and fixtures, electric motors, machine tools, *etc.*, which mainly belong to the Small and Medium Enterprises (SMEs) sector, recorded more than 95 per cent capacity utilisation during the year.

Table 1.8: Capacity Utilisation

(Per cent)

Industry	Weight	Capacity Utilisation		
		2004-05	2005-06	2006-07
1	2	3	4	5
Food products	90.83	66.2	66.1	67.8
Beverages, tobacco and products	23.82	77.0	84.2	84.3
Cotton textiles	55.18	91.4	97.4	94.6
Wool, silk and man-made fibre textiles	22.58	89.2	90.8	87.6
Jute and other vegetable fibre textiles (expcect cotton)	5.90	83.6	83.5	71.4
Textile products (including wearing apparel)	25.37	81.5	92.7	92.3
Wood and wood products, furniture & fixtures	27.01	81.6	81.4	69.6
Paper & products and printing & publishing	26.52	82.5	88.2	93.6
Leather and leather & fur products	11.39	84.5	77.5	80.9
Chemicals and chemical products except petroleum & coal	140.02	81.6	80.6	79.0
Rubber, plastic, petroleum and coal products	57.28	86.5	86.1	87.1
Non-metallic mineral products	43.97	86.8	82.5	85.8
Basic metal and alloy Industries	74.53	86.3	82.8	83.4
Metal products and parts (except machinery and equipment)	28.10	71.1	68.8	65.5
Machinery and equipment other than transport equipment	95.65	74.9	75.0	75.3
Transport equipment and parts	39.84	78.2	82.3	80.7
Other manufacturing industries	25.59	79.8	71.7	73.2
Manufacturing	**793.58**	**80.4**	**80.6**	**80.1**
Mining and Quarrying	**104.73**	**86.1**	**85.3**	**83.7**
Electricity	**101.69**	**92.5**	**94.0**	**93.4**
All Industries	**1000**	**82.2**	**82.4**	**81.8**

Note : 1. Data are provisional.

2. Capacity utilisation has been calculated from the production data for 297 industries supplied by the Ministry of Statistics and Programme Implementation.

3. Capacity utilisation has been estimated under the peak output approach. Under the peak output approach, the peak monthly output during the year for a particular industry is regarded as its installed productive capacity, while the average monthly output for the same year is regarded as its actual utilisation level for that year. Monthly capacity utilisation of a particular industry is the ratio of monthly production to the peak level of production during the financial year. The average of twelve months is considered as the annual capacity utilisation.

Source : Based on data from Ministry of Statistics and Programme Implementation, Government of India.

I.2.20 A substantial part of growth in the manufacturing sector has largely been concentrated in capital intensive sub-sectors. The traditionally labour-intensive manufacturing sub-sectors such as paper, food products and leather products have not kept pace with the strong overall performance of the manufacturing sector. Furthermore, inadequate employment generation in the organised manufacturing sector continues to be a cause of concern. However, there is some evidence of pick up in employment growth in the recent period. According to NSSO survey results (61st round), employment growth in India accelerated from 1.60 per cent per annum (1993-94 to 1999-2000) to 2.54 per cent per annum (1999-2000 to 2004-05) (Box I.7).

Infrastructure Industries

I.2.21 The infrastructure sector witnessed some improvement in performance during 2006-07, but its growth continued to lag behind the overall industrial growth. The growth of the infrastructure industries, with a weight of 26.7 per cent in the overall index of industrial production, rose from 6.2 per cent during 2005-06 to 8.6 per cent in 2006-07 (Chart I.2 and Appendix Table 10). The improvement during 2006-07 was mainly a reflection of the turnaround in growth of crude petroleum, and higher growth in electricity and petroleum refinery products sectors. The growth in crude oil production, as noted earlier, was partly a reflection of the recovery of production in Mumbai

Box I.7
Economic Growth and Employment Linkages in India

In the 1980s and the 1990s, the acceleration in the GDP growth did not lead to a commensurate pick up in employment growth. While real GDP growth accelerated from 5.4 per cent per annum between 1983 and 1993-94 to 6.5 per cent between 1993-94 and 1999-2000, the annual growth in employment decelerated from 2.06 per cent to 1.60 per cent over the same period.

The results of the 61st round of the NSSO survey conducted during July 2004-June 2005 show a reversal of the declining trend in employment growth. According to the survey results, total labour force increased from 367 million in 1999-2000 to 415 million in 2004-05. Employment growth[7] accelerated from 1.6 per cent per annum during the period 1993-94 to 1999-2000 to 2.5 per cent per annum during the period 1999-2000 to 2004-05. Almost 48 million people gained employment during 1999-2000 to 2004-05, significantly higher than 33 million during 1993-94 to 1999-2000. Net annual addition to employment at 9.6 million during 1999-2000 to 2004-05 was, thus, substantially higher than that of 5.5 million during the preceding six-year period. Cross-country data indicate that India added 11.3 million net new jobs per year[8] during 2000-05 as compared with 7.0 million in China, 2.7 million in Brazil, 0.7 million in Russia and 3.7 million in the OECD area.

Addition to employment of 48 million in India during 1999-2000 to 2004-05 was, however, marginally lower than the addition of 50.5 million to the labour force during the same period. As a result, the annual growth in employment (2.48 per cent) was slightly lower than that of the labour force (2.54 per cent). The unemployment rate, thus, rose from 2.78 per cent in 1999-2000 to 3.06 per cent in 2004-05,

Chart : Trends in GDP and Employment Growth in India

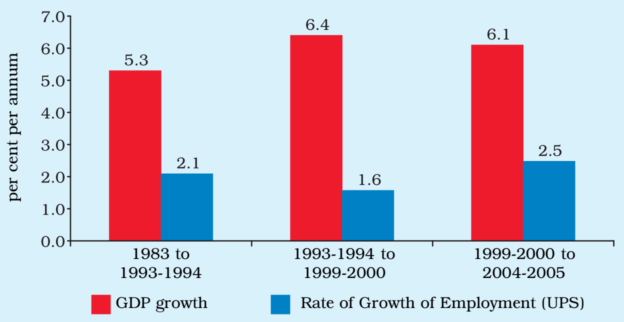


Table : Trends in Employment as per Usual Status@

(Number of persons employed per thousand persons)

Survey Round	Rural	Urban	All
1	2	3	4
32nd (1977-1978)	444	341	423
38th (1983)	445	340	420
43rd (1987-1988)	434	337	412
50th (1993-1994)	444	347	420
55th (1999-2000)	417	337	397
61st (2004-2005)	439	365	420

@: Principal status and subsidiary status taken together.
Source : NSSO.

primarily on account of higher unemployment amongst females, both in rural and urban areas. While the unemployment rate amongst males in the urban areas fell from 4.8 per cent in 1999-2000 to 4.4 per cent by 2004-05, that in rural areas remained unchanged at 2.1 per cent. As regards females, the unemployment rate rose from 1.5 per cent (1999-2000) to 3.1 per cent (2004-05) in rural areas and from 7.1 per cent to 9.1 per cent in urban areas. The unemployment rates based on 'current weekly status' and 'current daily status' remained much higher that that based on 'usual principal status'.

According to the Planning Commission, there is a need for at least 65 million additional non-agricultural opportunities in the 11th Plan to ensure that the unemployment rate falls to some extent. For this, the rate of growth of non-agricultural employment would need to accelerate to 5.8 per cent per annum from 4.7 per cent per annum in 1999-2005. Furthermore, in order to reduce the high unemployment among the educated youth and improve the quality of overall employment, a robust growth in organised sector employment would be necessary.

References

1. Government of India (2006), National Sample Survey Organisation, "Employment and Unemployment Situation in India 2004-05, Report No. 515".
2. ______ (2007), Economic Survey, 2006-07.
3. ______ (2007), Planning Commission, "Towards Faster and More Inclusive Growth: An Approach to the 11th Five Year Plan."
4. OECD (2007), Employment Outlook.

High. Larger exports, apart from the base effect, enabled the petroleum refinery products to register strong growth.

I.2.22 The cement and steel sectors continued to record robust growth during the year, though there was some deceleration due to capacity constraints. The

[7] Based on 'usual principal status', unless indicated otherwise.
[8] Including both 'usual principal status' and 'subsidiary status' workers.

Table 1.9: Target and Achievement of Infrastructure Industries

Sector	Unit	2005-06			2006-07		
		Target	Achievement	Gap (%)	Target	Achievement	Gap (%)
1	2	3	4	5	6	7	8
Power	Billion Units	620	616	-0.7	663	662	-0.1
Coal	Million Tonnes	400	401	0.4	425	425	0.0
Finished Steel	Million Tonnes	50.3	44.7	-11.0	52	50.6	-3.0
Railways	Million Tonnes	668	667	-0.1	726	728.4	0.3
Shipping (Major Ports)	Million Tonnes	425	423	-0.4	465.7	463.8	-0.4
Fertilisers	Million Tonnes	16.2	15.5	-4.4	16.3	16.1	-1.1
Cement	Million Tonnes	142	148	4.1	159.6	161.3	1.1
Crude Petroleum	Million Tonnes	34	32	-6.6	35.4	34.0	-4.1
Petroleum Refinery Products	Million Tonnes	129	130	0.8	135.3	146.5	8.3
Natural Gas Production	Million Cubic Meters	30,986	32,205	3.9	31,538	31,555	0.1

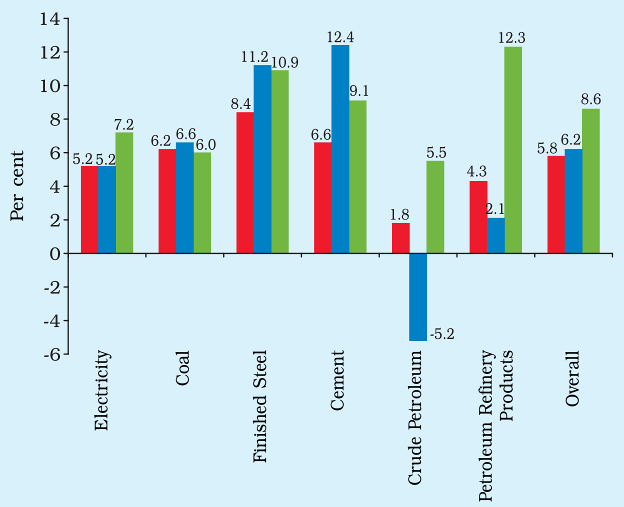
Source : Ministry of Statistics and Programme Implementation, Government of India.

slowdown in steel production could also be attributed partly to deceleration in exports. The production of power, cement, and petroleum refinery products exceeded the targets set for 2006-07 (Table 1.9). The production of crude oil, despite a recovery during the year, fell short of the target.

Performance of Central Sector Projects

I.2.23 The number of delayed central sector projects increased during the year. The delays, largely on account of projects in railways and surface transport sectors, could mainly be attributed to factors such as fund constraints, land problems, environmental clearance, and lack of supporting infrastructure facilities. Although the number of delayed projects increased, there was a marked improvement in containing the cost overrun in respect of ongoing projects in the country over the last decade. This was reflected in a significant decline in the cost overrun of delayed projects in terms of their original cost; the ratio declined to 19.8 per cent at end-March 2007 from around 92 per cent in 2001 (Table 1.10).

Chart 1.2: Sector-wise Infrastructure Industries Growth



Source : Office of the Economic Advisor, Ministry of Commerce and Industry, Government of India.

Investment Climate

I.2.24 The strong growth in investment activity witnessed during the past few years continued during 2006-07, buoyed up by rising production and capacity utilisation. The investment intentions, as reflected in

Table 1.10: Performance of Central Sector Projects

(end-March)

Item	2001	2004	2005	2006	2007
1	2	3	4	5	6
1. Number of Projects (a to d)	187	286	327	396	491
(a) Ahead	5	28	16	6	6
(b) On Schedule	58	73	65	113	179
(c) Delayed	65	112	125	149	171
(d) Without Date of Commissioning	59	73	121	128	135
2. Cost Overrun of Total Projects (Rupees crore)	40,303	40,411	39,585	47,337	39,741
3. Cost Overrun of Total Projects (% of original cost)	36.4	21.8	19.2	18.2	12.4
4. Cost Overrun of Delayed Projects (Rupees crore)	23,374	26,689	25,388	29,655	20,808
5. Cost Overrun of Delayed Projects (% of original cost)	91.6	51.8	45.2	35.6	19.8

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

Table 1.11: Industrial Investment Proposals

Year	IEMs		LOI/DILs	
	No. of Proposals	Proposed Investment (Rupees crore)	No. of Proposals (Rupees crore)	Proposed Investment
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
2005-06	6,341	3,82,743	135	3,638
2006-07	5,591	6,92,401	87	4,002
Cumulative*	**69,798**	**25,69,658**	**4,241**	**1,23,085**

* : August 1991 to March 2007.

Note : IEM : Industrial Entrepreneurs Memoranda.
LOI : Letters of Intent.
DILs : Direct Industrial Licences, which are being issued since November 2003.

Source : Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India.

the Industrial Entrepreneurs Memoranda, rose sharply by 81 per cent during 2006-07 and more than quadrupled from their levels during 2003-04 (Table 1.11). Impressive growth posted by gross capital formation in recent years suggests that the investment climate has been conducive.

I.2.25 Mergers and acquisitions (M&A) activities remained buoyant during 2006-07 on the back of strong growth prospects, healthy internal cash generation and the desire to obtain efficiency gains through economies of scale (Table 1.12). Indian corporates have also shown increasing interest in acquiring foreign companies to strengthen their position in overseas markets. Maximum mergers during 2006-07 were witnessed in the financial services (15 per cent of total), followed by chemicals (8 per cent), construction (5 per cent), and non-metallic mineral products and mining (3 per cent each). The acquisition activity was the largest in the communications sector (48 per cent of total), followed by chemicals (15 per cent), financial services (9 per cent), information technology (7 per cent) and mining (4 per cent).

Table 1.12: Mergers and Acquisitions Announced

Year	Total Acquisitions		Total Mergers
	Number	Amount (Rupees crore)	Number
1	2	3	4
2002-03	843	23,785	381
2003-04	830	35,073	291
2004-05	797	60,282	272
2005-06	874	1,00,612	394
2006-07	924	2,04,597	358

Note : Deals include preferential allotments, buy-back of shares and disinvestment proposals, amongst others.

Source : Centre for Monitoring Indian Economy.

Small Scale Industries

I.2.26 Small scale industries (SSIs) continued to record a steady progress during 2006-07 (Table 1.13). The sector plays a vital role in the growth of the country as it accounts for about 40 per cent of the industrial output in the Indian economy. About 47 per cent of total manufactured exports of the country are directly accounted for by the SSI sector.

Developments during 2007-08

I.2.27 During April-June 2007, industrial production registered growth of 11.0 per cent (10.5 per cent a year ago), led by the manufacturing sector (11.9 per cent growth as compared with 11.7 per cent a year ago). The electricity sector rose by 8.3 per cent (5.3 per cent) while the growth in the mining sector at 3.2 per cent was lower than a year ago (3.6 per cent). In terms of use-based classification, capital goods recorded growth of 22.3 per cent (21.0 per cent). The production of intermediate and basic goods expanded by 9.5 per cent (10.8 per cent) and 9.5 per cent (9.0

Table 1.13: Performance of Small Scale Industries

Item	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 P
1	2	3	4	5	6	7
Number of Units (Million)	10.5	11.0	11.4	11.9	12.3	12.8
Employment (Million)	25.2	26.4	27.5	28.8	30.0	31.3
Investment (Rupees crore)	1,60,673	1,69,579	1,78,269	1,88,793	1,98,050	2,07,307
Value of Output (Rupees crore)	2,82,270	3,14,850	3,64,547	4,29,796	4,97,842	n.a.
Exports from SSI (Rupees crore)	71,244	86,013	97,644	1,24,417	1,50,242	n.a.

P: Provisional. n.a.: Not available.

Source : Ministry of Small Scale Industries, Government of India.

per cent), respectively. The consumer goods sector exhibited growth of 9.9 per cent (8.5 per cent). During April-June 2007, growth in six infrastructure industries was 6.9 per cent (7.4 per cent a year ago).

Services Sector

I.2.28 According to the CSO's revised estimates, real GDP growth originating from the services sector accelerated from 10.3 per cent in 2005-06 to 11.0 per cent in 2006-07 (Table 1.1 and Appendix Table 2). The growth in the services sector was led by acceleration in the sub-sectors 'trade, hotels and restaurants, transport, storage and communication' and 'financing, insurance, real estate and business services'. Buoyancy in foreign tourist arrivals, domestic travel, hotel occupancy, retail credit, commercial vehicles production, telecom use, revenue earning freight traffic of the railways, and passengers handled by civil aviation propped up the sub-sector 'trade, hotels and restaurants, transport, storage and communication' (Table 1.14). This sub-sector has emerged as the key driver of economic activity in the country, constituting almost one-half of the growth of the services sector and almost one-third of overall real GDP growth during 2006-07.

I.2.29 The construction sub-sector continued to exhibit high growth during 2006-07 (10.7 per cent), though there was some deceleration from the strong pace of over 14 per cent in the preceding two years. The sub-sector 'financing, insurance, real estate and business services' recorded double-digit growth for the second successive year, reflecting acceleration of growth in bank deposits, sustained growth in non-food credit, rapid growth of activity in the insurance sector and continued buoyancy in the information technology (IT) sector (Table 1.15). The IT sector was marked by sustained revenue growth, steady expansion of newer service-lines and increased geographic penetration. The sector attracted a substantial rise in investments from multinational corporations (MNCs).

Table 1.14: Indicators of Service Sector Activity

(Growth rates in per cent)

Item	2004-05	2005-06	2006-07
1	2	3	4
Tourist arrivals	22.8	12.1	14.4
Commercial vehicles production	28.6	10.6	33.0
Railway revenue earning freight traffic	8.1	10.7	9.2
New cell phone connections	10.4	89.4	85.4
Cargo handled at major ports	11.3	10.4	9.5
Civil aviation			
a) Export cargo handled	12.4	7.3	3.6
b) Import cargo handled	24.2	15.8	19.4
c) Passengers handled at international terminals	14.0	12.8	12.1
d) Passengers handled at domestic terminals	23.6	27.1	34.0
Cement	6.6	12.4	9.1
Steel	8.2	11.2	10.9
Aggregate deposits	11.9	18.1	23.0
Non-food credit	31.6	31.8	28.0
Central Government expenditure	9.5*	8.7	15.2

* : Net of repayments to NSSF.

Table 1.15: Indian IT Industry

(US $ billion)

Item	2003-04	2004-05	2005-06	2006-07E
1	2	3	4	5
1. Total Software and Services Revenues (i to iii)	16.7	22.6	30.3	39.7
Exports	12.9	17.7	23.6	31.3
Domestic	3.8	4.9	6.7	8.4
i) IT Services	10.4	13.5	17.8	23.7
Exports	7.3	10.0	13.3	18.1
Domestic	3.1	3.5	4.5	5.6
ii) ITES-BPO	3.4	5.2	7.2	9.5
Exports	3.1	4.6	6.3	8.3
Domestic	0.3	0.6	0.9	1.2
iii) Engineering Services and R&D, Software Products	2.9	3.9	5.3	6.5
Exports	2.5	3.1	4.0	4.9
Domestic	0.4	0.8	1.3	1.6
2. Hardware	5.0	5.9	7.0	8.2
3. Total IT Industry (including Hardware) (1+2)	21.6 (3.5)	28.4 (4.1)	37.4 (4.8)	47.8 (5.2)
Memo:				(in thousands)
4. Total Employment (a to c)*	830	1,058	1,293	1,630
a) IT Services	215	297	398	562
b) ITES-BPO	216	316	415	545
c) Engineering Services and R&D and Software Products	81	93	115	144
5. Domestic Market (including user organisation)	318	352	365	378

E : Estimates. * : Excluding hardware.

Note : Figures in parentheses are percentage to GDP.

Source : National Association of Software and Service Companies.

Performance of the Corporate Sector

I.2.30 The further strengthening of activity in the industrial and the services sectors was reflected in the performance of the corporate sector during 2006-07. Growth in sales of the select non-financial non-Government companies accelerated to 26.2 per cent in 2006-07 from an average of 19.0 per cent during the preceding three-year period (2003-04 to 2005-06). Growth in gross profits at 41.5 per cent during 2006-07 was also higher than the average of 26 per cent during 2003-04 to 2005-06, and outpaced the growth in sales by a large margin. Interest payments rose by 17.4 per cent in 2006-07, reversing the declining trend witnessed during 2001-02 to 2004-05. Nonetheless, the ratio of interest payments to gross profits declined further to 13.3 per cent during 2006-07 from 15.7 per cent during 2005-06. This ratio had varied between 36.9 per cent and 62.7 per cent in the 1990s. Profits after tax increased by 45.2 per cent during 2006-07 on top of 45.1 per cent average growth during the three-year period 2003-04 to 2005-06 and the average growth of 11.8 per cent during the 1990s. Concomitantly, profit margin - the ratio of profits after tax to sales - that fluctuated between 3.3 per cent and 7.8 per cent in the 1990s, improved from 5.9 per cent in 2003-04 to 10.7 per cent in 2006-07. Reflecting the sustained high profitability, internal sources now constitute a major source of funds. This has partly led to a reduced reliance on debt, and a decline in the debt-equity ratio to around 53 per cent by 2004-05 from more than 59 per cent during the 1990s. While the overall reliance on debt flows has declined in recent years, the share of bank borrowings in overall borrowings has risen (Table 1.16).

Table 1.16: Financial Performance of the Corporate Sector

(per cent)

Item	1990-91 to 1999-2000	2000-01 to 2006-07	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07 Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11	12
Growth Rates	(Average)	(Average)									
Sales	14.0	14.6	8.5	16.0	24.1	16.9	26.2	25.6	29.2	30.3	22.5
Expenditure	14.0	13.9	10.2	14.9	23.6	16.4	23.5	24.6	26.6	26.9	19.5
Depreciation provision	17.3	9.4	4.9	6.0	11.2	10.2	15.4	14.9	16.4	16.8	18.1
Gross profits	12.5	20.0	9.8	25.0	32.5	20.3	41.5	33.9	45.9	51.8	39.2
Interest Payments	15.8	-0.6	-9.8	-11.9	-5.8	1.9	17.4	19.9	18.0	11.9	32.3
Profits after tax	11.8	35.6	76.2	59.8	51.2	24.2	45.2	34.7	49.4	59.5	39.6
Select Ratios	(Min.-Max.)	(Min.-Max.)									
Gross Profits to Sales	(10.5-14.2)	(10.1-15.6)	10.3	11.1	11.9	13.0	15.6	15.6	15.9	15.8	15.3
Profits After Tax to Sales	(3.3-7.8)	(2.6-10.7)	4.2	5.9	7.2	8.7	10.7	10.6	11.0	11.0	10.6
Interest Coverage Ratio (number)	(1.6-2.7)	(1.7-7.5)	2.1	3.3	4.6	6.4	7.5	7.2	7.8	8.0	7.7
Interest to Sales	(5.3-6.9)	(2.0-6.1)	4.9	3.4	2.6	2.0	2.1	2.2	2.0	2.0	2.0
Interest to Gross Profits	(36.9-62.7)	(13.3-60.0)	47.9	30.7	21.8	15.7	13.3	13.9	12.8	12.5	13.0
Interest to Total Expenditure	(5.4-6.8)	(2.3-6.1)	5.0	3.6	2.8	2.4	2.3	2.4	2.3	2.2	2.2
Debt to Equity	(58.7-99.5)	(52.7-70.5)	64.7	58.6	52.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Internal Sources of Funds to Total Sources of Funds	(26.1-40.3)	(53.5-65.3)	64.9	53.5	55.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bank Borrowings to Total Borrowings	(27.5-35.0)	(34.4-51.7)	43.5	48.0	51.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Memo:											(Amount in Rupees crore)
Number of Companies			2,031	2,214	2,214	2,210	2,388	2,228	2,263	2,258	2,356
Sales			3,49,667	4,42,743	5,49,449	7,74,578	10,41,894	2,34,610	2,51,125	2,60,064	2,94,223
Expenditure			3,07,863	3,86,559	4,77,609	6,66,690	8,72,168	1,95,556	2,09,437	2,16,053	2,48,740
Depreciation provision			18,306	20,406	22,697	28,883	37,095	8,449	8,892	9,172	10,338
Gross profits			36,096	49,278	65,301	1,00,666	1,62,017	36,567	40,041	41,169	45,108
Interest Payments			17,276	15,143	14,268	15,789	21,500	5,083	5,121	5,162	5,862
Profits after tax			14,715	26,182	39,599	67,506	1,11,107	24,845	27,710	28,698	31,251

n.a.: Not available.

Note : 1. Total expenditure includes interest and depreciation provision.
2. Data upto 2004-05 are based on balance sheets of the select non-government non-financial public limited companies, while data from 2005-06 onwards are based on abridged unaudited results.
3. Growth rate are percentage changes in the level for the period under reference over the corresponding period of the previous year for common set of companies.

AGGREGATE DEMAND

I.2.31 Growth during 2006-07 was domestic demand driven, led by investment activity. Real gross domestic fixed capital formation, both private and public, continued to remain buoyant for the fifth consecutive year, recording an increase of 14.6 per cent during 2006-07 on top of 15.3 per cent during 2005-06; growth averaged 13.7 per cent per annum during 2003-04 to 2006-07. Investment in valuables rose by 38.0 per cent recovering from a negligible growth in 2005-06. Both private and government final consumption expenditure witnessed some deceleration during 2006-07 (Table 1.17). Almost 42 per cent of the incremental growth in real GDP during 2006-07 (the same as a year ago) was on account of gross fixed capital formation and 39 per cent on account of private consumption demand (44 per cent during 2005-06).

Saving and Capital Formation

I.2.32 Domestic savings and investment rates reached record highs during 2005-06. Gross domestic savings rose to 32.4 per cent of GDP in 2005-06 from 31.1 per cent in 2004-05 and 23.5 per cent in 2001-02. The increase during the year was driven by higher private corporate and household savings (Appendix Table 11). Reflecting the improvement in corporate profitability, as alluded to earlier, the private corporate saving rate doubled between 2002-03 and 2005-06. Savings of the household sector recovered in 2005-06 but remained below the level attained in 2003-04. Public sector saving witnessed some moderation in 2005-06, reversing the trend of improvement that started in 2003-04 (Chart 1.3). Reflecting the rise of 1.3 percentage points in the domestic savings rate as well as the higher recourse to foreign savings, the

Chart I.3: Gross Domestic Saving

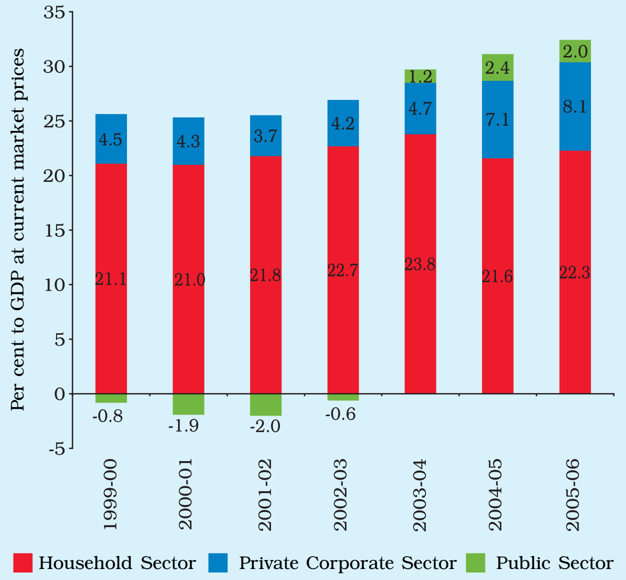


Table 1.17: Growth in Select Sources of Real Effective Demand #
(Base Year: 1999-2000)

(Per cent)

Item	2000-01	2001-02	2002-03	2003-04	2004-05@	2005-06*	2006-07±
1	2	3	4	5	6	7	8
1. Total Final Consumption Expenditure	2.2	5.4	1.8	6.2	5.4	7.2	6.6
of which:							
Private Final Consumption Expenditure	2.6	6.0	2.2	6.9	5.4	6.7	6.2
Government Final Consumption Expenditure	0.5	2.0	-0.4	2.5	5.4	9.8	9.0
2. Total Investment +	-3.5	-2.8	16.6	19.1	19.0	16.5	n.a.
Private Investment ++	-5.4	2.1	19.0	14.0	16.8	19.9	n.a.
Public Investment ++	-3.0	2.9	-7.1	8.3	16.5	15.6	n.a.
Valuables ++	-8.1	-5.4	-4.1	66.6	57.2	0.4	38.0
3. Total Fixed Investment	0.3	4.5	8.7	13.1	11.8	15.3	14.6
of which:							
Private Fixed	-0.3	4.9	11.7	13.9	13.7	15.8	n.a.
Public Fixed	1.9	3.5	1.2	10.8	6.4	13.7	n.a.

\# : Based on select disposition of real GDP at market prices.
* : Quick estimates.
\+ : Adjusted for errors and omissions.
@ : Provisional estimates.
± : Revised Estimates.
++ : Unadjusted for errors and omissions.

Note : 'Valuables' covers the expenditures made on acquisition of valuables, excluding works of art and antiques.

Source : Central Statistical Organisation.

Table 1.18: Gross Capital Formation

(Per cent of GDP at current market prices)

Item	2000-01	2001-02	2002-03	2003-04	2004-05P	2005-06#
1	2	3	4	5	6	7
1. Household Sector	10.8	10.9	12.4	12.4	11.4	10.7
2. Public Sector	6.9	6.9	6.1	6.3	7.1	7.4
3. Private Corporate Sector	5.7	5.4	5.9	6.9	9.9	12.9
4. Valuables +	0.7	0.6	0.6	0.9	1.3	1.2
5. Gross Domestic Capital Formation (GDCF)*	24.3	22.9	25.2	28.0	31.5	33.8

P : Provisional.
: Quick estimates.
+ : 'Valuables' covers the expenditures made on acquisition of valuables, excluding works of art and antiques.
* : As GDCF is adjusted for errors and omissions, the sector-wise capital formation figures do not add up to the GDCF.
Source : Central Statistical Organisation.

domestic investment rate increased by 2.3 percentage points of GDP to 33.8 per cent of GDP in 2005-06, a substantial jump from 22.9 per cent recorded during 2001-02 (Table 1.18). The increase from the trough of 2001-02 has been led by the more than doubling in the private corporate sector investment to 12.9 per cent of GDP, offsetting some decline in household investment. The ratio of gross fixed capital formation to GDP at current market prices rose by a further 1.4 percentage points during 2006-07 to 29.5 per cent from 28.1 per cent in 2005-06.

I.2.33 Preliminary estimates, based on the latest available information, place financial savings (net) of the household sector for 2006-07 at 11.6 per cent of GDP at current market prices - the same as the revised estimate for 2005-06 (Table 1.19). The gross financial assets as well as financial liabilities of the household sector rose by 1.7 per cent of GDP each during 2006-07. Household financial savings underwent some changes in the preference pattern *vis-à-vis* 2005-06. Saving in the form of 'currency', 'deposits', 'investment in shares and debentures' and 'contractual savings' as per cent of GDP, increased in 2006-07, while savings in the form of 'claims on Government' decreased (Appendix Table 12). Financial liabilities registered an increase due to higher loans and advances.

I.2.34 To sum up, the Indian economy continued with its growth momentum during 2006-07 led by the services sector and the sustained pick-up in manufacturing activity. With real GDP growth accelerating to 9.4 per cent during 2006-07, the growth averaged 8.6 per cent per annum during the period 2003-04 to 2006-07. The higher growth trajectory has been facilitated by a substantial step up in domestic savings and investment rates and marked improvement in productivity and competitiveness of the economy. Agricultural growth, however, has remained modest.

Table 1.19: Household Saving in Financial Assets

(Amount in Rupees crore)

Item	2004-05P	2005-06P	2006-07#
1	2	3	4
A. Financial Assets (Gross)	**4,34,317 (13.9)**	**5,95,235 (16.7)**	**7,58,751 (18.4)**
1. Currency	36,977 (1.2) [8.5]	51,954 (1.5) [8.7]	65,427 (1.6) [8.6]
2. Deposits@	161,416 (5.2) [37.2]	2,80,602 (7.9) [47.1]	4,22,737 (10.2) [55.7]
3. Claims on Government	1,06,420 (3.4) [24.5]	87,168 (2.4) [14.6]	39,197 (1.0) [5.2]
4. Investment in Shares and Debentures+	4,967 (0.2) [1.1]	29,268 (0.8) [4.9]	47,918 (1.2) [6.3]
5. Contractual Savings*	1,24,538 (4.0) [28.7]	1,46,245 (4.1) [24.6]	1,83,471 (4.4) [24.2]
B. Financial Liabilities	**1,20,566 (3.9)**	**1,81,482 (5.1)**	**2,81,092 (6.8)**
C. Saving in Financial Assets (Net) (A-B)	**3,13,752 (10.0)**	**4,13,754 (11.6)**	**4,77,659 (11.6)**

: 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 funds' and 'provident and pension funds'.
Note : 1. Components may not add up to the total due to rounding off.
2. Figures in ( ) indicate as per cent of GDP at current market prices and [ ] indicate as per cent of financial assets (gross).

III. MONEY, CREDIT AND PRICES

I.3.1 Growth in monetary and liquidity aggregates accelerated during 2006-07, with broad money growth remaining above the indicative trajectory projected by the Reserve Bank at the beginning of the financial year. Expansion in reserve money was led by a large accretion to the Reserve Bank's net foreign assets (NFA). Growth in bank deposits accelerated during the year, led by time deposits. Demand for bank credit remained robust for the third successive year, *albeit* with some moderation in growth. Banks' investments in SLR securities registered an increase during 2006-07 in contrast to a decline in the preceding year; nonetheless, banks' SLR investments, as a proportion of their net demand and time liabilities (NDTL), declined further during the year. The Reserve Bank continued to modulate market liquidity with the help of repo and reverse repo operations under the liquidity adjustment facility (LAF), issuance of securities, including dated securities, under the market stabilisation scheme (MSS) and the cash reserve ratio (CRR).

I.3.2 Inflation remained firm in many economies during 2006-07, reflecting high commodity prices and strong demand conditions. Although there was some easing of inflationary pressures in the second half of 2006-07 in tandem with the softening of international crude oil prices and favourable base effects, inflation remained above the inflation targets/comfort zones in many economies. Several central banks, both in developed economies and emerging markets, continued with pre-emptive monetary tightening to mitigate the second round effects, especially in the face of continuing strong demand. Some central banks in emerging market economies also took recourse to the use of cash reserve requirements in order to manage excess liquidity arising from large external capital flows. Some central banks changed direction during the course of the year – raising rates initially and then cutting them to support growth.

I.3.3 In India, headline inflation during 2006-07 firmed up reflecting the combination of supply and demand side factors. Wholesale price inflation rose to 5.9 per cent, year-on-year (y-o-y), on March 31, 2007; inflation remained above the upper end of the Reserve Bank's indicative projections of 5.0-5.5 per cent between mid-November 2006 and end-March 2007. Measures of consumer price inflation remained above the wholesale price inflation throughout 2006-07, mainly reflecting the impact of higher food prices. The Reserve Bank continued with the policy of gradual withdrawal of monetary accommodation, using various instruments at its disposal flexibly, to stabilise inflationary expectations. The Government also took various fiscal and supply-side measures to contain inflation.

RESERVE MONEY

I.3.4 Reserve money expanded by 23.7 per cent (18.9 per cent adjusted for the first round impact of the hike in the CRR[9]) during 2006-07 as compared with 17.2 per cent during 2005-06 (Table 1.20, Appendix Tables 13 and 14 and Chart I.4). The expansion in reserve money during 2006-07 was driven primarily by the accretion to the Reserve Bank's NFA. The Reserve Bank's foreign currency assets (net of revaluation) increased by Rs.1,64,601 crore during 2006-07 (Rs.68,834 crore during the previous year), reflecting large purchases of foreign exchange from authorised dealers. The bulk of market purchases – almost 65 per cent of the total purchases during the year – were in the fourth quarter (January-March) of the year.

I.3.5 During 2006-07, as in recent years, the movement in the net Reserve Bank credit to the Government was mainly on account of liquidity management by the Reserve Bank rather than passive financing of the fiscal gap of the Government. Reflecting the liquidity management operations, the Reserve Bank's net credit to the Centre declined by Rs.3,024 crore in 2006-07 as against an increase of Rs.28,417 crore in the previous year. During 2006-07, the decline in the Reserve Bank's net credit to the Centre was on account of an increase in deposits of the Centre (which, in turn, was on account of higher balances under the MSS) and open market sales, partly offset by increase in the net repo balances under the LAF. The issuances of Treasury Bills under the MSS, which were suspended during November 2005-April 2006, were re-introduced in May 2006. The balances under the MSS, accordingly, rose by Rs.33,912 crore during 2006-07. The LAF operations were primarily in an absorption mode during the first eight months of the year, but turned predominantly into injection mode from mid-December 2006. For the year as a whole, the LAF operations led to net injection of liquidity of Rs.36,435 crore (see Chapter III).

[9] During 2006-07 (April-March), the CRR was raised by 100 basis points in various stages, impounding around Rs.27,500 crore (the first round impact) of banks resources (see Chapter III for details).

Table 1.20: Reserve Money

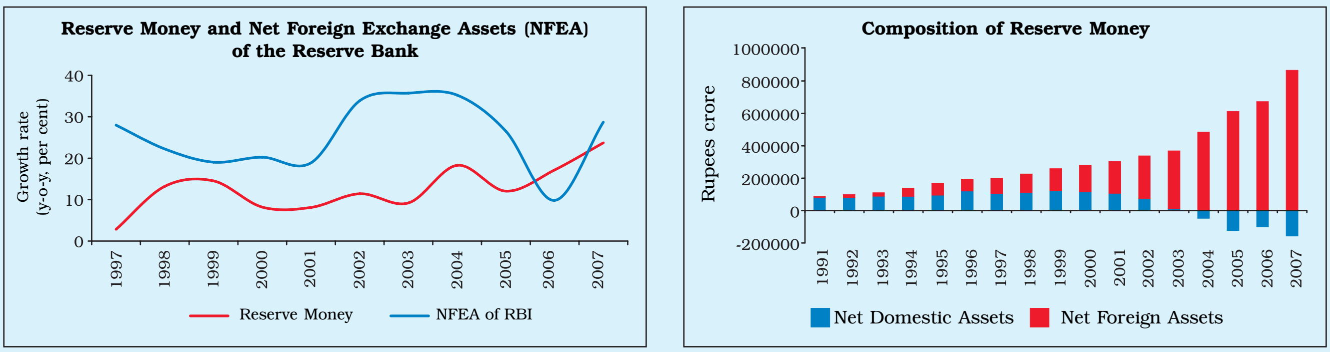
(Rupees crore)

Item	Outstanding as on March 31, 2007	Variation during 2005-06	Variation during 2006-07	2006-07 Q1	2006-07 Q2	2006-07 Q3	2006-07 Q4
1	2	3	4	5	6	7	8
Reserve Money	7,09,016	83,920	1,35,961	13,466	18,665	14,204	89,626
		(17.2)	(23.7)				
Components (1+2+3)							
1. Currency in Circulation	5,04,225	62,015	73,549	22,283	-2,011	26,871	26,405
		(16.8)	(17.1)				
2. Bankers' Deposits with the RBI	1,97,295	21,515	61,784	-7,204	20,224	-12,165	60,929
		(18.9)	(45.6)				
3. 'Other' Deposits with the RBI	7,496	390	628	-1,613	452	-502	2,291
		(6.0)	(9.1)				
Sources (1+2+3+4-5)							
1. RBI's net credit to Government	5,752	26,111	-2,384	53	2,826	-12,754	7,490
of which: to Centre (i+ii+iii+iv-v)	2,136	28,417	-3,024	3,071	2,584	-12,568	3,889
i. Loans and Advances	0	0	0	0	0	0	0
ii. Treasury Bills held by the RBI	0	0	0	0	0	0	0
iii. RBI's Holdings of Dated Securities	97,172	13,869	26,763	-27,610	24,944	22,733	6,696
iv. RBI's Holdings of Rupee coins	12	7	-143	9	-107	97	-142
v. Central Government Deposits	95,048	-14,541	29,644	-30,672	22,253	35,398	2,665
2. RBI's Credit to Banks and Commercial Sector	9,173	535	1990	-3,135	3,107	2,065	-47
3. NFEA of RBI	8,66,153	60,193	1,93,170	71,845	11,392	27,250	82,682
		(9.8)	(28.7)				
of which: FCA, adjusted for revaluation	–	68,834	1,64,601	28,107	10,948	31,634	93,913
4. Governments' Currency Liabilities to the Public	8,286	1,306	-467	-920	155	166	132
5. Net Non-Monetary Liabilities of RBI	1,80,348	4,225	56,347	54,376	-1,184	2,524	632
Memo:							
Net Domestic Assets	-1,57,137	23,727	-57,209	-58,379	7,272	-13,046	6,944
Reserve Bank's Primary Subscription to Dated Securities	–	10,000	0	0	0	0	0
LAF, Repos (+) / Reverse Repos (-)	29,185	12,080	36,435	-23,060	28,395	22,195	8,905
Net Open Market Sales # *	–	3,913	5,125	1,536	1,176	389	2,024
Mobilisation under MSS *	62,974	-35,149	33,912	4,062	8,940	-3,315	24,225
Net Purchases(+)/Sales(-) from Authorised Dealers	–	32,884	1,18,994	21,545	0	19,776	77,673
NFEA/Reserve Money £	122.2	117.4	122.2	127.0	125.0	126.5	122.2
NFEA/Currency £	171.8	156.3	171.8	164.4	167.7	164.0	171.8

NFEA: Net Foreign Exchange Assets. FCA: Foreign Currency Assets. LAF: Liquidity Adjustment Facility.
*: At face value. # : Excluding Treasury Bills. £ : Per cent, end of period.
Note: 1. Data are based on March 31 for Q4 and last reporting Friday for all other quarters.
2. Figures in parentheses are percentage variations during the fiscal year.

I.3.6 Currency in circulation, which rose by 17.1 per cent during 2006-07, followed the usual seasonal pattern, contracting during the second quarter and expanding during the other quarters. Growth in banks'

Chart I.4: Reserve Money



deposits with the Reserve Bank accelerated from 18.9 per cent during 2005-06 to 45.6 per cent during 2006-07, reflecting the impact of higher deposits as well as the hikes in the CRR during the year.

Developments during 2007-08

I.3.7 The year-on-year (y-o-y) reserve money expansion was 26.9 per cent (19.6 per cent adjusted for the first round impact of the increase in the CRR) on August 10, 2007 as compared with 17.2 per cent recorded a year ago. The Reserve Bank's foreign currency assets (adjusted for revaluation), on a y-o-y basis, increased by Rs.2,40,320 crore as compared with an increase of Rs.75,825 crore a year ago. The Reserve Bank's net credit to the Centre declined, y-o-y, by Rs.62,624 crore as compared with an increase of Rs.26,629 crore a year ago.

MONETARY SURVEY

I.3.8 Broad money (M_3) growth, y-o-y, accelerated to 21.3 per cent at end-March 2007 from 17.0 per cent a year ago and remained above the growth rate of 15.0 per cent projected in the Annual Policy Statement in April 2006 (Table 1.21, Appendix Table 15 and Chart I.5).

I.3.9 On a monthly average basis, broad money growth was 19.8 per cent during 2006-07 as compared with 15.7 per cent during 2005-06. Expansion in the residency-based new monetary

Table 1.21: Monetary Indicators

(Amount in Rupees crore)

Item	Outstanding as on March 31, 2007	Variation			
		2005-06		2006-07	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
I. Reserve Money	7,09,016	83,920	17.2	1,35,961	23.7
II. Narrow Money (M_1)	9,65,195	1,43,822	21.1	1,38,820	16.8
III. Broad Money (M_3)	33,10,278	3,96,878	17.0	5,80,733	21.3
a) Currency with the Public	4,83,471	58,248	16.4	70,352	17.0
b) Aggregate Deposits	28,19,311	3,38,081	17.1	5,09,754	22.1
i) Demand Deposits	4,74,228	85,025	26.5	67,841	16.7
ii) Time Deposits	23,45,083	2,53,056	15.3	4,41,913	23.2
of which: Non-Resident Foreign Currency Deposits	67,108	-16,876	-22.2	7,833	13.2
IV. NM_3	33,19,135	4,21,124	18.1	5,71,550	20.8
of which: Call Term Funding from Financial Institutions	85,836	11,224	15.6	2,692	3.2
V. a) L_1	34,34,684	4,36,395	18.1	5,83,181	20.5
of which: Postal Deposits	1,15,549	15,271	17.2	11,631	11.2
b) L_2	34,37,616	4,37,204	18.1	5,83,181	20.4
c) L_3	34,63,680	4,41,205	18.1	5,85,404	20.3
VI. Sources of Broad Money					
a) Net Bank Credit to the Government (i+ii)	8,38,177	17,888	2.4	71,582	9.3
i) Net Reserve Bank Credit to Government	5,752	35,799		-2,384	
of which: to the Centre	2,136	33,374		-3,024	
ii) Other Banks' Credit to Government	8,32,425	-17,910	-2.3	73,967	9.8
b) Bank Credit to the Commercial Sector	21,23,362	3,61,746	27.2	4,30,358	25.4
c) Net Foreign Exchange Assets of the Banking Sector	9,13,179	78,291	12.1	1,86,985	25.7
d) Government's Currency Liabilities to the Public	8,286	1,306	17.5	-467	-5.3
e) Net Non-monetary Liabilities of the Banking Sector	5,72,727	62,353	15.5	1,07,725	23.2
Memo:					
Aggregate Deposits of SCBs	26,08,309	3,23,913	18.1	4,99,260	23.7
Non-food Credit of SCBs	18,82,392	3,54,193	31.8	4,16,006	28.4

SCBs: Scheduled Commercial Banks. FIs: Financial Institutions. NBFCs: Non-Banking Financial Companies.

NM_3 is the residency-based broad money aggregate and L_1, L_2 and L_3 are liquidity aggregates compiled on the recommendations of the Working Group on Money Supply (Chairman: Dr. Y.V. Reddy, 1998). Liquidity aggregates are defined as follows:

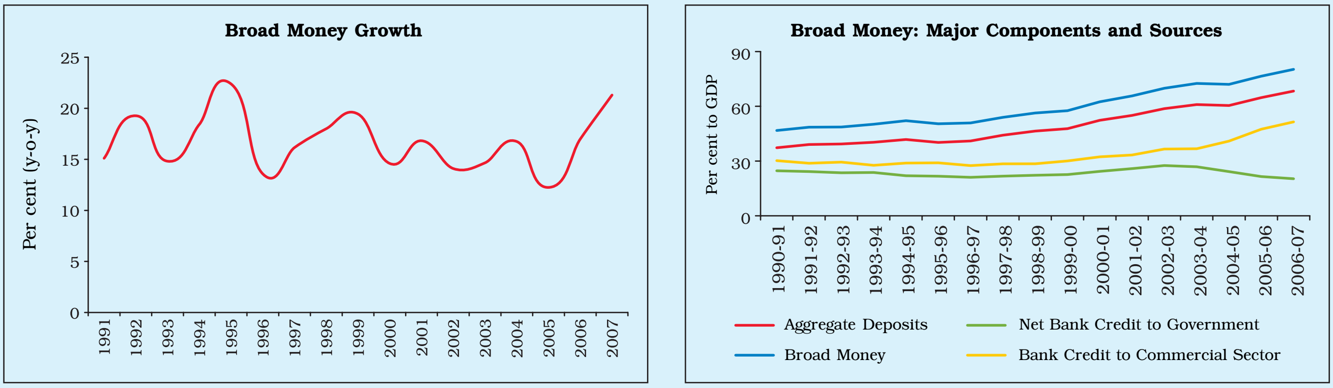
L_1 = NM_3 + Select deposits with the post office saving banks.

L_2 = L_1 +Term deposits with term lending institutions and refinancing institutions (FIs) + Term borrowing by FIs + Certificates of deposits issued by FIs.

L_3 = L_2 + Public deposits of non-banking financial companies.

Note : 1. Data are provisional.
2. Data reflect the impact of redemption of India Millennium Deposits (IMDs) on December 29, 2005.
3. Variation during 2006-07 is worked out from March 31, 2006 whereas variation during 2005-06 is worked out from April 1, 2005.

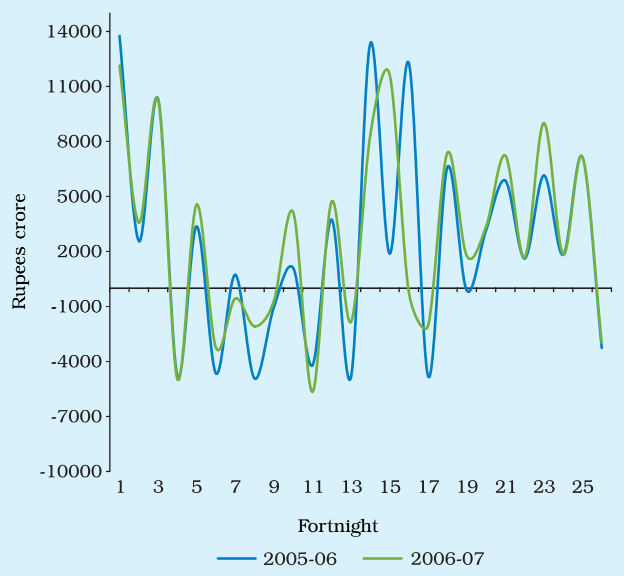
Chart I.5: Monetary Aggregates



aggregate (NM_3) as well as liquidity aggregates was also sharper during 2006-07 (Appendix Tables 16 and 17). Year-on-year growth in L_1 during 2006-07 was marginally lower than that in NM_3 which, in turn, was marginally lower than that in M_3. The lower order of growth in L_1 as compared with monetary aggregates could be attributed to the deceleration in postal deposits *vis-à-vis* bank deposits.

I.3.10 Amongst the major components of broad money, currency with the public accelerated during 2006-07 to 17.0 per cent from 16.4 per cent during the previous year, in consonance with higher economic activity. Currency in circulation broadly exhibited the usual intra-year seasonal pattern, increasing during festive seasons and initial part of the month (Chart I.6).

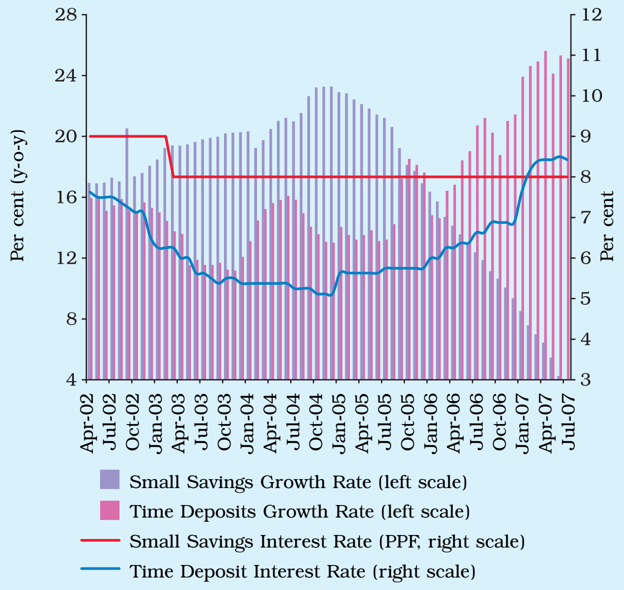
Chart I.6: Fortnightly Variation in Currency in Circulation



I.3.11 Aggregate deposits, the predominant component of broad money, also recorded an acceleration during 2006-07 on account of a sharp pick-up in time deposits (Appendix Tables 18 and 19). On a y-o-y basis, growth in demand deposits at end-March 2007 (16.7 per cent) was of a lower order than in the previous year (26.5 per cent). Accordingly, growth in narrow money, M_1, decelerated to 16.8 per cent at end-March 2007 from 21.1 per cent in the previous year. Time deposits, on the other hand, registered strong growth during 2006-07. Growth in scheduled commercial banks' (SCBs') time deposits accelerated to 24.9 per cent, y-o-y, at end-March 2007 from 16.4 per cent a year earlier which could be attributed to, *inter alia*, stronger economic activity, higher interest rates on bank deposits and extension of tax benefits under Section 80C for deposits with maturity of five years and above. In contrast to the sharp acceleration in time deposits, postal deposits witnessed a deceleration to 11.2 per cent in March 2007 from a growth of 17.2 per cent a year ago, partly attributable to rising interest rate differential in favour of bank deposits against the backdrop of unchanged interest rates on postal deposits (Chart I.7). Banks' non-resident repatriable foreign currency deposits increased by Rs.7,833 crore during 2006-07 as against a decline of Rs.16,876 crore during 2005-06; the decline during 2005-06 could be attributed to the IMD redemption (US $ 7.1 billion or Rs.31,959 crore) in December 2005.

I.3.12 Demand for commercial credit remained strong during 2006-07 for the third successive year, *albeit* with some moderation. Bank credit to the commercial sector registered a growth of 25.4 per cent, y-o-y, on March 31, 2007 on top of 27.2 per cent a year ago. Within the overall bank credit, SCBs' non-food credit rose by 28.4 per cent, y-o-y, on

Chart I.7: Time Deposits and Small Savings



March 31, 2007 as compared with 31.8 per cent a year ago (Table 1.22 and Chart I.8). Reflecting the slowdown in credit growth and the acceleration in deposits, the incremental credit-deposit ratio moderated towards the second half of 2006-07 after remaining above/around 100 per cent for the most part since October 2004. As at end-March 2007, the incremental credit-deposit ratio was around 84 per cent (y-o-y) as compared with 110 per cent a year ago (Chart I.9). Growth in non-food credit, however, averaged 29.2 per cent during the three-year period 2004-05 to 2006-07 as compared with an average growth of 16.4 per cent during the period 2000-2004 and 15.4 per cent during the 1990s.

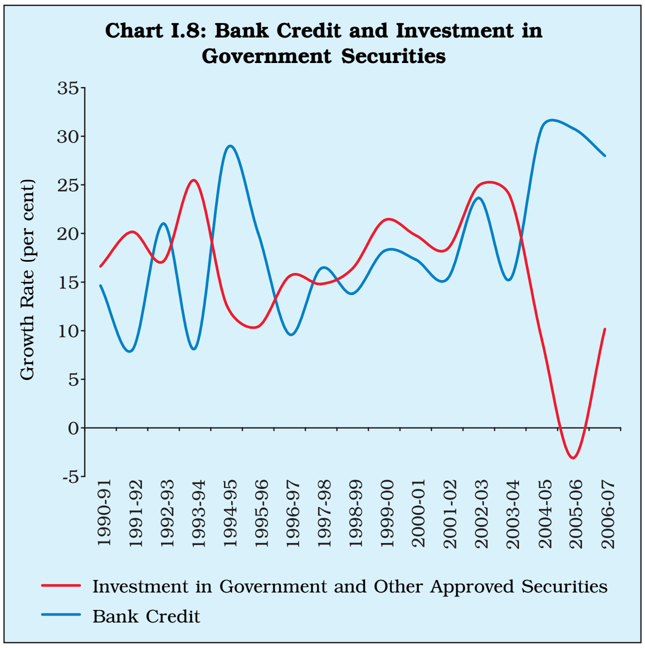
I.3.13 With credit growth continuing to outpace nominal GDP growth by a large margin, the credit-GDP ratio rose further during the year. The credit-GDP ratio increased from 30 per cent at end-March 2000 to 47 per cent at end-March 2006 to 51 per cent at end-March 2007. The credit-GDP ratio in India,

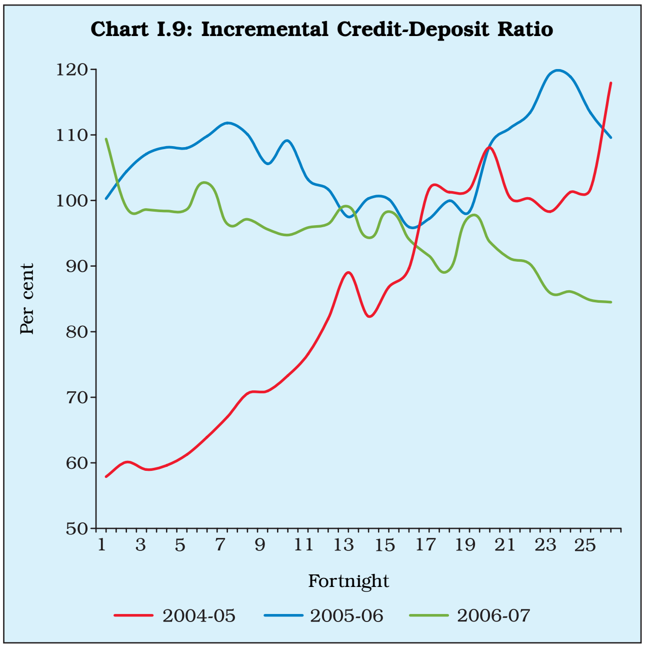
Table 1.22: Operations of Scheduled Commercial Banks

(Amount in Rupees crore)

Item	Outstanding as on March 30, 2007	Variation 2005-06	Variation 2006-07	2006-07 Q1	2006-07 Q2	2006-07 Q3	2006-07 Q4
1	2	3	4	5	6	7	8
C.I. Aggregate Deposits of Residents (C.I.1+C.I.2)	25,41,201	3,40,789	4,91,427	30,677	1,66,396	31,469	2,62,886
C.I.1 Demand Deposits	4,29,137	78,623	64,497	-41,272	43,300	-8,905	71,374
C.I.2 Time Deposits of Residents (C.I.2.1+C.I.2.2)	21,12,063	2,62,167	4,26,930	71,949	1,23,096	40,374	1,91,511
C.I.2.1 Short-term Time Deposits	9,50,429	1,17,975	1,92,119	32,377	55,393	18,168	86,180
C.I.2.1.1 Certificates of Deposits	97,354	28,972	52,855	15,100	6,187	2,521	29,047
C.I.2.2 Long-term Time Deposits	11,61,635	1,44,192	2,34,812	39,572	67,703	22,206	1,05,331
C.II Call/Term Funding from Financial Institutions	85,836	11,224	2,692	3,118	-1,576	-4,468	5,618
S.I. Domestic Credit (S.I.1+S.I.2)	28,62,491	3,22,807	4,98,250	45,844	1,52,188	65,379	2,34,839
S.I.1 Credit to the Government	7,74,980	-19,514	74,238	23,238	10,723	602	39,675
S.I.2 Credit to the Commercial Sector (S.I.2.1+S.I.2.2+S.I.2.3+S.I.2.4)	20,87,511	3,42,321	4,24,012	22,606	1,41,465	64,777	1,95,164
S.I.2.1 Bank Credit	19,28,913	3,54,868	4,21,836	14,050	1,40,364	74,213	1,93,208
S.I.2.1.1 Non-food Credit	18,82,392	3,54,193	4,16,006	13,443	1,48,204	66,042	1,88,317
S.I.2.2 Net Credit to Primary Dealers	2,799	2,586	-1,570	-1,963	3,988	-2,783	-812
S.I.2.3 Investments in Other Approved Securities	15,451	-3,295	-1,262	526	-1,132	-352	-304
S.I.2.4 Other Investments (in non-SLR Securities)	1,40,347	-11,838	5,007	9,993	-1,756	-6,301	3,071
S.II. Net Foreign Currency Assets of Commercial Banks (S.II.1-S.II.2-S.II.3)	-40,259	29,640	5,356	-21,137	10,844	13,322	2,327
S.II.1 Foreign Currency Assets	58,754	14,059	15,260	-13,919	8,830	11,781	8,567
S.II.2 Non-resident Foreign Currency Repatriable Fixed Deposits	67,108	-16,876	7,833	3,917	1,671	1,233	1,011
S.II.3 Overseas Foreign Currency Borrowings	31,905	1,295	2,071	3,301	-3,685	-2,774	5,229
S.III. Net Bank Reserves (S.III.1+S.III.2-S.III.3)	1,90,086	35,581	51,467	-6,090	20,381	-15,423	52,599
S.III.1 Balances with the RBI	1,80,222	34,077	53,161	-6,738	20,025	-12,386	52,261
S.III.2 Cash in Hand	16,108	2,897	3,063	-837	1,784	-946	3,062
S.III.3 Loans and Advances from the RBI	6,245	1,393	4,757	-1,486	1,428	2,092	2,723
S.IV. Capital Account	2,02,618	40,320	24,891	12,025	6,168	2,250	4,447
S.V. Other items (net) (S.I+S.II+S.III-S.IV-C.I-C.II)	1,82,663	-4,304	36,063	-27,203	12,425	34,027	16,814

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





however, still remains lower than major advanced economies as well as most East Asian economies (Table 1.23).

I.3.14 Disaggregated data show that credit growth during 2006-07 was broad-based (Table 1.24 and Appendix Tables 20 and 21). While 36 per cent of the

Table 1.23: Domestic Credit provided by the Banking Sector

(Per cent to GDP)

Country	1990	1995	2000	2001	2002	2003	2004	2005
1	2	3	4	5	6	7	8	9
Brazil	92	50	78	79	82	81	80	83
Canada	104	115	115	207	201	195	197	206
Chile	84	77	100	87	89	88	87	86
China	90	88	120	123	143	152	140	136
Czech Republic	..	71	49	46	42	49	45	44
France	102	101	103	106	103	105	106	110
Germany	102	124	145	144	142	141	137	136
Indonesia	47	52	61	53	51	49	50	47
Japan	263	288	310	296	297	305	306	319
Malaysia	73	173	186	199	196	192	157	144
Mexico	37	50	34	33	36	36	35	35
New Zealand	80	92	112	110	113	117	121	133
Philippines	27	64	67	63	61	60	58	51
Poland	19	29	33	35	35	36	33	33
Russian Federation	..	25	25	26	27	28	26	21
Singapore	75	76	89	102	83	87	80	71
South Africa	98	140	152	184	160	165	173	185
Sri Lanka	38	41	44	44	44	42	45	44
Thailand	94	141	138	129	128	123	116	111
Turkey	20	28	55	74	58	54	55	57
United Kingdom	121	122	133	139	145	149	158	168
United States	151	173	201	208	200	214	220	224

.. : Not Available.

Source : World Development Indicators Online Database, World Bank.

Table 1.24: Deployment of Non-food Bank Credit

(Amount in Rupees crore)

Sector/Industry	Outstanding as on March 30, 2007	Year-on-Year Variations: March 31, 2006 over March 18, 2005		Year-on-Year Variations: March 30, 2007 over March 31, 2006	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
Non-food Gross Bank Credit (1 to 4)	**17,95,357**	**3,98,396**	**39.6**	**3,92,128**	**27.9**
1. Agriculture and Allied Activities	**2,30,180**	**49,606**	**39.9**	**56,305**	**32.4**
2. Industry (Small, Medium and Large)	**6,91,483**	**1,26,804**	**30.0**	**1,41,543**	**25.7**
Small Scale Industries	1,16,908	16,831	22.7	25,888	28.4
3. Personal Loans	**4,55,503**	**1,03,733**	**40.5**	**95,422**	**26.5**
Housing	2,30,689	51,273	38.3	45,508	24.6
Advances against Fixed Deposits	40,455	4,509	15.1	6,172	18.0
Credit Cards	13,316	2,654	41.3	4,230	46.6
Education	15,020	4,282	75.4	5,058	50.8
Consumer Durables	9,151	-1,875	-20.9	2,050	28.9
4. Services	**4,18,191**	**1,18,254**	**58.8**	**98,857**	**31.0**
Transport Operators	26,416	8,945	106.5	9,075	52.3
Professional and other Services	23,782	5,627	58.3	8,499	55.6
Trade	1,08,041	25,233	43.4	24,613	29.5
Real Estate Loans	45,328	13,147	97.1	18,635	69.8
Non-Banking Financial Companies	48,496	11,463	50.3	14,226	41.5

Note : 1. Data are provisional and relate to select scheduled commercial banks.
2. Owing to change in classification of sectors/industries and coverage of banks, data for 2006 onwards are not comparable with the earlier periods.
3. Figures for 2005-06 relating to 27 fortnights are not comparable with those of 2006-07 relating to 26 fortnights.

incremental non-food credit was absorbed by industry and another 14 per cent by agriculture, personal loans absorbed 24 per cent of the incremental non-food credit during the year. The share of housing loans in personal loans on an incremental basis (y-o-y) declined to 47.7 per cent at end-March 2007 from 49.4 per cent a year earlier. Loans to commercial real estate continued to record high growth, though with some moderation. The Reserve Bank further tightened the provisioning requirement and risk weights in respect of those categories, which witnessed relatively higher credit growth (see Chapter V).

I.3.15 Based on the trends emerging from the Basic Statistical Returns data, the share of personal loans in total bank credit extended by SCBs increased from 6.4 per cent at end-March 1990 to 23.3 per cent at end-March 2006, driven by housing as well as non-housing loans. While the share of housing credit in overall credit rose from 2.4 per cent to 12.0 per cent, that of non-housing retail credit rose from 4.0 per cent to 11.3 per cent. The share of agriculture in total credit, which had declined from 15.9 per cent at end-March 1990 to 9.6 per cent at end-March 2001, recovered to 11.4 per cent by end-March 2006. The share of industry in total credit declined from 48.7 per cent in March 1990 to 37.4 per cent by March 2006 after touching 49.1 per cent in March 1999. The share of agricultural credit to agricultural GDP was around 29 per cent at end-March 2006 as compared with around 23 per cent at end-March 2005 and around 13 per cent at end-March 1990. The share of industrial credit to industrial GDP was around 84 per cent at end-March 2006 as compared with around 75 per cent at end-March 2005 and around 53 per cent at end-March 1990.

I.3.16 In recent years, the corporate sector has increasingly relied on non-bank sources to fund their financing requirements. This trend continued during 2006-07 with the corporate sector raising large resources from the capital markets and by way of external commercial borrowings (ECBs), besides relying increasingly on internal funds. Resources raised through domestic equity issuances more than doubled during 2006-07. Mobilisation through issuances of commercial paper staged a turnaround. Resources raised through markets abroad – equity issuances (ADRs/GDRs) and ECBs – also increased

Table 1.25: Select Sources of Funds to Industry

(Rupees crore)

Item	2005-06	2006-07
1	2	3
A. Bank Credit to Industry #	1,26,804	1,41,543
B. Flow from Non-banks to Corporates		
1. Capital Issues (i+ii)	13,781	29,180
i) Non-Government Public Ltd. Companies (a+b)	13,408	29,180
a) Bonds/Debentures	245	585
b) Shares	13,163	28,595
ii) PSUs and Government Companies	373	0
2. ADR/GDR Issues	7,257	16,184
3. External Commercial Borrowings (ECBs)	45,078	88,472
4. Issue of CPs	-1,517	4,970
C. Depreciation Provision +	32,156	37,095
D. Profit after Tax +	76,516	1,11,107

: Data pertain to select scheduled commercial banks. Figures for 2005-06 relating to 27 fortnights are not comparable with those of 2006-07 relating to 26 fortnights.

+ : Data are based on audited/ unaudited abridged results of select 2,388 non-financial non-Government companies.

Note : 1. Data are provisional.

2. Data on capital issues pertain to 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.

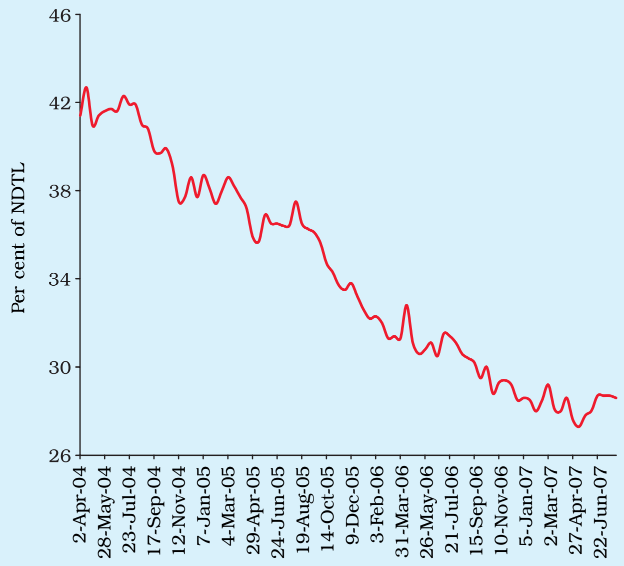
3. Data on ADR/GDR issues exclude issuances by banks and financial institutions.

4. Data on external commercial borrowings include short-term credit. Data for 2005-06 are exclusive of the IMD redemption.

sharply during 2006-07. Finally, internal sources of funds continued to provide large financing support to the domestic corporate sector during 2006-07. Profits after tax of select non-financial non-government companies during 2006-07 were around 45 per cent higher than those during 2005-06 (Table 1.25).

I.3.17 Commercial banks' investments in gilts increased by 10.6 per cent, y-o-y, at end-March 2007 as against a decline of 2.7 per cent a year ago. Growth in SCBs' investments in gilts was, however, substantially below the growth of 23.5 per cent in their net demand and time liabilities (NDTL). As a result, commercial banks' holdings of SLR securities, as a proportion to their NDTL, declined to 28.0 per cent at end-March 2007 from 31.3 per cent at end-March 2006 and 42.7 per cent in April 2004 (Chart I.10). Excess SLR investments of SCBs fell to

Chart I.10: SLR Investments of Scheduled Commercial Banks



Rs.84,223 crore at end-March 2007 from Rs.1,45,297 crore at end-March 2006.

I.3.18 Commercial banks' non-SLR investments (*i.e.*, investments in commercial paper, shares, and bonds) recovered during 2006-07, after witnessing a decline in the preceding year. Their non-SLR investments were 7.2 per cent of their credit at end-March 2007. Non-food credit extended by scheduled commercial banks, including their non-SLR investments, increased by 27.2 per cent during 2006-07 as compared with 28.3 per cent during 2005-06 (Table 1.26).

Table 1.26: Scheduled Commercial Banks' Non-SLR Investments

(Rupees crore)

Item	Mar, 2005	Mar, 2006	Mar, 2007
1	2	3	4
Commercial Paper	3,891	4,821	8,977
Units of Mutual Funds	12,623	10,345	11,659
Shares issued by	13,427	15,044	20,171
Public Sector Undertakings	1,613	2,274	2,126
Private Corporate Sector	10,288	10,501	16,218
Public Financial Institutions	1,525	2,270	1,826
Bonds/debentures issued by	1,13,695	1,03,170	98,057
Public Sector Undertakings	45,937	32,345	28,472
Private Corporate Sector	31,934	29,523	27,600
Public Financial Institutions	29,190	26,402	24,362
Others	6,633	14,899	17,623
Total	**1,43,636**	**1,33,380**	**1,38,865**

Note : Data are provisional and exclude regional rural banks.

Table 1.27: Deposit and Credit – Bank Group-wise and Population Group-wise

(Per cent)

	Growth in Deposits		Share in Total Deposits (March 2007)	Growth in Credit		Share in Total Credit (March 2007)
	March 2006	March 2007		March 2006	March 2007	
1	2	3	4	5	6	7
All India	**19.4**	**24.2**	**100.0**	**30.6**	**28.5**	**100.0**
Population Group-wise						
Rural	12.8	13.9	9.9	25.5	21.5	7.9
Semi-Urban	15.2	18.1	13.7	27.5	25.6	9.7
Urban	18.7	23.1	20.4	31.7	27.4	16.2
Metropolitan	22.3	28.2	55.9	31.6	30.1	66.1
Bank Group-wise						
State Bank and Associates	15.5	17.9	22.3	31.1	28.9	23.2
Nationalised Banks	16.2	24.1	48.4	30.6	28.3	47.5
Foreign Banks	44.9	30.5	5.6	28.2	29.2	6.6
Regional Rural Banks	15.0	16.2	3.2	21.2	22.1	2.5
Private Sector Banks	28.1	31.5	20.6	32.3	29.0	20.3

Note : Data in this Table are as on March 31 and may differ from those in other Tables which are based on last reporting Friday of March.
Source : Basic Statistical Return (BSR)-7.

I.3.19 Commercial banks' recourse to foreign borrowings during 2006-07 was marginally higher than a year ago. Accretion to banks' capital and reserves was lower than a year ago (see Table 1.22).

Population Group and Bank Group Trends

I.3.20 Acceleration in deposit growth was witnessed across all population groups during 2006-07; the growth rate in metropolitan areas, however, remained the highest while that in rural areas was the lowest. Bank group-wise, except foreign banks, deposit growth accelerated across all other bank groups. Deposits with private sector banks recorded the highest growth, while those with regional rural banks registered the lowest increase amongst the bank groups. As regards credit growth, the deceleration observed at all-India level was seen in the case of all population groups. Bank-group wise, growth decelerated in the case of the State Bank group, nationalised banks and private sector banks. In contrast, foreign banks and regional rural banks, each recorded an increase of about 1 percentage point. Growth was the highest in the case of foreign banks, followed closely by the private sector banks, the State Bank group and the nationalised banks (Table 1.27).

Developments during 2007-08

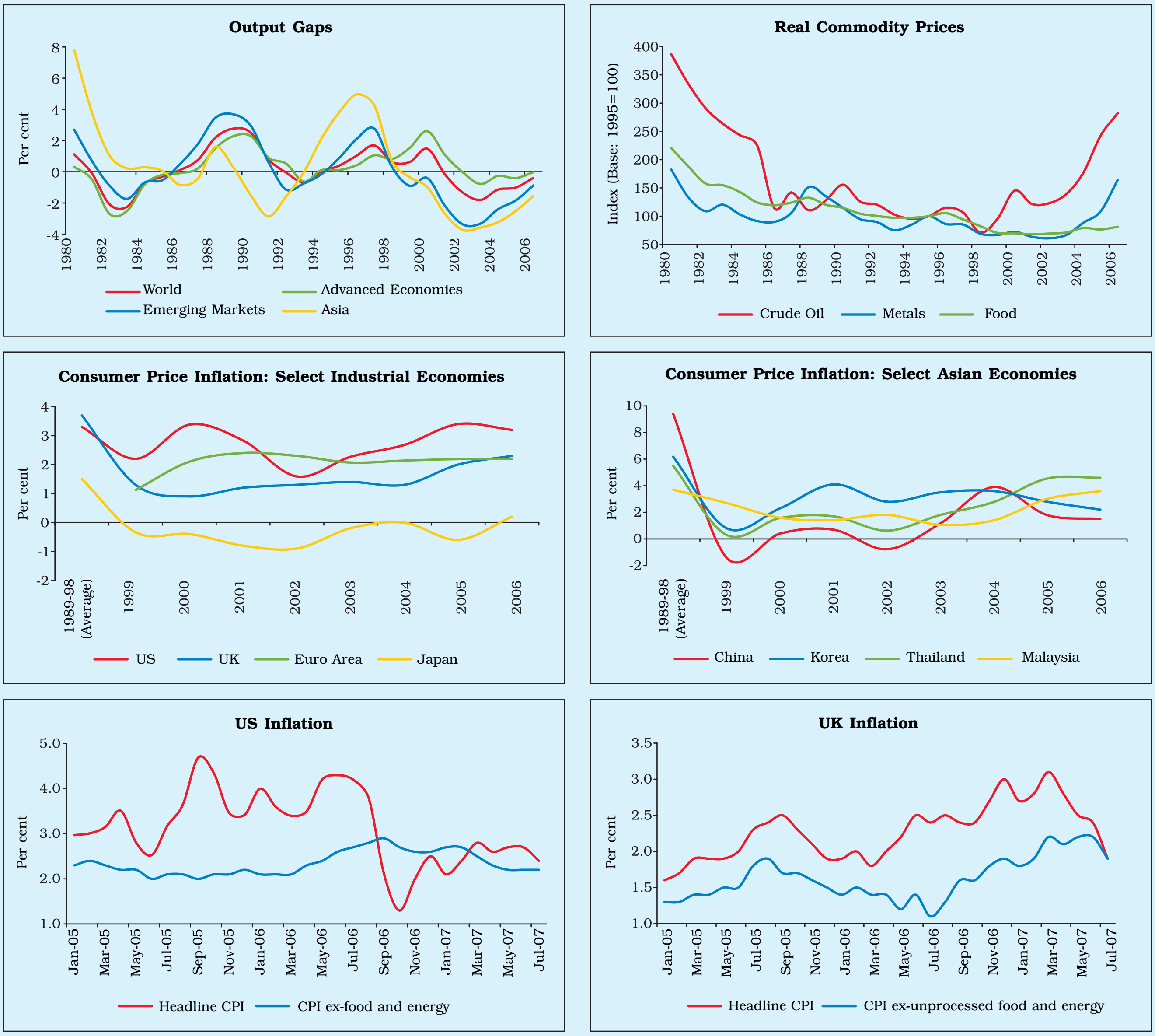
I.3.21 On a y-o-y basis, growth in broad money (M_3) was 21.7 per cent as on August 3, 2007 as compared with 21.3 per cent at end-March 2007 and 19.3 per cent a year ago. Amongst the major components, growth in aggregate deposits accelerated to 22.9 per cent from 19.7 per cent a year ago. On the sources side, scheduled commercial banks' non-food credit registered a growth of 23.6 per cent as on August 3, 2007 as compared with 32.5 per cent a year back, while their investments in Government securities expanded by 12.1 per cent (0.5 per cent a year ago).

PRICE SITUATION

Global Inflation

I.3.22 Global headline inflation remained firm during 2006-07 reflecting the combined impact of higher international crude oil prices in an environment of strong demand and closing of output gaps (Chart I.11). Although inflation moderated somewhat with the easing of crude oil prices from August 2006, inflationary pressures continued from other commodity prices and increased capacity utilisation rates. As a result, headline inflation remained above the inflation targets/ comfort zones in major economies. In OECD countries, headline inflation rose from 2.5 per cent in March 2006 to an intra-year peak of 3.1 per cent in June 2006 before moderating to 2.4 per cent in March 2007; core inflation (*i.e.*, excluding food and energy) rose from 1.6 per cent in March 2006 to 2.1 per cent in March 2007. The consumer price inflation in advanced economies was 2.3 per cent in the calendar year 2006, the same as a year ago, but higher than

Chart I.11: Global Inflation



Source : World Economic Outlook, April 2007, IMF; US Bureau of Labour Statistics; and National Statistics, UK.

that of 1.9 per cent during the preceding 5-year period (2000-04). Inflation in Developing Asia rose from 2.6 per cent during 2000-04 and 3.6 per cent in 2005 to 4.0 per cent in 2006. Although inflation has firmed up in many economies in the past couple of years, it still remains relatively contained despite sustained increase in commodity prices and buoyant demand (Box I.8).

I.3.23 Against the backdrop of inflationary pressures, many central banks, therefore, tightened monetary policies during 2006-07 in order to contain inflation and inflationary expectations. Amongst the major advanced economies, the US Federal Reserve Board (US Fed), the ECB, the Bank of England, the Sveriges Riksbank (Sweden), the Reserve Bank of New Zealand, the Reserve Bank of Australia, and the Bank of Japan tightened their policies during the year. In the US, core inflation remains at elevated level; however, in view of moderation in growth on the back of a cooling of the housing market, the US Fed has paused at each of the meetings held since end-June 2006. The Fed had earlier raised its target federal funds rate by 425 basis points since the tightening

Box I.8
Globalisation and Inflation

There has been a sustained and large increase in commodity prices since early 2004. Concomitantly, inflation has firmed up in many economies even as it remains relatively contained compared to the earlier episodes of sharp increases in commodity prices. A number of factors such as deregulation, increased competition, improvements in the conduct of monetary policies and globalisation have been offered as the major explanations for the relatively benign outturn. The recent period has, however, triggered some debate on the role of globalisation in containing domestic inflation.

In one view, the large level of imports at relatively cheaper prices from emerging economies like China and India has helped in lowering domestic inflation in advanced economies. Furthermore, globalisation reduces unwarranted price mark-ups. Competition among countries to attract and retain mobile production factors forces the governments to reduce inefficiencies, ensure fiscal discipline and macroeconomic stability. The focus on macroeconomic stability is one of the factors that has led to greater central bank independence and, in turn, lower inflation. Greater competition in the economy makes prices more flexible which reduces the impact of unanticipated inflation on output. This lowers the incentive for the monetary authority to systematically raise output above the potential. At the same time, while some resources are becoming less scarce on a global scale (notably skilled labour), other resources have become scarcer relative to world demand (for instance, basic raw materials, most notably oil and other sources of energy). Thus, the manufacturing-price and the wage-containing effects on inflation of globalisation seem to have been partly counterbalanced by inflationary pressures arising from the substantial increases in commodity prices. According to the IMF estimates, globalisation, through its direct effects on non-oil import prices, has reduced inflation by a quarter of a percentage point per year on average in the advanced economies. Recent studies also suggest that domestic inflation is being increasingly influenced by global output gap (*i.e.*, global demand-supply mismatches) rather domestic output gap (*i.e.*, domestic demand-supply mismatches). This underlines the need for a more intensive monitoring of external developments and prompt policy responses to the developing trends; otherwise, the central bank runs the risk of falling behind the curve.

The alternative view stresses that the globalisation process affects only the relative prices of goods and services and not the overall inflation rate. By permitting cheaper imports, it is true that imported inflation might be lower than before. However, if the long-run inflation objective of the central bank is unchanged, then the ultimate effect of the lower import prices on domestic inflation will be nil as higher prices of other items will offset the effect of lower import prices. Moreover, according to Kohn (2006), much of the decline in import prices in the US since the mid-1990s has been probably driven by movements in exchange rates and the effects of technological change on goods prices rather than by the growing integration of world markets. Thus, in this view, globalisation has no impact on the overall domestic inflation. In the long-run, domestic inflation is ultimately determined solely by monetary policy. However, in the short-run, central banks cannot offset completely the effects of shocks to supply or prices through monetary actions. Thus, in the short-run, forces of globalisation can influence inflation dynamics but in the long-run, inflation is ultimately determined by monetary policy.

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began in June 2004 (Table 1.28). According to the Federal Open Market Committee (FOMC), the risk that inflation will fail to moderate as expected remains the predominant policy concern and future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information. The FOMC in its statement released on August 17, 2007 observed that the downside risks to growth have increased appreciably due to uncertainty in view of deterioration in financial market conditions, and tighter credit conditions. On the same day, the US Fed announced a 50 basis point

Table 1.28: Global Inflation Indicators

(Per cent)

Country/ Region	Key Policy Rate	Policy Rate (As on August 17, 2007)	Changes in Policy Rates (basis points)			CPI Inflation (y-o-y)			Real GDP Growth (y-o-y)		
			2005-06 (April-March)	2006-07 (April-March)	Since end-March 2007	2006	July 2006	July 2007	2006	2006 (Q1)	2007 (Q1)
1	2	3	4	5	6	7	8	9	10	11	12
Developed Economies											
Australia	Cash Rate	6.50 (Aug. 8, 2007)	0	75	25	3.5	4.0	2.1 #	2.7	3.1	3.8
Canada	Overnight Rate	4.50 (Jul. 10 , 2007)	125	50	25	2.0	2.4	2.2 *	2.8	3.2	2.0
Euro area	Interest Rate on Main Refinancing Operations	4.00 (Jun. 6, 2007)	50	125	25	2.2	2.4	1.8	2.8	2.7	2.5 #
Japan	Uncollateralised Overnight Call Rate	0.50 (Feb. 21, 2007)	0**	50	0	0.2	-0.2	0.5 *	2.2	2.5	2.3 #
UK	Official Bank Rate	5.75 (Jul. 5, 2007)	(-)25	75	50	2.3	2.4	1.9	2.8	2.6	3.0 #
US	Federal Funds Rate	5.25 (Jun. 29, 2006)	200	50	0	3.2	4.1	2.4	3.3	3.2	1.8 #
Developing Economies											
Brazil	Selic Rate	11.50 (Jul. 18, 2007)	(-)275	(-)375	(-) 125	4.2	4.0	3.7	3.7	3.9	4.3
India	Reverse Repo Rate	6.00 (Jul. 25, 2006)	75	50	0	6.1	7.7	5.7 *	9.4	10.0	9.1
	Repo Rate	7.75 (Mar. 30, 2007)	50 (0)	125 (100)	0 (50)						
China	Benchmark 1-year Lending Rate	6.84 (Jul. 21, 2007)		81 (250)	45 (150)	1.5	1.0	5.6	11.1	10.9	11.9 #
Indonesia	BI Rate	8.25 (Jul. 5, 2007)	425@	(-)375	(-)75	13.1	15.2	6.1	5.5	5.2	6.3 #
Israel	Key Rate	3.75 (Jul. 23, 2007)	125	(-)75	(-) 25	2.1	2.4	0.3	5.1	5.2	5.4
Korea	Overnight Call Rate	5.00 (Aug. 9, 2007)	75	50 (80)	50	2.2	2.4	2.5	5.0	5.1	4.9 #
Russia	Refinancing Rate	10.00 (Jun. 19, 2007)	(-)100	(-)150 (150)	(-)50 (100)	9.7	9.6	8.8	6.7	5.5	7.9
South Africa	Repo Rate	10.00 (Aug. 17, 2007)	(-)50	200	100	4.7	4.9	7.0 *	5.0	4.0	5.4
Thailand	14-day Repurchase Rate	5.00 (Jun. 7, 2006)	225	50							
	1-day Repurchase Rate	3.25 (Jul. 18, 2007)		(-)44 ^	(-)125	4.6	4.4	1.7	5.0	6.1	4.3

@ : Bank Indonesia adopted BI rate as the reference rate with the formal adoption of inflation targeting in July 2005.
** : The Bank of Japan decided on March 9, 2006 to change the operating target of money market operations from the outstanding balance of current accounts at the Bank to the uncollateralised overnight call rate.
^ : Change over January 16, 2007. Effective January 17, 2007, the 1-day repurchase rate replaced the 14-day repurchase rate as the policy rate.
# : Q2 of 2007. * : July 2007.

Note : 1. For India, data on inflation pertain to CPI for Industrial Workers. Data on GDP growth for 2006 pertain to fiscal year 2006-07.
2. Figures in parentheses in column (3) indicate the date when the policy rates were last revised.
3. Figures in parentheses in columns (5) and (6) indicate the variation in cash reserve ratios during the period.

Source : International Monetary Fund, websites of respective central banks and The Economist.

reduction in the primary credit rate to 5.75 per cent to promote the restoration of orderly conditions in financial markets; the target federal funds rate was, however, kept unchanged at 5.25 per cent. In the euro area, notwithstanding some easing in inflation since August 2006, risks to the price outlook are seen on the upside over the medium-term. The European Central Bank (ECB) has, therefore, raised the key policy rate by 200 basis points since the tightening began in December 2005. The ECB is of the view that monetary policy still continues to be on the accommodative side. The Bank of England has raised its policy rate by 125 basis points – 25 basis points each in August 2006, November 2006, January 2007, May 2007 and July 2007 – in view of strong economic activity, limited spare capacity, rapid growth of broad money and credit and risks to the outlook for inflation in the medium-term tilted to the upside. The Bank of Japan (BoJ), after maintaining zero interest rates for an extended period, raised the uncollateralised overnight call rate (the operating target of monetary policy since March 2006) by 25 basis points each on two occasions – July 2006 and February 2007 – during the year to 0.50 per cent. It has kept its policy rate unchanged since then.

I.3.24 As regards Developing Asia, consumer price inflation in China increased to 5.6 per cent in July 2007 from 3.3 per cent in March 2007 and 1.0 per cent a year ago. In view of strong growth in money supply and credit, the People's Bank of China (PBC) has increased the benchmark 1-year lending rate by 126 basis points since April 2006 in five steps to 6.84 per cent on July 21, 2007 and the cash reserve ratio by 450 basis points since July 2006 in nine steps of 50 basis points to 12.00 per cent. The monetary measures were supported by a series of industrial structure adjustments and trade policies.

I.3.25 Inflation remained relatively modest in several other Asian economies reflecting pre-emptive monetary tightening as well as appreciation of exchange rates. The Bank of Korea raised its policy rate by 25 basis points each on July 12, 2007 and August 9, 2007 to 5.0 per cent, after keeping it unchanged between August 2006 and June 2007; the rate has been increased by 175 basis points since the tightening began in October 2005. In view of sharp growth in monetary and credit aggregates, and financial institutions' liquidity led by inflows of foreign funds, the Bank of Korea increased the cash reserve ratio on demand deposits and money market deposit accounts from 5.0 per cent to 7.0 per cent, effective December 23, 2006. Beginning January 17, 2007, the Bank of Thailand has lowered the 1-day repurchase rate (which replaced the 14-day repurchase rate as the policy rate) by 169 basis points to 3.25 per cent by July 18, 2007 to support growth without exerting pressure on inflation. The Bank of Thailand had earlier raised the policy rate by 275 basis points between June 2005 and June 2006. In Indonesia, inflation, which had reached 18.4 per cent in November 2005, eased to 6.5 per cent in March 2007 and further to 6.1 per cent in July 2007 reflecting monetary policy actions as well as the easing of oil prices and the base effect. The Bank Indonesia has, therefore, cut its policy rate by 450 basis points since May 2006 (to 8.25 per cent in July 2007) to support growth, more than offsetting the increase of 425 basis points during July-December 2005 to contain inflation.

I.3.26 Amongst other emerging economies, the South African Reserve Bank raised the policy rate by 300 basis points since the tightening began in June 2006 to 10.0 per cent (effective August 17, 2007) to contain inflation pressures. Turkey has kept rates unchanged since August 2006 due to slowdown in domestic demand and moderation in inflation expectations (it had earlier increased its policy rate by 425 basis points during June-July 2006). On the other hand, in view of weak economic activity, Brazil has reduced policy rates by 825 basis points since September 2005 to 11.50 per cent on July 18, 2007. The Bank of Israel cut its policy rate by 200 basis points during October 2006-June 2007, reversing the increase of 200 basis points during October 2005-August 2006; it, however, increased the policy rate by 25 basis points on July 23, 2007 to 3.75 per cent. The Bank of Russia has raised the required reserve ratio on credit institutions' liabilities to non-resident banks in rubles and foreign currency from 2.0 per cent to 3.5 per cent effective October 1, 2006 and by another 100 basis points to 4.5 per cent effective July 1, 2007. It has, however, reduced the refinancing rate by 200 basis points from June 2006 to 10.0 per cent by June 2007.

I.3.27 In August 2007, real policy rates[10] were higher compared to March 2007 in a number of advanced economies but were lower in several developing economies (Table 1.29). In most countries, real rates ranged between 2 and 4 per cent in August 2007. In India, real policy rates increased in August 2007 as compared with March 2007. Of the select emerging economies, real policy rates were the highest in Brazil and the lowest in Russia.

I.3.28 In view of higher oil and food prices, core inflation remained generally below headline inflation during 2006-07 (Table 1.30). Although many central banks use core inflation for assessing inflation conditions, headline inflation remains the preferred

[10] Nominal policy rates less consumer price inflation.

Table 1.29: Nominal and Real Policy Rates – Select Countries

(Per cent)

Country	Nominal Policy Rate			Real Policy Rate		
	March 2006	March 2007	August 2007#	March 2006	March 2007	August 2007#
1	2	3	4	5	6	7
Developed Economies						
US	4.75	5.25	5.25	1.35	2.45	2.85
UK	4.50	5.25	5.75	2.70	2.15	3.85
Euro area	2.50	3.75	4.00	0.30	1.85	2.20
Developing Economies						
Brazil	16.50	12.75	11.50	11.20	9.75	7.80
China	5.58	6.39	6.84	4.78	3.09	1.24
India	6.50	7.75	7.75	1.60	1.05	2.05
				(2.40)	(1.85)	(3.70)
Indonesia	12.75	9.00	8.25	-3.05	2.50	2.15
Israel	4.75	4.00	3.75	1.15	4.90	3.45
Korea	4.00	4.50	5.00	2.10	2.30	2.50
Russia	12.00	10.50	10.00	1.40	3.10	1.20
South Africa	7.00	9.00	10.00	3.60	2.90	3.00
Thailand	4.50	4.50	3.25	-1.20	2.50	1.55

: As on August 17, 2007. Real policy rates for August 2007 are based on latest available inflation rates.

Note : 1. Real policy rate is the policy rate less year-on-year consumer price inflation. For India, repo rate is taken as the policy rate, while inflation refers to that for CPI-Industrial Workers.

2. Figures in parentheses for India are based on wholesale price inflation.

Source : International Monetary Fund, The Economist and official websites of respective central banks.

policy target in view of its simplicity and transparency. In the context of the recent firming up of headline inflation across the globe, primarily on account of higher oil and other commodity prices, the use of core measures has become debatable. A core measure is useful if a shock is temporary. In the current scenario, a large part of increase in the oil price is widely believed to have a large permanent component. Even the recent rise in food prices is viewed as having a permanent component. Headline inflation is more sensitive to prices of items such as food. Accordingly, persisting supply shocks to prices of these commodities can impart a lasting impact on inflation expectations. Therefore, the use of core inflation, excluding oil and food prices, could be somewhat misleading. In emerging economies, core inflation is, therefore, not considered relevant for several reasons, especially because the two major sources of supply shock, food and fuel, account for a large share of the price index. Moreover, the pass-through of higher oil prices has been halting and not full and headline inflation in a way understates the problem. Monetary policy has to focus on the permanent component of supply shocks to the inflation process. The use of core inflation, therefore, may not be a proper guide of inflationary expectations and future inflation.

Table 1.30: Headline and Core Inflation (year-on-year)

(Per cent)

Country	March 2005		March 2006		March 2007		June 2007	
	Core	Headline	Core	Headline	Core	Headline	Core	Headline
1	2	3	4	5	6	7	8	9
US	2.3	3.2	2.1	3.4	2.5	2.8	2.2	2.7
UK	1.4	1.9	1.4	1.8	2.2	3.1	2.2	2.4
EU	1.6	2.1	1.4	2.2	1.9	1.9	1.9	1.9
Japan	-0.3	0.0	0.1	-0.2	-0.3	-0.1	-0.1	-0.2

I.3.29 It is increasingly accepted that inflation expectations play a key role in driving inflation. In this context, transparency in the conduct of monetary policy contributes towards anchoring of inflation expectations. Improvements in the institutional arrangements, clarity in the specification of the inflation target and effectiveness in the central bank's policy communications are amongst the major steps to improve transparency in the conduct of monetary policy (Box I.9). Accordingly, some of the practices followed in the inflation targeting (IT) countries for improving transparency can be of relevance to even non-IT countries.

Global Commodity Prices

I.3.30 International non-fuel commodity prices firmed up during 2006-07 led by metals and food prices. Metal prices recorded gains on the back of robust demand in emerging economies, especially China and increased investors' interest. Amongst food items, prices of wheat and edible oils rose reflecting a shortfall in global production. Crude oil prices exhibited large volatility, initially rising sharply to reach a record high in July 2006 followed by a sharp correction in the subsequent months. Overall, non-fuel commodity prices (as measured by the World Bank's index of non-energy commodities) were 19 per cent higher in March 2007 (year-on-year).

I.3.31 International crude oil prices (WTI) in March 2007 were broadly unchanged from a year ago level. Prices initially firmed up to a record high in July 2006 - US $ 78.4 a barrel on July 14, 2006 - on concerns over geopolitical tensions (Iran's nuclear programme and unrest in Nigeria) amidst limited spare capacity and speculative investors' interest. Subsequently, prices eased to around US $ 51 a barrel by mid-January 2007 on the back of

Box I.9
Inflation Targeting Framework: Institutional Arrangements

A cross-country survey of the institutional arrangements on the conduct of monetary policy in the inflation targeting central banks reveals the following features:

(i) It is important for the public at large to perceive that the central bank is insulated from political pressures to pursue inflation containment policy. A high degree of central bank autonomy in policy formulation (from political and fiscal policy pressures) coupled with effective accountability for the conduct of monetary policy is essential for the credibility of inflation targeting (IT). If fiscal policy is on an unsustainable path, or based on assumptions or objectives inconsistent with the inflation objectives, then the credibility or feasibility of inflation targeting may be compromised. A high degree of central bank autonomy in the setting of its policy instruments requires strict limits, or a total prohibition, on central bank financing of the government.

(ii) Goal autonomy is less important than goal prioritisation. Specifics of inflation targets are, in a majority of cases, set jointly by the government and the central bank. An important consideration in involving the government in deciding on the target is to ensure that the fiscal authorities take the inflation target seriously in their planning and decisions.

(iii) Regular reviews of inflation target specifications should be considered**.** In practice, reviews have tended to follow changes in governments.

(iv) A weak central bank financial position might be inconsistent with achieving or maintaining price stability. Consequently, strengthening the capitalisation of the central bank might be appropriate, together with measures to ensure the central bank's profitability on an ongoing basis.

(v) Central bank's management structure should be designed to minimise potential conflicts among different functions of management. This could involve establishing a formal, two-tier management structure involving a supervisory board (charged with responsibility for monitoring and evaluating the central bank's performance in relation to its assigned objectives), and a separate monetary policy committee (MPC) responsible for the formulation and implementation of monetary policy.

(vi) As regards MPCs, cross-country experience indicates a preference for a small size committee (generally between 5 and 10 persons) with members drawn from professional field relevant to monetary policy decision making but with majority representations from the central bank. Government officials should be either excluded from MPC or have only a non-voting presence.

(vii) Regarding the frequency of policy decision making, the MPC in a majority of inflation targeting central banks meets once every month (15 out of 24 countries covered in the survey), while 7 meet every six weeks; the remaining 2 meet every two months.

(viii) Although many countries routinely calculate, report and use measures of core inflation in policy formulation and communications, an overwhelming majority of countries prefer 'headline' consumer price inflation as the policy target in view of its simplicity and transparency.

(ix) Public communication activities are a key component of the IT frameworks, with focus on explaining policy issues and decisions, and, in general, more openness about central bank operations. The most common approach for the IT central banks is to provide a statement of 1–2 pages, describing the policy decision simply and precisely. Once per quarter, the policy statement is usually supplemented by the publication of an inflation report like document, providing a comprehensive review of economic and financial developments and the implications for inflation pressures and monetary policy.

(x) Finally, the accountability of the central bank is also important in an IT framework. The main accountability mechanisms include publication of regular inflation or monetary policy reports, special reports or open letters in the event of significant misses of the target, publishing minutes of policy meetings within a reasonable timeframe, and monitoring by the executive or legislature. In many countries, the central bank's reporting to the public on its policy decisions and actions goes far beyond what is formally required under the law or an inflation targeting agreement, aimed at the public at large.

Reference

Heenan, G., M. Peter and S. Roger (2006), "Implementing Inflation Targeting: Institutional Arrangements, Target Design and Communications", IMF Working Paper No.278.

improvement in inventory levels, increased perceptions of a possible fall in global oil demand led by the slowdown of the US economy, easing of tension over Iran's nuclear programme and warm winter weather. Prices, however, rebounded in the last week of January 2007 on the back of renewed winter demand and production cuts by the Organisation of Petroleum Exporting Countries (OPEC). The OPEC reduced crude oil production by 1.2 million barrels per day (mb/d) effective

Box I.10
Petroleum Product Prices and Subsidies : Cross-country Experience

Following the sharp increase in international crude oil prices, many countries have raised domestic prices of various fuel products; however, the increase in domestic fuel prices has been less than the rise in crude oil prices. According to a recent IMF study, which examined the pass-through in a sample covering 51 developing and emerging market economies (EMEs), the pass-though was found to be complete in only half of the surveyed countries. The survey examined pass-through in respect of three major products, *viz.*, gasoline, diesel and kerosene over the period December 2003 to the second quarter of 2006.

In the case of gasoline, 26 countries (out of 44 countries surveyed), fully or more than fully passed on the increase in import prices, with the average pass-through ratio for the sample being 0.96. In some cases such as Turkey, the increase in domestic prices was higher than the increase in crude oil prices, reflecting the increase in excise taxes. In general, the pass-through was lower in net oil exporting countries (averaging 0.46) than in net oil importing countries (averaging 1.09); the smallest pass-through took place in Lebanon, Bangladesh, Argentina, Egypt and Azerbaijan, where retail fuel prices were either reduced or only slightly increased from 2003. Similarly, for diesel and kerosene, about half of the countries surveyed (39 countries in the case of diesel and 29 countries for kerosene) fully passed on the increase. The pass-through was found to be the lowest in the case of kerosene, averaging 0.83, largely reflecting the relative importance in the consumption basket of poor households. In two countries in the sample (India and Congo), kerosene prices were unchanged over the sample period.

Domestic fuel prices were found to have been liberalised in 15 countries. In some countries, while there are no direct price controls, fuel prices remained broadly unchanged over the study period, reflecting informal price agreements with private companies, backed by taxes on fuel exports to divert supply to the domestic market. In some cases, the pass-through has also been limited due to lowering of fuel taxes or cutting refinery margins. In the face of large increase in international prices, automatic adjustment mechanisms in domestic prices were suspended in seven countries. In contrast, Ghana moved from *ad hoc* price adjustments to an automatic mechanism and Turkey adopted a fully liberalised pricing regime.

The fiscal support can be both explicit and implicit. Explicit subsidies - the compensation provided to the national energy companies for difference between the wholesale domestic price and the world price of fuels - ranged from 0.1 per cent of GDP (Lebanon) to 8.5 per cent of GDP (Yemen) in 2006; such subsidies averaged 1.5 per cent of GDP for 16 countries. Implicit subsidies - costs borne by oil producing companies (when domestic prices are not raised) and revenues forgone from the tax exemptions provided to oil products - ranged from 0.3 per cent (the Dominican Republic) to 10.4 per cent of GDP (Azerbaijan), averaging 3.9 per cent of GDP in six countries. Some countries provide both explicit and implicit fuel subsidies. The combined subsidy was estimated to be 12.3 per cent of GDP in Azerbaijan and 7.9 per cent of GDP in Bolivia.

The benefits of subsidies, however, generally accrue more to the richer people in view of their significantly higher consumption. Illustratively, in Venezuela, the richest 20 per cent of the population is estimated to have received six times more in fuel subsidy per person than the poorest third of the population. Furthermore, subsidies can lead to continued inefficiency in the use of fuel. Thus, a phased increase in domestic prices to bring them at par with international prices, making subsidies explicit, and combining reductions in subsidies with measures to protect the poorest could be helpful.

Reference

Baig T., A. Mati, D. Coady, and J. Ntamatungiro (2007), "Domestic Petroleum Product Prices and Subsidies: Recent Developments and Reform Strategies", IMF Working Paper No.71.

November 1, 2006 and by a further 0.5 mb/d effective February 1, 2007 to balance supply and demand to support prices. Prices increased to around US $ 65 a barrel in April-May 2007 following tensions over Iran's detention of British naval personnel and unrest in Nigeria. Prices increased further to touch US $ 78 a barrel at end-July 2007 and eased somewhat thereafter. The increase in domestic prices of petroleum products in many developing and emerging market economies has been lower than the increase in international crude oil prices (Box I.10).

I.3.32 Metal prices rose further during 2006-07 on the back of robust demand and supply constraints amidst speculative investor interest. Although metals witnessed some correction during June-July 2006, metal prices (as measured by the World Bank's index of metals and minerals prices) were 35 per cent higher in March 2007 (year-on-year) led by lead, nickel and tin. International steel prices, on the other hand, declined during the year (Table 1.31).

I.3.33 Food prices firmed up led by wheat and edible oils on reports of shortfalls in production,

Table 1.31: International Commodity Prices

Commodity	Unit	2004	2005	2006	2007 March	Variation (Per cent) (March 2007 over March 2006)
1	2	3	4	5	6	7
Energy						
Coal	$/mt	53.0	47.6	49.1	55.4	11.4
Crude oil (Average)	$/bbl	37.7	53.4	64.3	60.6	-0.5
Non-Energy Commodities						
Palm oil	$/mt	471.3	422.1	478.4	622.0	41.4
Soybean oil	$/mt	616.0	544.9	598.6	718.0	33.2
Soybeans	$/mt	306.5	274.7	268.6	322.0	25.8
Rice	$/mt	237.7	286.3	304.9	318.7	5.0
Wheat	$/mt	156.9	152.4	192.0	199.1	14.2
Sugar	c/kg	15.8	21.8	32.6	23.0	-39.5
Cotton A Index	c/kg	136.6	121.7	126.7	128.7	-0.5
Aluminium	$/mt	1716.0	1898.0	2570.0	2762.0	13.7
Copper	$/mt	2866.0	3679.0	6722.0	6452.0	26.4
Gold	$/toz	409.2	444.8	604.3	654.9	17.6
Silver	c/toz	669.0	734.0	1157.0	1316.0	26.8
Steel cold-rolled coil/sheet	$/mt	607.1	733.3	693.8	650.0	-13.3
Steel hot-rolled coil/sheet	$/mt	502.5	633.3	600.0	550.0	-15.4
Tin	c/kg	851.3	738.0	878.0	1389.0	74.9
Zinc	c/kg	104.8	138.1	327.5	327.1	35.3
Memo:						
Non-fuel Commodities Index	1990=100	107.4	121.9	151.9	166.9	18.9
Food Index	1990=100	110.0	109.9	120.6	130.7	9.3
Metals and Minerals Index	1990=100	112.4	142.5	215.0	244.8	35.5

$: US dollar. c: US cent. bbl: barrel. mt: metric tonne. kg: Kilogram. toz: toy oz.
Source : The World Bank.

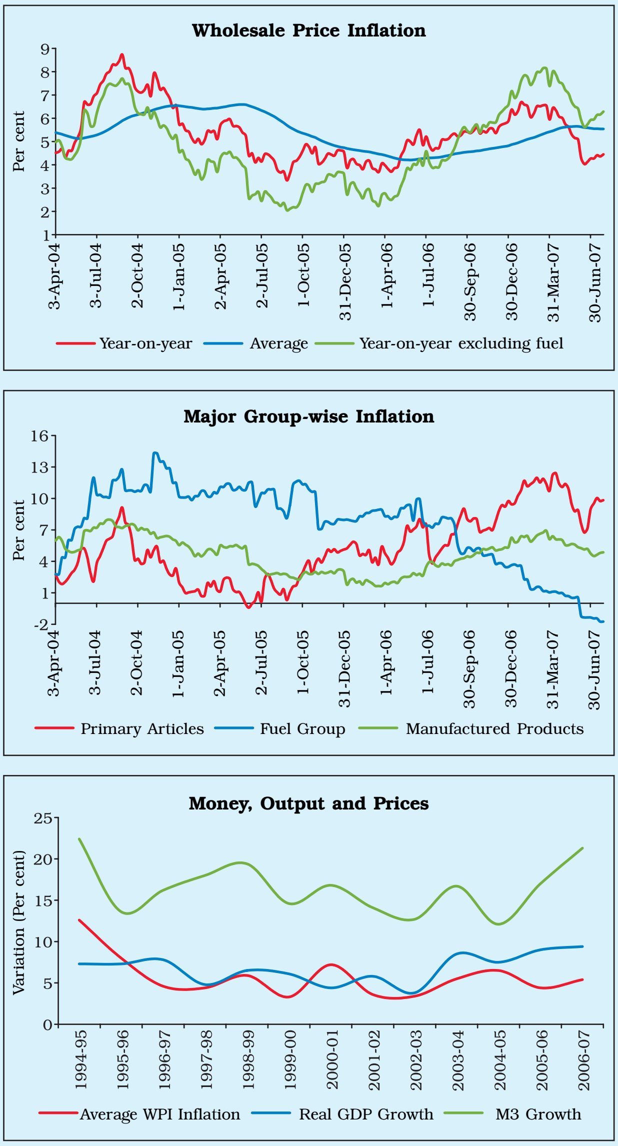
decline in stocks and increased demand for non-food uses. Global wheat prices reached an intra-year high of US $ 212 a tonne in October 2006 in view of depletion in stocks (estimated to fall by about 16 per cent to 125 million tonnes by the end of 2006-07 season, the lowest since 1981-82). Global wheat prices moderated to US $ 199 a tonne by March 2007 but were still higher by about 14 per cent on a year-on-year basis. Prices of oilseeds and edible oils edged up sharply in the second half of 2006-07, *inter alia*, due to lower production coupled with strong demand for non-food uses such as fuels and as feedstock for bio-diesel production. On a year-on-year basis, soybeans, soybean oil and palm oil prices in March 2007 were higher by 26 per cent, 33 per cent and 41 per cent, respectively. On the other hand, international sugar prices eased significantly from August 2006 on forecasts of higher global production during 2006-07. Sugar prices in March 2007 were 39.5 per cent lower than a year ago. Global cotton prices were largely range-bound during 2006-07. Overall, food prices (as measured by the World Bank's index of food prices) were 9 per cent higher in March 2007 (year-on-year).

INFLATION CONDITIONS IN INDIA

Wholesale Price Inflation

I.3.34 Headline inflation in India, based on movement in the wholesale price index (WPI), rose to 5.9 per cent as on March 31, 2007, year-on-year, from 4.0 per cent a year ago (Chart I.12). The increase in inflation reflected supply pressures emanating from higher primary articles prices as well as demand pressures amidst strong growth. Headline inflation moved in a range of 3.7-6.7 per cent during 2006-07. Inflation generally remained within the Reserve Bank's indicative projection of 5.0-5.5 per cent up to November 11, 2006 but exceeded the upper band during the remaining part of the year. Inflation remained above 6.0 per cent during the period January 6, 2007 and March 24, 2007. Reflecting the intra-year movement of inflation, the average WPI inflation rate (average of the 52 weeks) increased to 5.4 per cent

Chart I.12: Inflation Movements



from 4.4 per cent a year ago (Appendix Table 23). The y-o-y inflation, excluding the fuel group, at 7.4 per cent was above the headline inflation rate of 5.9 per cent as on March 31, 2007. In order to anchor inflation expectations to sustain the growth momentum, the Reserve Bank continued with pre-emptive monetary measures during 2006-07 including increase in the repo and the reverse repo rates as well as the cash reserve ratio (see Chapter III for details).

I.3.35 Among the major groups, prices of primary articles exerted upward pressure on inflation during 2006-07, reflecting shortfalls in domestic supply of major agricultural crops (see Table 1.3) amidst elevated international prices. Wheat, pulses, milk, oilseeds and raw cotton were the major drivers of primary articles inflation. While prices of wheat rose, year-on-year, by 7.3 per cent as on March 31, 2007, those of pulses edged higher by 12.5 per cent (on top of 33.3 per cent increase a year ago). Prices of oilseeds witnessed a sharp turnaround - an increase of 31.6 per cent, y-o-y, as against a decline of 9.2 per cent a year ago. Raw cotton prices increased by 21.9 per cent, y-o-y, as on March 31, 2007 in contrast to a marginal decline in global prices. Overall, prices of primary articles, on a y-o-y basis, increased by 10.7 per cent (4.8 per cent a year ago), the highest rate of increase in the past decade (Tables 1.32 and 1.33).

I.3.36 In order to contain the price rise in primary commodities, the Government undertook a number of fiscal and supply side measures such as (i) allowing the State Trading Corporation (STC) to tender overseas for 5.5 million tonnes of wheat to supplement domestic availability; (ii) permitting private traders to import wheat initially at 5 per cent duty from June 27, 2006 and subsequently at zero duty from September 9, 2006; (iii) allowing import of pulses at zero duty from June 8, 2006 and a ban on their exports from June 27, 2006; (iv) exempting sugar from customs duty from June 22, 2006 and a ban on its exports; (v) allowing imports of maize at zero duty in February 2007; (vi) reducing the customs duty on palm oils by 10 percentage points each in August 2006 and April 2007, and by another 5 percentage points in July 2007, and on crude palm oil, sunflower oil and refined sunflower oil by 10 percentage points each in January 2007.

I.3.37 Fuel group inflation, which had dominated the inflation outcome during the preceding two years, eased significantly during the second half of the year to reach its lowest rate in over a decade. Fuel group inflation initially rose from 8.3 per cent as on April 1, 2006 to an intra-year peak of 9.9 per cent on June 17, 2006 but moderated to 1.0 per cent by March 31, 2007 reflecting the base effect as well as cuts in prices of petrol, diesel and other fuel products. Domestic prices of petrol and diesel were initially raised by Rs.4 and Rs.2 per litre, respectively, in June 2006; subsequently, these were reduced by Rs.2 per litre (around 4 per cent) and Re. 1 per litre (around 3 per cent), respectively, on November 29, 2006 and, by a similar order again, effective February 15, 2007. However, the pass-through remains incomplete, especially in the case of kerosene oil and LPG whose prices have remained unchanged since April 2002 and November 2004, respectively. Apart from reduction in customs duty on petrol and diesel to 7.5 per cent from 10.0 per cent in June 2006, the Government also

Table 1.32: Wholesale Price Inflation in India (year-on-year)

(Per cent)

Commodity	Weight	April 1, 2006 Inflation	April 1, 2006 WC	March 31, 2007 Inflation	March 31, 2007 WC
1	2	3	4	5	6
All Commodities	**100.0**	**4.0**	**100.0**	**5.9**	**100.0**
1. Primary Articles	**22.0**	**4.8**	**25.8**	**10.7**	**39.0**
i. Food Articles	15.4	5.9	22.5	8.0	20.8
Wheat	1.4	12.7	4.3	7.3	1.8
Pulses	0.6	33.3	4.5	12.5	1.4
ii. Non-Food Articles	6.1	-2.4	-3.5	17.2	15.6
Oilseeds	2.7	-9.2	-5.5	31.6	11.0
iii. Minerals	0.5	43.6	6.9	17.5	2.6
2. Fuel, Power, Light and Lubricants	**14.2**	**8.3**	**45.5**	**1.0**	**4.0**
i. Mineral Oils	7.0	12.0	37.2	0.5	1.1
ii. Electricity	5.5	4.5	8.3	2.3	2.8
iii. Coal Mining	1.8	0.0	0.0	0.0	0.0
3. Manufactured Products	**63.8**	**1.9**	**27.7**	**6.1**	**57.3**
i. Food Products	11.5	1.0	2.6	6.1	10.5
Sugar	3.6	6.2	4.7	-12.7	-6.6
Edible Oils	2.8	-3.3	-1.8	14.1	4.7
Oil Cakes	1.4	-8.2	-3.0	32.9	7.0
ii. Cotton Textiles	4.2	2.3	2.1	-1.0	-0.6
iii. Man Made Fibres	4.4	-3.9	-2.1	3.9	1.3
iv. Chemicals and Chemical Products	11.9	3.3	9.7	3.6	7.1
v. Basic Metals, Alloys and Metal Products	8.3	-0.6	-1.5	11.3	17.4
vi. Non-Metallic Mineral Products	2.5	9.6	5.4	9.0	3.6
vii. Machinery and Machine Tools	8.4	3.2	5.2	8.1	8.6
viii. Transport Equipment and Parts	4.3	0.9	0.8	2.0	1.2
Memo:					
Food Items (Composite)	**26.9**	**3.9**	**25.1**	**7.3**	**31.2**
WPI Excluding Food	**73.1**	**4.0**	**74.9**	**5.5**	**68.8**
WPI Excluding Fuel	**85.8**	**2.8**	**54.5**	**7.4**	**96.0**

P : Provisional. WC : Weighted Contribution.

issued oil bonds aggregating Rs.24,121 crore during 2006-07 (Rs.11,500 crore in the previous year).

Table 1.33: Major Group-wise WPI Inflation (year-on-year)

(Per cent)

Year	All Commodities	Primary Articles	Fuel Group	Manufactured Products
1	2	3	4	5
1995-96	4.4	3.1	5.1	4.7
1996-97	5.4	9.2	13.3	2.4
1997-98	4.5	4.6	13.7	2.3
1998-99	5.3	7.6	3.2	4.9
1999-00	6.5	4.0	26.7	2.4
2000-01	4.9	-0.4	15.0	3.8
2001-02	1.6	3.9	3.9	0.0
2002-03	6.5	6.1	10.8	5.1
2003-04	4.6	1.6	2.5	6.7
2004-05	5.1	1.3	10.5	4.6
2005-06	4.1	5.4	8.9	1.7
2006-07	5.9	10.7	1.0	6.1

I.3.38 Manufactured products, on the other hand, emerged as a key driver of inflation during 2006-07 amidst strong growth and demand conditions, and high capacity utilisation. Manufactured products group inflation increased to 6.1 per cent as on March 31, 2007 (from 1.9 per cent a year ago) contributing more than a half of overall y-o-y inflation during 2006-07 (Appendix Table 24). Amongst the manufactured products, prices of metals increased by 11.3 per cent, y-o-y, as on March 31, 2007 contributing 17.4 per cent to headline inflation. Within the metals group, non-ferrous metal prices rose by 29.3 per cent, y-o-y, on top of an increase of 17.5 per cent a year ago, broadly in line with international trends. Iron and steel prices increased by 8.1 per cent, y-o-y, in contrast to a decline of 4.2 per cent a year ago. Cement prices increased by 11.6 per cent, y-o-y, as on March 31, 2007 on top of an increase of 14.9 per cent a year earlier, in consonance with strong domestic demand emanating from construction activity related to both housing and other infrastructure activities. Prices of electrical machinery increased by 12.9 per cent reflecting the buoyant investment demand. Rise in prices of edible oils (increase of 14.1 per cent in contrast to a decline of 3.3 per cent a year ago), oil cakes (increase of 32.9 per cent as against a decline of 8.2 per cent), and grain mill products (increase of 16.6 per cent on top of an increase of 13.5 per cent a year ago) also contributed to manufactured products inflation. Domestic sugar prices declined in line with global trends.

I.3.39 In order to reduce the cost of manufacturing and infrastructure development, the Government took fiscal measures on January 22, 2007 in the form of reduction in customs duties on select items such as inorganic chemicals, non-ferrous metals, cement, capital goods and project imports. The Government further reduced the peak customs duty from 12.5 per cent to 10.0 per cent in the Union Budget, 2007-08 and, in the case of some items, below 10.0 per cent. On April 3, 2007, the Government decided to exempt import of portland cement from countervailing duty and special additional customs duty; it was earlier exempted from basic customs duty in January 2007.

Consumer Price Inflation

I.3.40 Consumer price inflation firmed up during 2006-07 and all the four measures were higher than WPI inflation throughout the year, mainly reflecting the higher order of increase in food prices as well as the higher weight of food items in the CPI (Table 1.34

Table 1.34: Consumer Price Inflation – Major Groups

(Year-on-year variation in per cent)

CPI Measure	Weight	March 2003	March 2004	March 2005	March 2006	June 2006	September 2006	December 2006	March 2007	June 2007
1	2	3	4	5	6	7	8	9	10	11
CPI-IW (Base: 2001=100)#										
General	**100.0**	**4.1**	**3.5**	**4.2**	**4.9**	**7.7**	**6.8**	**6.9**	**6.7**	**5.7**
Food Group	46.2	3.7	3.1	1.6	4.9	10.0	8.9	9.6	12.2	9.2 *
Pan, Supari *etc.*	2.3	1.9	4.2	2.1	3.1	3.7	4.2	4.3	4.4	9.6 *
Fuel and Light	6.4	6.3	6.5	4.9	-2.9	8.7	6.5	5.9	3.2	2.3 *
Housing	15.3	5.4	3.9	20.4	6.6	6.6	7.1	7.1	4.1	4.1 *
Clothing, Bedding *etc.*	6.6	1.5	2.1	2.3	3.0	2.8	2.5	4.0	3.7	3.5 *
Miscellaneous	23.3	5.3	3.2	3.9	4.6	4.7	5.4	4.1	3.3	3.2 *
CPI-UNME (Base: 1984-85=100)										
General	**100.0**	**3.8**	**3.4**	**4.0**	**5.0**	**6.5**	**6.6**	**6.9**	**7.6**	**6.1**
Food Group	47.1	2.6	3.0	2.2	5.3	8.9	8.4	9.2	10.9	7.7
Fuel and Light	5.5	3.1	3.2	9.6	1.9	3.0	4.2	5.9	6.4	7.2
Housing	16.4	6.3	5.2	7.5	5.5	5.5	5.5	5.5	5.6	5.6
Clothing, Bedding *etc.*	7.0	2.6	2.6	2.0	2.9	2.7	3.4	3.8	3.6	4.3
Miscellaneous	24.0	6.0	2.8	4.4	5.1	6.1	6.5	4.6	4.4	3.7
CPI-AL (Base: 1986-87=100)										
General	**100.0**	**4.9**	**2.5**	**2.4**	**5.3**	**7.2**	**7.3**	**8.9**	**9.5**	**7.8**
Food Group	69.2	6.0	1.6	2.2	5.5	8.3	8.0	9.9	11.8	8.8
Pan, Supari *etc.*	3.8	3.5	4.7	-1.3	6.6	5.8	6.5	7.2	5.7	9.1
Fuel and Light	8.4	4.8	3.0	3.0	4.3	6.4	7.8	7.3	6.9	7.4
Clothing, Bedding *etc.*	7.0	3.0	4.1	2.5	2.2	2.5	3.3	3.3	3.5	2.7
Miscellaneous	11.7	3.1	2.7	5.5	5.5	5.2	7.0	7.4	6.8	6.7
CPI-RL (Base: 1986-87=100)										
General	**100.0**	**4.8**	**2.5**	**2.4**	**5.3**	**7.2**	**7.0**	**8.3**	**9.2**	**7.5**
Food Group	66.8	5.6	1.9	1.9	5.8	8.3	8.0	9.6	11.5	8.5
Pan, Supari *etc.*	3.7	3.5	4.7	-1.0	6.3	5.8	6.3	7.4	5.7	9.3
Fuel and Light	7.9	4.8	3.0	2.9	4.0	6.1	7.2	7.3	6.9	7.4
Clothing, Bedding *etc.*	9.8	3.3	3.4	2.8	2.7	2.9	3.5	2.9	3.1	2.6
Miscellaneous	11.9	3.1	3.0	5.5	5.2	4.9	6.4	7.2	6.3	6.2
Memo:										
WPI Inflation (End of period)		6.5	4.6	5.1	4.1	4.8	5.4	5.9	5.9	4.3
GDP Deflator based Inflation $		3.9	3.7	4.2	4.4	4.6	4.7	5.5	5.3	–

: Data prior to January 2006 are based on the old series (Base: 1982=100). $: Data for March pertain to full year. *: May 2007.
IW : Industrial Workers. UNME : Urban Non-Manual Employees.
AL : Agricultural Labourers. RL : Rural Labourers.

and Appendix Table 25). Food items have weights in the range of 67-69 per cent in the CPI for rural labourers and agricultural labourers, and in the range of 46-47 per cent in the CPI for industrial workers and urban non-manual employees as compared with 27 per cent (composite) in the WPI. Disaggregated data show that food group inflation in various CPI measures rose from 4.9-5.8 per cent in March 2006 to 10.9-12.2 per cent by March 2007. As a result of higher order of increase in food prices coupled with their large weight in the indices, various measures of CPI inflation increased from 4.9-5.3 per cent in March 2006 to an intra-year peak of 7.6-9.8 per cent in February 2007 before easing to 6.7-9.5 per cent in March 2007. Higher fuel group prices also contributed to consumer price inflation. Prices of services proxied by "miscellaneous group" exhibited a mixed trend during the year. Housing rent, however, decelerated in the case of CPI for Industrial Workers but marginally increased in the case of CPI for Urban Non-Manual Employees.

I.3.41 Although CPI inflation was significantly higher than WPI inflation during 2006-07, the two inflation measures generally move in tandem in the long-run. During some periods, WPI inflation was higher than CPI inflation and *vice versa*. For instance, while WPI inflation during the 1990s averaged 8.1 per cent, CPI inflation (Industrial Workers) averaged 9.5 per cent. During 2000-01 to 2006-07, WPI inflation averaged 5.1 per cent, while CPI inflation averaged 4.4 per cent.

Asset Prices and Inflation

I.3.42 Domestic equity and bullion markets recorded gains during 2006-07, with intermittent corrections during the course of the year. Overall, the BSE Sensex gained 15.9 per cent during 2006-07. Domestic gold prices increased by about 10 per cent during 2006-07, broadly mirroring movements in international prices. International gold prices initially rose to US $ 715 per ounce on May 12, 2006 but fell to US $ 559 as on June 14, 2006 in consonance with the trends in various commodities in the international market. Gold prices recovered in July 2006 but again eased in September 2006 as headline inflation in major economies eased in tandem with the softening of international crude oil prices. Gold prices rebounded from the fourth quarter of 2006 before easing somewhat to around US $ 660 per ounce by end-March 2007.

Developments during 2007-08

I.3.43 Headline WPI inflation was 4.1 per cent, y-o-y, as on August 4, 2007 as compared with 5.9 per cent at end-March 2007 and 5.1 per cent a year ago. Primary articles inflation was 9.4 per cent (5.2 per cent a year ago), and manufactured products inflation was 4.4 per cent (3.8 per cent). Fuel group, on the other hand, turned negative (-2.1 per cent) from 8.2 per cent a year earlier. The average WPI inflation rate increased to 5.5 per cent as on August 4, 2007 from 4.4 per cent a year ago. Various measures of consumer price inflation were placed in the range of 5.7-7.8 per cent during June 2007.

I.3.44 To sum up, monetary and credit aggregates continued to record high growth during 2006-07. Large capital inflows remained the key driver of reserve money. Acceleration in deposits growth during the year accommodated the buoyancy in credit demand. Although banks' SLR investments increased during the year, the holdings of SLR investments, as a proportion to NDTL, declined further during the year. Headline inflation firmed up during 2006-07, reflecting an inter-play of both demand and supply side pressures. However, pressures from fuel prices eased significantly from September 2006 onwards in line with the easing of international crude oil prices. Pre-emptive monetary actions in the form of various policy instruments in a flexible manner, as warranted by the evolving macroeconomic conditions, by the Reserve Bank along with the timely fiscal and supply side measures undertaken by the Government helped in stabilising inflationary expectations. Cross-country comparison indicates that inflation in India remains higher than major EMEs as well as advanced economies.

IV. GOVERNMENT FINANCES

I.4.1 The combined finances of the Central and State Governments showed an improvement in 2006-07. The key deficit indicators, *viz.,* gross fiscal deficit (GFD), revenue deficit and primary deficit, in 2006-07 were placed 0.2 -0.6 percentage points of GDP lower than the preceding year, largely facilitated by the noticeable increase in tax revenues (Table 1.35). The buoyancy in tax revenue reflected the impact of strong economic growth as well as continued efforts at improving the taxation system through moderation of tax rates and broadening of tax base. A noteworthy feature of the combined finances was enhanced allocation for development expenditure.

Table 1.35: Major Fiscal Indicators: Combined Finances

(Per cent of GDP)

Item	1990-91	1995-96	2005-06	2006-07 RE
1	2	3	4	5
1. Gross Fiscal Deficit	9.4	6.5	6.7	6.4
2. Revenue Deficit	4.2	3.2	2.7	2.1
3. Primary Deficit	5.0	1.6	1.1	0.9
4. Revenue Receipts	18.6	18.3	20.1	21.4
(i) Tax Revenues	15.4	14.7	16.4	17.7
Direct Taxes	2.5	3.5	5.5	6.4
Indirect Taxes	12.9	11.2	10.9	11.3
(ii) Non-tax Revenue	3.2	3.6	3.7	3.7
5. Total Expenditure*	28.7	25.4	27.2	28.2
(i) Developmental Expenditure	17.1	13.9	14.5	15.2
(ii) Non-developmental Expenditure *	11.6	11.5	12.7	12.9
of which:				
Interest Payments	4.4	5.0	5.8	5.6
6. Debt@	64.9	61.3	80.5	77.0
				Per cent
Capital Outlay/ Total Expenditure	13.1	10.8	13.8	14.8
Interest Payments/ Revenue Receipts	23.6	27.2	28.6	26.3
Revenue Deficit/ Gross Fiscal Deficit	44.6	48.8	39.7	32.0

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 related to budgets of 29 State Governments (including National Capital Territory of Delhi). Data are provisional for the years 2005-06 and 2006-07.

Central Government Finances – 2006-07

Revised Estimates

I.4.2 The revised estimates (RE) of the Central Government finances for 2006-07 exhibited an improvement *vis-à-vis* the budget estimates (BE). The key deficit indicators, *viz*., revenue deficit, GFD and primary deficit were placed 0.1 percentage point of GDP lower than their budgeted levels. In absolute terms, the revenue deficit and the primary deficit turned out to be lower than budgeted, while the GFD was higher in the revised estimates than in the budget estimates (Table 1.36 and Appendix Table 26). The improvement in revenue account in the revised estimates was mainly due to higher tax revenues (Appendix Table 27). Collections under all taxes, except excise duties, were higher than budgeted. The buoyancy in revenues more than offset the increase in the revenue expenditure (mainly due to higher interest payment and subsidies), and this enabled a reduction of the revenue deficit in the revised estimates. The GFD was, however, placed higher in the revised estimates than the budget estimates mainly due to higher net lending. Capital outlay, on the other hand, was lower on account of decline in defence outlay.

I.4.3 Although the GFD was higher than budgeted, net market borrowings were 2.9 per cent lower than budgeted, facilitated by a drawdown of cash balances. Net market borrowings financed 72.5 per cent of the GFD in the revised estimates as compared with 76.5 per cent in the budget estimates, while the drawdown of cash balances financed 7.2 per cent of GFD in the revised estimates (nil provision in the budget estimates) (Appendix Table 28). ‘Deposits and advances’ and external assistance financed 7.6 per cent and 5.2 per cent, respectively, of the GFD in the revised estimates as compared with 7.4 per cent and 5.6 per cent, respectively, in the budget estimates.

I.4.4 The provisional accounts for 2006-07 released by the Controller General of Accounts reveal that both the revenue deficit and GFD, relative to GDP, narrowed down further by 0.1 percentage point and 0.2 percentage point, respectively, *vis-à-vis* the revised estimates, on account of increase in both tax and non-tax revenues (Table 1.37). Primary balance turned surplus.

Debt position of the Central Government

I.4.5 Reflecting the process of fiscal consolidation, the outstanding domestic liabilities of the Central Government - comprising internal debt and other liabilities such as national small savings fund (NSSF), state provident funds, other accounts, reserve funds and deposits - declined to 59.0 per cent of GDP at end-March 2007 (RE) from 60.7 per cent at end-March 2006 and 61.8 per cent at end-March 2005. Internal debt was the largest component of the outstanding liabilities of the Central Government (61.3 per cent of the total debt at end-March 2007) followed by liabilities on account of NSSF, state provident funds and other accounts (29.8 per cent) (Appendix Table 29).

Table 1.36: Major Fiscal Indicators of the Centre

(Amount in Rupees crore)

Item	2006-07 (BE)	2006-07 (RE)	2007-08 (BE)	Variation (3 over 2)		Variation (4 over 3)	
				Amount	Per cent	Amount	Per cent
1	2	3	4	5	6	7	8
1. Revenue Receipts	4,03,465	4,23,331	4,86,422	19,866	4.9	63,091	14.9
2. Disinvestment	3,840	528 #	1,651 *	-3,312	-86.3	1,123	212.7
3. Revenue Expenditure *of which:*	4,88,192	5,06,767	5,57,900	18,575	3.8	51,133	10.1
a) Interest Payments	1,39,823	1,46,192	1,58,995	6,369	4.6	12,803	8.8
4. Capital Outlay *of which:*	66,938	65,164	75,123 *	-1,774	-2.7	9,959	15.3
Defence	37,458	34,458	41,922	-3,000	-8.0	7,464	21.7
5. Net Lending	861	4,256	5,998	3,395	394.3	1,742	40.9
6. Revenue Deficit (3-1)	**84,727 (2.1)**	**83,436 (2.0)**	**71,478 (1.5)**	**-1,291**	**-1.5**	**-11,958**	**-14.3**
7. Gross Fiscal Deficit (4+5+6-2)	**1,48,686 (3.8)**	**1,52,328 (3.7)**	**1,50,948 (3.3)**	**3,642**	**2.4**	**-1,380**	**-0.9**
8. Primary Deficit (7-3a)	**8,863 (0.2)**	**6,136 (0.1)**	**-8,047 (-0.2)**	**-2,727**	**-30.8**	**-14,183**	**-231.1**

BE : Budget Estimates. RE : Revised Estimates.

: On account of bonus shares issued by ONGC.

* : Adjusted for an amount of Rs.40,000 crore on account of transactions relating to transfer of the Reserve Bank's stake in the State Bank of India (SBI) to the Government.

Note : 1. From 2006-07, disinvestment proceeds are being earmarked to National Investment Fund to make such transactions fiscal deficit neutral.
2. Figures in parentheses are percentages to GDP.

I.4.6 The ratio of interest payments to revenue receipts continued to decline during the year. The ratio declined from 53.4 per cent in 2001-02 to 34.5 per cent in 2006-07 (RE), as the growth in revenue receipts (110 per cent between 2001-02 and 2006-07) outpaced the growth in interest payments (36 per cent) (Chart I.13). The average interest rate on outstanding market loans increased during 2005-06,

Table 1.37: Key Deficit Indicators of the Centre for 2006-07 : Provisional Accounts

(Rupees crore)

Indicator	Budget Estimates	Revised Estimates	Provisional Accounts	Variation (per cent)	
				Col. 4 over Col.3	Col.4 over Col.2
1	2	3	4	5	6
Revenue Deficit	84,727 (2.1)	83,436 (2.0)	80,410 (1.9)	-3.6	-5.1
Gross Fiscal Deficit	1,48,686 (3.8)	1,52,328 (3.7)	1,42,793 (3.5)	-6.3	-4.0
Primary Deficit	8,863 (0.2)	6,136 (0.1)	- 6,760 (-0.2)	–	–

Note : Figures in parentheses are percentages to GDP. Figures in parentheses in column 4 are based on CSO's revised estimate for GDP.

Chart I.13: Debt Service Burden of the Central Government

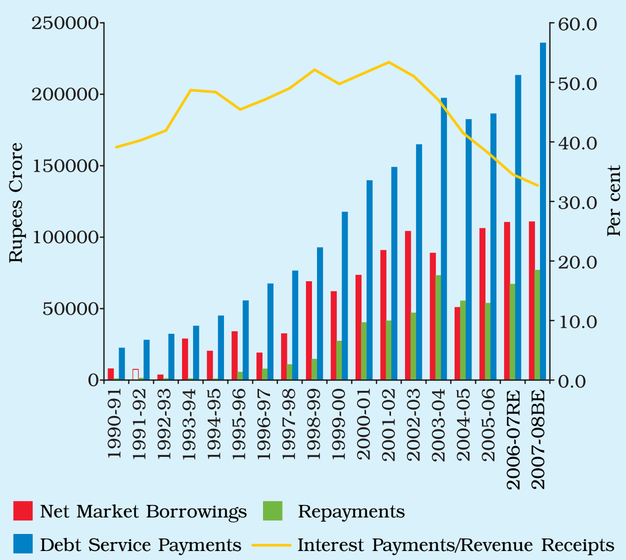


Table 1.38: Average Interest Rates on Outstanding Domestic Liabilities of the Centre

(Per cent)

Year	Market Loans	Small Savings/ NSSF	State Provident Funds	Special Deposits
1	2	3	4	5
1990-91 to1994-95 (Average)	10.86	10.85	11.63	11.53
1995-96 to1999-2000 (Average)	12.39	11.62	11.62	10.93
2000-01	12.99	11.60	10.54	9.87
2001-02	12.83	11.61	9.09	10.5
2002-03	12.11	11.56	8.53	8.82
2003-04	11.11	10.88	7.39	7.94
2004-05	9.87	9.37	7.99	7.65
2005-06	10.07	8.90	7.46	7.25
2006-07(RE)	8.90	8.91	7.63	6.85

RE: Revised Estimates.

Note: 1. Market loans represent dated securities.

2. Small savings represent small saving deposits, certificates and public provident fund. Since 1999-2000, interest on small savings represents interest on Central Government Special Securities issued to the National Small Savings Fund (NSSF).
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.

reversing the declining trend witnessed since 2000-01 (Table 1.38).

State Government Finances – 2006-07[11]

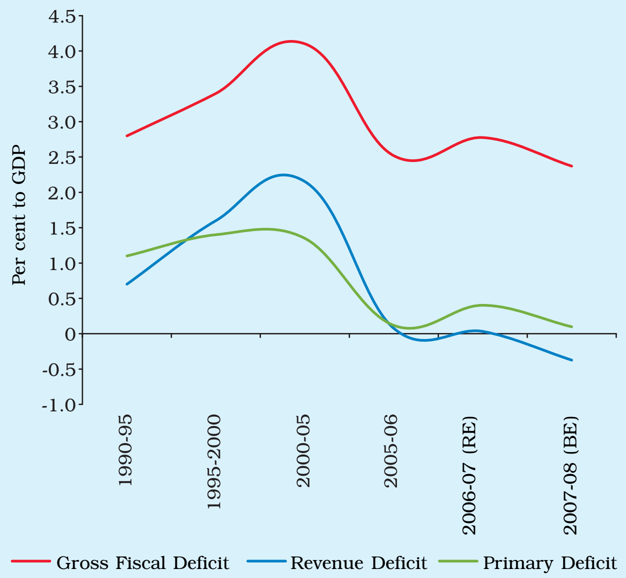
I.4.7 Consolidated fiscal position of States for 2006-07 indicates further progress in the direction of fiscal consolidation, enabled by the enactment and implementation of Fiscal Responsibility Legislations. The consolidated revenue deficit in the revised estimates (RE) for 2006-07 was placed at Rs.1,303 crore (0.03 per cent of GDP) as against a deficit of Rs.4,511 crore (0.11 per cent of GDP) in 2006-07 (BE). Several States have achieved revenue surplus two years ahead of the target for achieving revenue balance by 2008-09 as prescribed by the Twelfth Finance Commission (TFC). This improvement resulted from higher revenue receipts (4.5 per cent above the budgeted level), offsetting the slippage in revenue expenditure (3.9 per cent above budgeted level). The higher revenue receipts in 2006-07 (RE) were due to increase in grants from the Centre (3.6 per cent), shareable taxes (5.8 per cent), States' own tax receipts (3.9 per cent) and States' own non-tax receipts (6.9 per cent). There was, however, a marginal slippage in the GFD/GDP ratio to 2.8 per cent from the budgeted level of 2.6 per cent on account of enhanced capital outlay (10.8 per cent), mainly in respect of education, rural development, irrigation, energy and transport sectors. Capital outlay, as a ratio to GDP, rose by 0.3 percentage points to 2.6 per cent. All the major deficit indicators, as per cent of GDP, were placed much lower in the revised estimates of 2006-07 than their average levels during the period 2000-05 (Chart I.14 and Appendix Table 30).

I.4.8 Flows from the NSSF continued to be the major source of financing the GFD (51.2 per cent of GFD) in 2006-07 (RE) followed by market borrowings (16.5 per cent) and state provident funds (8.8 per cent). With the discontinuation of loans from the Centre to the States following the recommendations of the TFC, there was a reverse flow to the Centre on account of repayments.

Combined Budgetary Position of the Centre and States – 2006-07

I.4.9 During 2006-07, the revenue deficit of the combined Government finances in the revised estimates was placed lower than the budget estimates. Buoyant tax collections, both direct and indirect, and

Chart I.14: Major Deficit Indicators of State Governments



[11] The analysis of State finances and combined finances for 2006-07 (Revised Estimates) and 2007-08 (Budget Estimates) is based on the budgets of 29 State Governments (including National Capital Territory (NCT) of Delhi). All data are provisional.

Table 1.39: Indicators of Combined Finances of the Centre and States

(Amount in Rupees crore)

Item	1990-91	1995-96	2000-01	2005-06	2006-07 BE	2006-07 RE	Variation (RE over BE) Amount	Variation (RE over BE) Per cent
1	2	3	4	5	6	7	8	9
Gross Fiscal Deficit [II-IA-IB(a)]	53,580	77,671	1,99,852	2,39,323	2,58,753	2,64,506	5,754	2.2
	(9.4)	(6.5)	(9.5)	(6.7)	(6.3)	(6.4)		
Revenue Deficit [II1-IA]	23,871	37,932	1,38,803	94,989	89,238	84,739	-4,499	-5.0
	(4.2)	(3.2)	(6.6)	(2.7)	(2.2)	(2.1)		
Primary Deficit	28,585	18,598	75,035	33,700	32,174	32,562	388	1.2
	(5.0)	(1.6)	(3.6)	(0.9)	(0.8)	(0.8)		
I. Total Receipts(A+B)	1,51,593	2,96,629	5,94,804	10,31,525	11,18,915	11,33,325	14,410	1.3
A. Revenue Receipts (1+2)	1,05,757	2,17,526	3,78,817	7,17,897	8,42,449	8,82,247	39,798	4.7
1 Tax Receipts (a+b)	87,564	1,74,851	3,05,374	5,85,535	6,93,827	7,28,864	35,037	5.0
a) Direct Taxes	14,267	41,603	80,215	1,95,430	2,42,072	2,62,005	19,933	8.2
b) Indirect Taxes	73,297	1,33,248	2,25,159	3,90,105	4,51,755	4,66,859	15,104	3.3
2 Non Tax Receipts	18,193	42,675	73,443	1,32,362	1,48,622	1,53,383	4,761	3.2
B. Capital Receipts	45,836	79,102	2,15,987	3,13,628	2,76,466	2,51,078	-25,388	-9.2
a) Non Debt Capital Receipts	3,531	6,968	12,591	13,560	13,728	15,399	1,671	12.2
b) Debt Capital Receipts	42,305	72,134	2,03,396	3,00,068	2,62,738	2,35,679	-27,059	-10.3
II. Aggregate Expenditure (1+2+3 = 4+5)	1,62,868	3,02,166	5,91,258	9,70,779	11,14,928	11,62,151	47,223	4.2
1 Revenue Expenditure	1,29,628	2,55,457	5,17,618	8,12,887	9,31,687	9,66,986	35,299	3.8
2 Capital Outlay	21,353	32,594	55,875	1,34,088	1,63,444	1,72,092	8,648	5.3
3 Loans and Advances	11,887	14,115	17,766	23,804	19,797	23,073	3,276	16.5
4 Development Expenditure	97,149	1,65,361	3,08,546	5,17,170	6,00,568	6,28,775	28,207	4.7
5 Non-Development Expenditure@	65,719	1,36,805	2,82,712	4,53,609	5,14,361	5,33,376	19,015	3.7

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. Totals may not tally due to rounding off.

higher non-tax receipts enabled a reduction of 0.1 percentage point of GDP in the revenue deficit *vis-a-vis* budgeted level (Table 1.39 and Appendix Table 31). Aggregate expenditure was higher than budgeted on account of increase in both development and non-development expenditures. While development expenditure exceeded the budget estimates on account of higher expenditure on education, health, family welfare and water supply and sanitation, the increase in non-development expenditure was due to higher allocation for administrative services.

Combined Debt

I.4.10 Reflecting the fiscal consolidation as well as strong economic growth, the combined outstanding liabilities of the Centre and the States, as a proportion to GDP, declined by 3.5 percentage points during 2006-07 to 77.0 per cent at end-March 2007 (Table 1.40).

Contingent Liabilities/Guarantees of the Government

I.4.11 The outstanding guarantees of the Central Government increased from Rs.1,07,957 crore at

Table 1.40: Combined Liabilities of the Centre and States

end-March	Outstanding Liabilities (Rupees crore) Centre	States	Combined	(Per cent of GDP) Centre	States	Combined
1	2	3	4	5	6	7
1990-91	3,14,558	1,28,155	3,68,824	55.3	22.5	64.9
1995-96	6,06,232	2,50,889	7,28,208	51.0	21.1	61.3
2000-01	11,68,541	6,02,072	14,92,032	55.4	28.6	70.8
2001-02	13,66,408	7,00,524	17,42,810	59.9	30.7	76.4
2002-03	15,59,201	7,98,921	19,83,298	63.6	32.5	81.0
2003-04	17,36,678	9,23,500	22,52,996	62.9	33.4	81.6
2004-05	19,94,422	10,42,305	25,75,145	63.9	33.3	82.5
2005-06	22,60,145	11,63,834	28,75,674	63.4	32.6	80.5
2006-07 RE	25,36,464	12,60,190	31,87,461	61.5	30.5	77.0
2007-08 BE	27,44,442	13,69,543	34,54,817	59.2	29.6	74.2

RE: Revised Estimates. BE: Budget Estimates.
Note : 1. Data in respect of the States are provisional from 2005-06 onwards and relate to 29 States (including NCT Delhi).
2. Under 'combined liabilities', inter-Governmental transactions are netted out.
3. Data include 'reserve funds' and 'deposits and advances'.

Table 1.41: Outstanding Government Guarantees

(Amount in Rupees crore)

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	65,339	4.8	1,33,157	9.9
1998	73,877	4.9	73,751	4.8	1,47,628	9.7
1999	74,606	4.3	79,457	4.6	1,72,060	9.9
2000	83,954	4.3	1,32,029	6.8	2,15,983	11.2
2001	86,862	4.1	1,68,719	8.0	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	7.5	2,74,911	11.2
2004	87,780	3.2	2,19,658	7.9	3,07,438	11.1
2005	1,07,957	3.5	2,04,426 P	6.5	3,12,383	10.0
2006	1,10,626	3.1	1,77,552 P	5.0	2,88,178	8.1

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 up to 2005. For 2006, data pertain to 13 States and hence are not comparable with the previous years.

end-March 2005 to Rs.1,10,626 crore at end-March 2006; however, as a proportion to GDP, the guarantees declined from 3.5 per cent to 3.1 per cent (Table 1.41). The net accretion to the stock of contingent liabilities in the form of guarantees extended by the Central Government at Rs.2,669 crore constituted 0.06 per cent of GDP for the year ended March 2006, which was well within the limit of 0.50 per cent of GDP stipulated under the FRBM Rules, 2004.

FISCAL OUTLOOK FOR 2007-08[12]

Central Government

I.4.12 The Union Budget 2007-08 sought to strengthen the fiscal correction process as prescribed under the FRBM Rules, 2004. Accordingly, the GFD

Table 1.42: Decomposition of the GFD of the Centre

(Per cent)

Year	Revenue Deficit	Capital Outlay	Net Lending	Other Non-debt Receipts @
1	2	3	4	5
1990-91	41.6	27.2	31.2	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	62.6	41.3	-0.4*	-3.5
2005-06	63.0	37.6	0.5	-1.1
2006-07(RE)	54.8	42.8	2.8	-0.3
2007-08 (BE)	47.4	49.8	4.0	-1.1#

@: Include disinvestment proceeds and value of bonus shares.

* : Adjusted for debt swap transactions.

: Adjusted for an amount of Rs.40,000 crore on account of transactions relating to transfer of Reserve Bank's stake in SBI to the Government.

is budgeted to decline by 0.4 percentage point to 3.3 per cent of GDP during 2007-08 while the revenue deficit is budgeted to decline by 0.5 percentage points to 1.5 per cent of GDP. These budgeted reductions are in consonance with the annual reductions stipulated under the FRBM Rules, 2004. The Budget envisages a primary surplus of 0.2 per cent of GDP during 2007-08 as against a primary deficit of 0.1 per cent of GDP during 2006-07. The underlying strategy for reducing deficits is essentially revenue-led, accompanied by improvements in allocative efficiencies of public expenditure. During 2007-08, as the GFD is budgeted to be lower than the Plan expenditure, the financing of the Plan will not be entirely from borrowed resources. Furthermore, the envisaged reduction in the revenue deficit to GFD ratio will facilitate higher capital outlays (Table 1.42).

Pattern of Receipts

I.4.13 Revenue receipts are budgeted to rise by 14.9 per cent during 2007-08 on top of 21.8 per cent growth recorded in the previous year (Table 1.43). Growth in collections under all the major taxes, except fringe benefit tax and union excise duty, is budgeted to

[12] All comparisons of 2007-08 in this section are with the revised estimates for 2006-07, unless stated otherwise.

Table 1.43: Revenue Position of the Centre

(Rupees crore)

Item	2005-06 (Actuals)	2006-07 (RE)	2007-08 (BE)	Variation 2006-07 Amount	Variation 2006-07 Per cent	Variation 2007-08 Amount	Variation 2007-08 Per cent
1	2	3	4	5	6	7	8
Total Receipts (1+2)	5,06,123 (14.2)	5,81,637 (14.1)	6,40,521* (13.8)	75,514	14.9	58,884	10.1
1, Revenue Receipts	3,47,462 (9.7)	4,23,331 (10.3)	4,86,422 (10.5)	75,869	21.8	63,091	14.9
Tax Revenue (Net)	2,70,264 (7.6)	3,45,971 (8.4)	4,03,872 (8.7)	75,707	28.0	57,901	16.7
Non-Tax Revenue	77,198 (2.2)	77,360 (1.9)	82,550 (1.8)	162	0.2	5,190	6.7
2. Capital Receipts	1,58,661 (4.5)	1,58,306 (3.8)	1,54,099* (3.3)	-355	-0.2	-4,207	-2.7
Non-Debt Capital Receipts	12,226 (0.3)	5,978 (0.1)	3,151* (0.1)	-6,248	-51.1	-2,827	-47.3
Debt Capital Receipts	1,46,435 (4.1)	1,52,328 (3.7)	1,50,948 (3.3)	5,893	4.0	-1,380	-0.9
Memo :							
Gross Tax Revenue	3,66,152 (10.3)	4,67,848 (11.3)	5,48,122 (11.8)	1,01,696	27.8	80,274	17.2
i) Corporation Tax	1,01,277 (2.8)	1,46,497 (3.6)	1,68,401 (3.6)	45,220	44.6	21,904	15.0
ii) Income Tax@	55,976 (1.6)	72,710 (1.8)	86,829 (1.9)	16,734	29.9	14,119	19.4
iii) Customs Duty	65,067 (1.8)	81,800 (2.0)	98,770 (2.1)	16,733	25.7	16,970	20.7
iv) Union Excise Duty	1,11,226 (3.1)	1,17,266 (2.8)	1,30,220 (2.8)	6,040	5.4	12,954	11.0
v) Service Tax	23,055 (0.6)	38,169 (0.9)	50,200 (1.1)	15,114	65.6	12,031	31.5
vi) Securities Transaction Tax	2,559 (0.1)	3,750 (0.1)	4,500 (0.1)	1,191	46.5	750	20.0
vii) Banking Cash Transaction Tax	321 (0.0)	550 (0.0)	645 (0.0)	229	71.3	95	17.3
viii) Fringe Benefit Tax	4,772 (0.1)	5,500 (0.1)	6,800 (0.1)	728	15.3	1,300	23.6

RE: Revised Estimates. BE : Budget Estimates.

* : Adjusted for an amount of Rs.40,000 crore on account of transactions relating to transfer of Reserve Bank's stake in SBI to the Government.

@ : Excluding Fringe Benefit Tax.

Note : Figures in parentheses are percentages to GDP.

decelerate in 2007-08, partly due to the high base created by robust growth in the previous years. Nonetheless, the tax/GDP ratio is expected to increase to 11.8 per cent in 2007-08, thus continuing the rising trend that began in 2002-03, led by the sustained rise in direct taxes (Table 1.44).

I.4.14 Growth in non-tax revenue at 6.7 per cent in 2007-08 is budgeted to be higher than that in 2006-07 (0.2 per cent) on account of higher dividends and profits (see Table 1.43). However, interest receipts are expected to continue the declining trend, attributable to the pre-payment of high cost debt by the States

Table 1.44: Gross Tax Revenues of the Centre

(Per cent to GDP)

Year	Direct Tax	Indirect Tax	Total
1	2	3	4
1990-91	1.9	8.2	10.1
1991-92	2.3	8.0	10.3
1992-93	2.4	7.5	10.0
1993-94	2.4	6.5	8.8
1994-95	2.7	6.5	9.1
1995-96	2.8	6.5	9.4
1996-97	2.8	6.6	9.4
1997-98	3.2	6.0	9.1
1998-99	2.7	5.6	8.3
1999-00	3.0	5.8	8.8
2000-01	3.3	5.7	9.0
2001-02	3.0	5.2	8.2
2002-03	3.4	5.4	8.8
2003-04	3.8	5.4	9.2
2004-05	4.3	5.5	9.8
2005-06	4.6	5.6	10.3
2006-07 (RE)	5.6	5.8	11.3
2007-08 (BE)	5.8	6.1	11.8

RE : Revised Estimates. BE: Budget Estimates.

under the debt swap scheme and the operation of the Twelfth Finance Commission (TFC) award. Under the TFC award, incentive linked debt restructuring, which includes interest rate reductions and debt write-offs, has been undertaken for the States that enact fiscal responsibility legislations. Furthermore, the Centre has disengaged from financial intermediation in respect of lending to the States, except for loans under externally aided projects.

I.4.15 In respect of non-debt capital receipts, the recoveries of loans and advances from the State Governments and the Central PSUs are budgeted to decline, reflecting the impact of debt consolidation under the TFC award. The Budget has earmarked disinvestment proceeds of Rs.1,651 crore from sale of equity in specified power corporations to the National Investment Fund set up outside the Consolidated Fund of India.

Pattern of Expenditure[13]

I.4.16 Aggregate expenditure, as percentage of GDP, in 2007-08 is budgeted at 13.8 per cent of GDP as compared with 14.1 per cent of GDP in 2006-07, reflecting containment of non-plan expenditures, particularly, interest payments and subsidies. On the other hand, the Plan expenditure/GDP ratio is budgeted to increase on the back of higher budgetary support for the Central Plan (Table 1.45 and Box I.11). Capital expenditure is budgeted to remain unchanged at 1.8 per cent of GDP in 2007-08. Within capital expenditure, the share of capital outlay is budgeted to increase to 90.9 per cent in 2007-08 from 87.0 per cent in 2006-07 on account of higher defence outlay. While the share of defence capital outlay would increase from 46.0 per cent of total capital expenditure in 2006-07 to 50.8 per cent in 2007-08, that of non-defence capital outlay would decline from 41.0 per cent to 40.2 per cent.

I.4.17 Amongst major development expenditures, the outgo on education and health, as a proportion to total expenditure, is budgeted to continue its rising trend during 2007-08. The combined expenditure on education and health is envisaged to rise from 5.5 per cent of total expenditure during 2006-07 to 6.2 per cent in 2007-08. The share of agriculture and rural development in the total expenditure is, however, budgeted to marginally decline (Table 1.46).

Financing of Gross Fiscal Deficit

I.4.18 Market borrowings would remain the major source of financing the GFD in 2007-08 (73.4 per cent of the GFD), followed by investments by the NSSF (11.8 per cent of the GFD) (Table 1.47). The increase in the proportion of the GFD financed by the NSSF during 2007-08 reflects the reinvestment of redemption proceeds as well as investment from small saving collections following the policy decision to reduce the minimum obligation of the States to borrow from the NSSF to 80 per cent of net collections from 100 per cent.

I.4.19 Apart from the Plan outlay (Plan ‘A’) of Rs.2,05,100 crore, the Union Budget 2007-08 proposed Plan ‘B’ for mobilising additional resources of Rs.7,000 crore through better tax administration which will be allocated to key areas such as agriculture, rural development, health and urban infrastructure. The Budget also proposed a Plan ‘C’ for tapping extra budgetary resources and leveraging them for investment, particularly in infrastructure. The key fiscal indicators such as revenue deficit, non-plan expenditure and gross tax revenue relative to

[13] Adjusted for expenditure of Rs.40,000 crore allocated for acquiring the Reserve Bank’s equity holding in the State Bank of India (SBI). This transaction is matched by the non-debt capital receipt of an equal amount and would be deficit neutral.

Table 1.45: Expenditure Pattern of the Centre

(Amount in Rupees crore)

Item	2005-06 (Actuals)	2006-07 (RE)	2007-08 (BE)	Variation			
				2006-07		2007-08	
				Amount	Per cent	Amount	Per cent
1	2	3	4	5	6	7	8
Total Expenditure	5,06,123 (14.2)	5,81,637 (14.1)	6,40,521* (13.8)	75,514	14.9	58,884	10.1
1. Non-Plan Expenditure	3,65,485 (10.2)	4,08,907 (9.9)	4,35,421* (9.4)	43,422	11.9	26,514	6.5
i) Interest Payments	1,32,630 (3.7)	1,46,192 (3.5)	1,58,995 (3.4)	13,562	10.2	12,803	8.8
ii) Defence Expenditure	80,549 (2.3)	86,000 (2.1)	96,000 (2.1)	5,451	6.8	10,000	11.6
iii) Subsidies	47,520 (1.3)	53,463 (1.3)	54,330 (1.2)	5,943	12.5	867	1.6
iv) Grants to States	30,475 (0.9)	36,152 (0.9)	38,403 (0.8)	5,677	18.6	2,251	6.2
v) Other non-Plan Expenditure	74,311 (2.1)	87,100 (2.1)	87,693* (1.9)	12,789	17.2	593	0.7
2. Plan Expenditure	1,40,638 (3.9)	1,72,730 (4.2)	2,05,100 (4.4)	32,092	22.8	32,370	18.7
i) Budgetary Support to Central Plan	1,04,658 (2.9)	1,26,510 (3.1)	1,54,939 (3.3)	21,852	20.9	28,429	22.5
ii) Central Assistance for State and UT Plans	35,980 (1.0)	46,220 (1.1)	50,161 (1.1)	10,240	28.5	3,941	8.5
Memo:							
Grants	75,337	89,649	103,611	14,132	18.9	13,962	15.6
Loans	11,337	9,706	7,498	-1,631	-14.4	-2,208	-22.7

BE : Budget Estimate. RE: Revised Estimate.

* : Adjusted for an amount of Rs.40,000 crore on account of transactions relating to transfer of Reserve Bank's stake in SBI to the Government.

Note : Figures in parentheses are percentages to GDP.

GDP for 2007-08 are budgeted higher than the Eleventh Plan projections (Table 1.48).

I.4.20 Although the Central Government's fiscal deficit is budgeted to decline, it still remains considerably higher than several other emerging market economies (Table 1.49).

Central Government Finances : April-June 2007

1.4.21 Revenue receipts of the Union Government, as a proportion to the budget estimates, improved marginally from 13.0 per cent in April-June 2006 to 13.2 per cent in April-June 2007, reflecting higher tax revenues. Total expenditure as a proportion of budget estimates, at 26.4 per cent, was also higher than 23.3 per cent in April-June 2006. This was due to increase in capital expenditure from 11.1 per cent of budget estimates in April-June 2006 to 38.2 per cent in April-June 2007, mainly due to the acquisition of the Reserve Bank's stake in State Bank of India (SBI) for Rs.35,531 crore. This expenditure will be neutralised by realising equal amount of receipts from the Reserve Bank in August 2007 (See Chapter X for details). Net of this transaction, capital expenditure during April-June 2007 works out to Rs.11,295 crore, constituting 13.0 per cent of the budget estimates. While Plan expenditure under economic services rose

Box I.11
Fiscal Consolidation and Plan Expenditure under the Eleventh Plan

Managing fiscal discipline in the midst of competitive demands on public resources and tax expenditures *vis-à-vis* varied and often conflicting expectations of stakeholders is a complex exercise. The Planning Commission's Approach Paper for the Eleventh Five Year Plan incorporates fiscal parameters broadly in line with the Fiscal Responsibility and Budget Management (FRBM) targets. The Paper indicates the possibility of achieving the FRBM target relating to fiscal deficit even with the higher budgetary support in the Eleventh Plan. According to the Approach Paper, the incremental budgetary support to the Eleventh Plan, projected at 2.5 per cent of GDP, could be met through lower non-plan expenditure/ additional tax revenues of around 0.2 percentage points of GDP. However, the fiscal deficit targets would limit the scope for increasing plan expenditure in the first two years unless the reduction in non-plan expenditure could be significantly front loaded. Since the Centre and most of the States have passed fiscal responsibility legislations, the combined fiscal deficit of the Centre and the States could be limited to 6 per cent of GDP from 2008-09 onwards.

As regards the revenue deficit, the Approach Paper discusses the difficulty in adhering to the FRBM target of eliminating the revenue deficit by 2008-09. The only way of meeting the revenue deficit target of the FRBM is by adjusting the time-phasing of revenue expenditure intensive programmes.

The Approach Paper recognises the importance of meeting the FRBM targets, which would have a salutary impact on overall credibility of policy. Adherence to the FRBM targets is critical to ensure budgetary sustainability and macroeconomic stability. This underscores the need to closely monitor non-plan expenditures. The demand for increased plan expenditure in priority sectors could be accommodated by reprioritising and reducing the allocation of public sector funds from existing plan schemes that do not serve priority sector objectives or which have proved to be ineffective. The Planning Commission has recognised the need of weeding out such schemes. The scope for containment of plan expenditure through all these means may, however, be limited, since the composition of Plan has already shifted substantially towards the social sectors.

References

1. Government of India (2006), 'Towards Faster and More Inclusive Growth: An Approach to the 11th Five Year Plan', Planning Commission, December.

2. ______ (2007), 'Union Budget 2007-08', February.

during the quarter April-June 2007 over that in the corresponding period of 2006, Plan expenditure under social services recorded a decline. There was a sharp rise in non-Plan revenue expenditure under interest payments, defence revenue expenditure and subsidies on food and fertiliser. As a proportion to the budget estimates, the GFD and revenue deficit increased to 74.5 per cent and 96.0 per cent, respectively, during April-June 2007 from 52.3 per cent and 83.4 per cent in the corresponding period of 2006. Net of acquisition cost of the Reserve Bank's stake in SBI, GFD during April-June 2007 at Rs.76,873 crore (50.9 per cent of the BE) was, however, lower than that during the corresponding period of 2006 (Rs.77,740 crore or 52.3 per cent of the budget estimates).

Table 1.46: Expenditure on Select Development Heads of the Centre

(Amount in Rupees crore)

Item	2006-07 (RE)	2007-08 (BE)
1	2	3
Agriculture	45,574	48,211
	(7.8)	(7.5)
Education	21,690	26,423
	(3.7)	(4.1)
Health	10,349	13,753
	(1.8)	(2.1)
Rural Development	15,507	16,579
	(2.7)	(2.6)
Irrigation	391	424
	(0.1)	(0.1)

Note: 1. Figures in parentheses are percentages to total expenditure.
2. Total expenditure for 2007-08 (BE) has been adjusted to exclude transactions relating to transfer of the Reserve Bank's stake in SBI.

State Budgets 2007-08

I.4.22 State Governments through their budgets for 2007-08 have committed to bring further improvement in their fiscal position in line with their Fiscal Responsibility Legislations while making higher allocations for the social and rural sectors in line with the priorities set out in the Eleventh Five Year Plan (Box I.12). Notwithstanding the variation

Table 1.47: Financing Pattern of Gross Fiscal Deficit of the Centre

(Amount in Rupees crore)

Item	2006-07 (RE)	2007-08 (BE)
1	2	3
Gross Fiscal Deficit	1,52,328	1,50,948
Financed by:		
Market Borrowings	1,10,500 (72.5)	1,10,827 (73.4)
Securities against Small Savings	3,010 (2.0)	10,510 (7.0)
External Assistance	7,892 (5.2)	9,111 (6.0)
State Provident Funds	5,000 (3.3)	5,000 (3.3)
NSSF	-3,129 -(2.1)	17,850 (11.8)
Reserve Funds	4,265 (2.8)	738 (0.5)
Deposits and Advances	11,647 (7.6)	-2,411 -(1.6)
Postal Insurance and Life Annuity Funds	1,237 (0.8)	1,261 (0.8)
Draw Down of Cash Balances	10,926 (7.2)	..
Others #	980 (0.6)	-1,938 -(1.3)

#: Include savings (taxable) bonds 2003 and deposit scheme for retiring employees.

Note : Figures in parentheses are percentages to GFD.

Table 1.48: Eleventh Plan Projections *vis-a-vis* the Budget Estimates for 2007-08

(Per cent to GDP)

Item	2007-08	
	Eleventh Plan Projections	Budget Estimates
1	2	3
Centre		
1. Gross Budgetary Support to Plan	4.36	4.43
of which:		
(i) Plan revenue Expenditure	2.77	3.76
2. Total Non-Plan	9.57	10.26
of which:		
(i) Interest Payments	3.37	3.43
(ii) Defence	2.20	1.17
(iv) Non-Plan grants to States	0.85	0.83
(v) Subsidies	1.10	1.17
3. Total Expenditure	13.93	14.69 (13.82)
4. Gross tax revenue	11.51	11.83
Less: Share of States	3.13	3.07
5. Net Tax to the Centre	8.38	8.75
6. Non-tax Revenue	1.88	1.78
7. Total Revenue Receipts	10.26	10.50
8. Gross Fiscal Deficit	3.40	3.26
9. Revenue Deficit	1.00	1.54

Note : Figure in parentheses is adjusted for an amount of Rs.40,000 crore on account of transaction relating to transfer of Reserve Bank's stake in SBI to the Government.

across the States, the consolidated revenue balance is budgeted to show a noticeable improvement in 2007-08, with a surplus of 0.4 per cent of GDP as compared with the deficit of 0.03 per cent of GDP in 2006-07 (RE). As a result, the GFD is estimated to decline to 2.4 per cent of GDP in 2007-08 (BE)

Table 1.49: Deficit and Debt Indicators of Central Government for Select Countries

(As per cent of GDP)

Country	Fiscal Deficit				Public Debt			
	2003	2004	2005	2006P	2003	2004	2005	2006P
1	2	3	4	5	6	7	8	9
China	2.2	1.3	1.2	0.5	19.2	18.5	17.9	17.3
Republic of Korea	-0.1	0.5	1.0	1.3	21.9	25.2	29.5	32.2
India	4.5	4.0	4.1	3.7	62.9	63.9	63.4	61.5
Indonesia	1.7	1.0	1.0	1.0	58.3	55.7	46.5	40.9
Malaysia	5.3	4.3	3.8	2.6	68.8	66.7	62.5	56.5
Thailand	-0.5	-0.3	-0.2	-0.1	50.7	49.5	47.4	42.3

.. : Not Available. P: Provisional.

Note : Negative sign indicates surplus.

Source : Asia Economic Monitor 2007, Union Budget documents, Government of India.

Box I.12
Fiscal Responsibility Legislations and State Finances

A significant development in respect of State finances in the recent past has been the enactment of Fiscal Responsibility Legislations (FRLs) by the States. To facilitate adoption of a rule-based fiscal programme at the State level, the Reserve Bank, based on a decision taken in the Twelfth Conference of State Finance Secretaries held in August 2003, constituted a Group with representatives from several State Governments and Government of India to frame a Model Fiscal Responsibility Bill. The Group submitted its report in January 2005. The enactment of FRLs has provided impetus to the process of attaining fiscal sustainability as reduction in key deficit indicators, *viz*., revenue deficit (RD) and gross fiscal deficit (GFD), is critical for reducing the mounting level of debts of the States. Apart from fiscal sustainability, meeting the targets set in FRLs is crucial not only for maintaining credibility in budgetary operations but also ensuring prudent debt management and greater transparency. Recognising this, the Twelfth Finance Commission (TFC) recommended that each State should enact FRL, which would be a pre-condition for availing debt relief.

Twenty six States have so far enacted FRLs. Karnataka was the first to enact the FRL in September 2002 followed by Kerala (2003), Tamil Nadu (2003) and Punjab (2004). Following the recommendations of the TFC, twenty two more States have enacted the FRLs. The States of Sikkim and West Bengal are yet to enact the FRLs. Although there are variations across States in the choice of target and the time frame for achieving the target, most of the FRLs have stipulated elimination of RD by March 31, 2009 and reduction in GFD as per cent of gross state domestic product (GSDP) to 3 per cent by March 31, 2010, in line with the targets prescribed by the TFC. In addition, several States have imposed limits on guarantees and targeted to reduce their liabilities.

Measures for fiscal correction and consolidation undertaken by the States have had a favourable impact on the State finances. Reflecting this, most of the non-special category States are estimated to achieve a revenue balance/surplus in 2007-08 (BE). Four non-special category States, *viz*., Jharkhand, Punjab, West Bengal and Kerala would, however, require annual adjustments of 0.9 per cent, 1.1 per cent, 2.4 per cent and 3.4 per cent of GSDP, respectively, to achieve the TFC target in respect of the revenue balance by 2008-09. While West Bengal has not enacted FRL so far, the Finance Minister of Kerala Government in his budget speech for 2007-08 stated that it would be achieving a revenue deficit of less than one per cent of GSDP by 2010-11. All special category States, except Himachal Pradesh, have budgeted a revenue surplus in 2007-08. As regards GFD, seven non-special category States have budgeted GFD at less than 3 per cent of GSDP in 2007-08, *i.e*., two years ahead of the target prescribed by the TFC. Of the remaining ten States, nine States would require an annual adjustment of 0.2-0.9 per cent of GSDP in the fiscal years 2008-09 and 2009-10, while one State (Jharkhand) would require an annual adjustment of 2.3 per cent of GSDP in the next two fiscal years. Among special category States, five out of eleven States have budgeted GFD of less than 3 per cent of GSDP in 2007-08. Out of the remaining six States, five would require an annual adjustment of 0.4-1.8 per cent of GSDP; Sikkim, which has not enacted FRL, would require an annual adjustment of 4.4 per cent of GSDP to achieve the TFC target.

Enactment of FRLs by most of the States has ushered in a rule-based fiscal policy framework at the State level. However, the process of correction should not adversely impact capital outlay and expenditure on social sectors. Any deviation from the targets set by the States under the FRLs enacted by them would, however, raise the issue of credibility. Hence, it would be desirable that the States, which have enacted FRLs, adhere to the rules, while the remaining States expedite efforts to adopt the rule-based framework.

from 2.8 per cent of GDP during 2006-07 (RE). The consolidated primary deficit is budgeted at 0.1 per cent of GDP in 2007-08 (Table 1.50 and Appendix Table 30).

Table 1.50: Major Deficit Indicators of State Governments

(Amount in Rupees crore)

Item	Average			2005-06	2006-07 BE	2006-07 RE	2007-08 BE
	1990-95	1995-00	2000-05				
1	2	3	4	5	6	7	8
Gross Fiscal Deficit				89,847	1,07,560	1,14,476	1,09,904
	(2.8)	(3.4)	(4.1)	(2.5)	(2.6)	(2.8)	(2.4)
Revenue Deficit				2,690	4,511	1,303	-17,288
	(0.7)	(1.6)	(2.2)	(0.08)	(0.11)	(0.03)	(-0.37)
Primary Deficit				4,177	8,135	16,591	4,561
	(1.1)	(1.4)	(1.3)	(0.12)	(0.20)	(0.40)	(0.10)

BE: Budget Estimates. BE: Revised Estimates.

Notes : 1. Negative sign indicates surplus.
2. Figures in parentheses are percentages to GDP.
3. Data on GDP for 2005-06 (RE) and 2006-07 (BE) are based on CSO's Quick Estimates and Revised Estimates, respectively. Data on GDP for 2007-08 are as per the Union Budget Documents, 2007-08.

Source : Budget Documents of State Governments.

I.4.23 The improvement in the revenue account during 2007-08 is budgeted to be achieved by increase in States' own tax revenue and higher transfers from the Centre, especially the shareable Central taxes (Table 1.51).

I.4.24 The improvement in revenue account during 2007-08 would also be facilitated by deceleration in revenue expenditure, partly on account of deceleration in expenditure on administrative services, pensions and interest payments. Capital outlay, as a ratio to GDP, is budgeted to remain at 2.6 per cent during 2007-08 as in the previous year. Developmental expenditure will decelerate during 2007-08 after recording a sharp increase in the previous year (Table 1.52).

I.4.25 With the revenue account expected to register surplus in 2007-08, the trend of financing revenue deficit through borrowing would be reversed. Instead, the revenue surplus would finance capital expenditure in 2007-08. Although the share of small savings (NSSF) would come down due to the expected decline in net collections in keeping with the recent trends and the policy decision to reduce the minimum obligation of the States to borrow from the NSSF to 80 per cent of net collections from 100 per cent (Box I.13), it would continue to remain the major source of financing the GFD, followed by market borrowings (Table 1.53 and Appendix Table 32).

I.4.26 As regards resource transfer from the Centre to the States, a perusal of the Union Budget 2007-08

Table 1.51: Aggregate Receipts of State Governments

(Amount in Rupees crore)

Item	(Average)			2005-06	2006-07	2006-07	2007-08	Percentage variations		
	1990-95	1995-00	2000-05		BE	RE	BE	Col.7/5	Col.7/6	Col.8/7
1	2	3	4	5	6	7	8	9	10	11
Aggregate Receipts (1+2)				6,12,688	6,72,116	6,91,307	7,83,504	12.8	2.9	13.3
	(16.1)	(15.2)	(17.6)	(17.2)	(16.3)	(16.8)	(16.9)			
1. Total Revenue Receipts (a+b)				4,41,865	5,20,147	5,43,736	6,22,015	23.1	4.5	14.4
	(12.1)	(10.9)	(11.5)	(12.4)	(12.6)	(13.2)	(13.4)			
(a) States' Own Revenue				2,70,585	3,10,539	3,24,191	3,67,053	19.8	4.4	13.2
	(7.3)	(6.9)	(7.2)	(7.6)	(7.5)	(7.9)	(7.9)			
States' Own tax				2,21,247	2,57,203	2,67,156	3,06,163	20.8	3.9	14.6
	(5.4)	(5.3)	(5.8)	(6.2)	(6.2)	(6.5)	(6.6)			
States' Own non tax				49,338	53,337	57,035	60,890	15.6	6.9	6.8
	(1.8)	(1.6)	(1.5)	(1.4)	(1.3)	(1.4)	(1.3)			
(b) Central Transfers				1,71,280	2,09,608	2,19,544	2,54,962	28.2	4.7	16.1
	(4.9)	(4.0)	(4.2)	(4.8)	(5.1)	(5.3)	(5.5)			
Shareable Taxes				94,024	1,09,419	1,15,737	1,36,184	23.1	5.8	17.7
	(2.6)	(2.4)	(2.4)	(2.6)	(2.7)	(2.8)	(2.9)			
Central Grants				77,255	1,00,188	1,03,808	1,18,778	34.4	3.6	14.4
	(2.3)	(1.6)	(1.8)	(2.2)	(2.4)	(2.5)	(2.6)			
2. Capital Receipts (a+b)				1,70,823	1,51,969	1,47,571	1,61,489	-13.6	-2.9	9.4
	(4.0)	(4.2)	(6.1)	(4.8)	(3.7)	(3.6)	(3.5)			
(a) Loans from Centre@				13,368	13,525	14,199	14,918	6.2	5.0	5.1
	(1.2)	(1.0)	(1.0)	(0.4)	(0.3)	(0.3)	(0.3)			
(b) Other Capital Receipts				1,57,455	1,38,444	1,33,372	1,46,571	-15.3	-3.7	9.9
	(2.9)	(3.2)	(5.1)	(4.4)	(3.4)	(3.2)	(3.2)			

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 the Centre is included under internal debt and shown as special securities issued to National Small Savings 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.

Source : Budget Documents of State Governments.

Table 1.52: Expenditure Pattern of State Governments

(Amount in Rupees crore)

Item	1990-95 (Average)	1995-00 (Average)	2000-05 (Average)	2005-06	2006-07 BE	2006-07 RE	2007-08 BE	Percentage variations Col.7/5	Col.7/6	Col.8/7
1	2	3	4	5	6	7	8	9	10	11
Aggregate Expenditure				5,72,831	6,68,129	7,09,206	7,85,607	23.8	6.1	10.8
1+2=3+4+5	(16.0)	(15.3)	(17.5)	(16.1)	(16.2)	(17.2)	(17.0)			
1. Revenue Expenditure				4,44,555	5,24,658	5,45,039	6,04,727	22.6	3.9	11.0
	(12.8)	(12.6)	(13.6)	(12.5)	(12.7)	(13.2)	(13.1)			
of which:										
Interest payments				85,670	99,425	97,885	1,05,344	14.3	-1.5	7.6
	(1.7)	(2.0)	(2.8)	(2.4)	(2.4)	(2.4)	(2.3)			
2. Capital Expenditure				1,28,276	1,43,471	1,64,168	1,80,881	28.0	14.4	10.2
	(3.2)	(2.7)	(3.9)	(3.6)	(3.5)	(4.0)	(3.9)			
of which:										
Capital outlay				79,064	96,506	1,06,928	1,22,236	35.2	10.8	14.3
	(1.6)	(1.4)	(1.6)	(2.2)	(2.3)	(2.6)	(2.6)			
3. Development Expenditure				3,37,691	3,92,926	4,27,543	4,80,140	26.6	8.8	12.3
	(10.8)	(9.6)	(9.7)	(9.5)	(9.5)	(10.4)	(10.4)			
4. Non-Development Expenditure				1,92,892	2,30,225	2,28,778	2,50,418	18.6	-0.6	9.5
	(4.3)	(4.9)	(6.0)	(5.4)	(5.6)	(5.5)	(5.4)			
5. Others*				42,248	44,978	52,886	55,050	25.2	17.6	4.1
	(0.9)	(0.8)	(1.8)	(1.2)	(1.1)	(1.3)	(1.2)			

RE : Revised Estimates. BE : Budget Estimates.

* : Comprises Compensation and Assignments to local bodies, Grants-in-Aid and Contributions, Discharge of Internal Debt, Repayment of loans to the Centre.

Note : Figures in parentheses are percentages to GDP.

Source : Budget Documents of State Governments.

in conjunction with State Budgets reveals that States have overestimated grants from the Centre during 2007-08, while shareable Central taxes have been underestimated. The flows from the NSSF have also been overestimated in the State Budgets for 2007-08. There are also some differences with regard to loans from the Centre. Taking into account the data on devolution and transfers from the Centre as indicated in the Union Budget 2007-08, the States' revenue deficit and gross fiscal deficit would be somewhat higher than those budgeted by the State Governments.

Combined Finances for 2007-08

I.4.27 An overview of the combined budgetary position of the Central and State Governments for 2007-08 indicates continuance of the fiscal consolidation process. The key deficit indicators are budgeted to decline *vis-à-vis* the revised estimates for 2006-07, both in absolute terms and in terms of GDP (Table 1.54). The improvement in combined finances during 2007-08 would primarily be due to the marked improvement in State finances, reflecting the build-up of sizeable surplus in their revenue accounts.

I.4.28 Revenue receipts are budgeted to increase, led by higher tax revenues (Table 1.55). The combined tax-GDP ratio is budgeted to improve from 17.7 per cent in 2006-07 to 18.3 per cent in 2007-08 (Appendix Table 31). On the expenditure side, the share of development expenditure in the total expenditure is budgeted to improve from 54.1 per cent in 2006-07 (RE) to 57.1 per cent during 2007-08 (BE).

I.4.29 Market borrowings are budgeted to finance a higher proportion of the combined GFD during 2007-08 than in the preceding year. While the share of the State

Box I.13
National Small Savings Fund (NSSF) and Fiscal Deficit of State Governments

In recent years, the securities issued to the National Small Savings Fund (NSSF) have emerged as the dominant source - constituting over two-thirds - of financing the gross fiscal deficit (GFD) of the State Governments. Set up in 1999, the NSSF invests in special securities of the Central and State Governments. Between April 1999 and March 2000, the net small savings collections of the NSSF used to be invested in Special State Government Securities (SSGS) and Special Central Government Securities (SCGS) in the ratio 75:25 which was modified to 80:20 in 2000-01. From 2002-03 to 2006-07, the entire net collections credited to the NSSF were passed on to the States against the issue of special securities. These securities have a 25-year tenor with an initial five-year moratorium on repayment. The interest rate on the SSGS has been gradually reduced from 13.5 per cent in 1999-2000 to 9.5 per cent.

Following the recommendations of the Sub-Committee of the National Development Council (NDC) on *Debt Outstanding of States against NSSF* under the chairmanship of the Union Finance Minister, it was announced in the Union Budget 2007-08 to reduce the share of the States to 80 per cent of net collections in the NSSF, with the option to the States to take up to 100 per cent of their net collections. Furthermore, the interest rate on loans taken by the State Governments from the NSSF from 1999-2000 to 2002-03 has been reset at 10.5 per cent effective April 1, 2007.

The States were required to use a portion of the flows from the NSSF (20 per cent in first year, 30 per cent in second year and 40 per cent in third year) to prepay their high cost liabilities to the Centre under the Debt Swap Scheme (DSS) during 2002-03 to 2004-05. With the expiry of the DSS, the States had access to the entire small savings collection from 2005-06 as against only 60 per cent in 2004-05. The investment in the SSGS against collections as on April 1, 2007 was estimated at Rs.4,49,892 crore.

During 1999-2002 (with 75/80 per cent share for State Governments), the NSSF, on an average, financed about 34 per cent of the GFD of the State Governments. With the increase in the share of State Governments to 100 per cent from 2002-03, flows from the NSSF, on an average, financed 53 per cent of the GFD during the period 2002-07. Following the reduction of share to 80 per cent effective April 1, 2007, the NSSF is budgeted to finance 48.8 per cent of GFD of the State Governments during 2007-08.

The NSSF is an autonomous source of funds for the State Governments as they cannot determine either the quantum or the cost of these borrowings. As a result, several State Governments have had funds in excess of their financing requirements. The accrual of the NSSF funds is reflected in the State Governments maintaining a high level of cash surplus on a continuous basis in the recent past. As a result, the reliance on market borrowings has declined. Apart from announcing the reduction in obligatory share of State Governments in the NSSF to 80 per cent, net flows from the NSSF are budgeted to be lower in the Union Budget for 2007-08 than the previous year, in line with the declining trend witnessed in recent years. The State Governments may, however, not take recourse to higher market borrowings if they use the option of drawing down the surplus cash balances.

Provident Funds is budgeted to increase marginally, the contribution of small savings to the financing of GFD is budgeted to decline during 2007-08 (Table 1.56 and Appendix Table 1.33).

Table 1.53: Decomposition and Financing Pattern of Gross Fiscal Deficit of States

(Per cent)

Item	Average			2005-06	2006-07 BE	2006-07 RE	2007-08 BE
	1990-95	1995-00	2000-05				
1	2	3	4	5	6	7	8
Decomposition (1 to 4)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Revenue Deficit	24.7	44.8	51.7	3.0	4.2	1.1	-15.7
2. Capital Outlay	55.4	43.3	40.6	88.0	89.7	93.4	111.2
3. Net Lending	20.0	12.2	7.7	9.0	8.9	8.3	13.9
4. Non-debt Capital Receipts*	-0.1	-0.3	0.0	0.0	-2.8	-2.9	-9.3
Financing (1 to 11)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Market Borrowings	16.0	16.1	26.0	17.0	21.2	16.5	23.7
2. Loans from Centre	49.1	40.7	4.1	5.5	4.5	-1.4	4.8
3. Loans against Securities Issued to NSSF	–	28.9**	40.8	82.9	54.1	51.2	48.8
4. Loans from LIC, NABARD, NCDC, SBI and Other Banks	1.8	2.8	4.0	4.5	7.0	5.3	6.2
5. State Provident Fund	14.3	13.4	8.1	10.7	8.1	8.8	10.4
6. Reserve Funds	6.8	5.5	4.9	5.8	4.1	4.1	3.9
7. Deposits & Advances	9.8	9.8	4.2	8.1	-1.1	1.6	1.4
8. Suspense & Miscellaneous	4.3	2.7	-0.8	8.8	3.3	0.0	-1.3
9. Remittances	-1.4	-3.6	0.7	0.1	1.8	0.3	0.0
10. Overall Surplus (-)/Deficit (+)	-4.4	2.6	-2.8	-44.4	-3.7	15.6	1.9
11. Others	3.8	4.1	10.9	0.9	0.7	-2.0	0.2

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

* : Includes proceeds from disinvestment and sale of land.

** : Pertains to only 1999-2000 as it was introduced from that year. The sum of items for 1995-2000 (average) will not thus be equal to 100.

Note : 'Others' (item no.11) includes Contingency Fund, Inter-State Settlement, *etc.*

Source : Budget documents of State Governments.

Table 1.54: Measures of Deficit of the Central and State Governments

Year	Amount (Rupees crore)			Per cent to GDP		
	Gross Fiscal Deficit	Revenue Deficit	Primary Deficit	Gross Fiscal Deficit	Revenue Deficit	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	9.5	6.6	3.6
2001-02	2,26,425	1,59,350	84,039	9.9	7.0	3.7
2002-03	2,34,987	1,62,990	75,927	9.6	6.6	3.1
2003-04	2,34,501	1,59,406	56,701	8.5	5.8	2.1
2004-05	2,34,721	1,14,761	42,408	7.5	3.7	1.4
2005-06	2,39,323	94,989	33,700	6.7	2.7	0.9
2006-07 RE	2,64,506	84,739	32,562	6.4	2.1	0.8
2007-08 BE	2,57,867	54,189	5,039	5.6	1.2	0.1

BE : Budget Estimates. RE : Revised Estimates.

Social Sector Expenditure

I.4.30 The combined social sector expenditure, as a proportion to GDP, is budgeted to decline by 0.4 percentage point from 8.5 per cent during 2006-07 (RE) to 8.1 per cent during 2007-08 (BE). The expenditure on education - a major component of social services, with a share of almost 45 per cent – at 2.9 per cent of GDP in 2007-08 would be unchanged from a year ago (Table 1.57).

Table 1.55: Combined Receipts and Disbursements of the Centre and States

(Amount in Rupees crore)

Item	2006-07 (RE)	2007-08 (BE)	Variation	
			Amount	Per cent
1	2	3	4	5
Total Receipts (A+B)	**11,33,325 (27.5)**	**13,25,193 (28.6)**	**1,91,868**	**16.9**
A. Revenue Receipts (1+2)	8,82,247 (21.4)	10,11,549 (21.8)	1,29,302	14.7
1. Tax Receipts (a+b)	7,28,864 (17.7)	8,46,219 (18.3)	1,17,355	16.1
a) Direct Taxes	2,62,005 (6.4)	3,07,299 (6.6)	45,294	17.3
b) Indirect Taxes	4,66,859 (11.3)	5,38,920 (11.6)	72,061	15.4
2 Non Tax Receipts	1,53,383 (3.7)	1,65,330 (3.6)	11,947	7.8
B. Capital Receipts	2,51,078 (6.1)	3,13,644 (6.8)	62,566	24.9
Total Disbursements (A+B)	**11,62,151 (28.2)**	**13,27,295 (28.6)**	**1,65,144**	**14.2**
A. Development Expenditure	6,28,775 (15.2)	7,58,406# (16.4)	1,29,631	20.6
B. Non-Development Expenditure@	5,33,376 (12.9)	5,68,890 (12.3)	35,514	6.7

RE : Revised Estimates. BE : Budget Estimates.

@ : Exclude repayments.

\# : Includes an amount of Rs.40,000 crore on account of transactions relating to transfer of the Reserve Bank's stake in SBI to the Government of India.

Note : Figures in parentheses are percentages to GDP.

Table 1.56: Financing of Gross Fiscal Deficit of the Centre and States

(Rupees crore)

Year	Market Borrowings	State Provident Funds	Small Savings	External Assistance	Others	Gross Fiscal Deficit
1	2	3	4	5	6	7
2004-05	85,498 (36.4)	13,139 (5.6)	87,690 (37.4)	14,753 (6.3)	33,641 (14.3)	2,34,721 (100.0)
2005-06	1,21,546 (50.8)	15,162 (6.3)	89,836 (37.5)	7,472 (3.1)	5,307 (2.2)	2,39,323 (100.0)
2006-07 BE	1,36,540 (52.8)	14,739 (5.7)	86,500 (33.4)	8,324 (3.2)	12,650 (4.9)	2,58,753 (100.0)
2006-07 RE	1,29,438 (48.9)	15,090 (5.7)	61,600 (23.3)	7,892 (3.0)	50,486 (19.1)	2,64,506 (100.0)
2007-08 BE	1,36,927 (53.1)	16,442 (6.4)	57,500 (22.3)	9,111 (3.5)	37,887 (14.7)	2,57,867 (100.0)

BE : Budget Estimates. RE : Revised Estimates.

Note : Figures in parentheses are percentages to GFD.

Table 1.57: Combined Expenditure of the Centre and States on Social Sector

(Amount in Rupees crore)

Item	2005-06	2006-07 (BE)	2006-07 (RE)	2007-08 (BE)
1	2	3	4	5
Expenditure on Social Sector *	2,70,973	3,14,822	3,49,138	3,77,359
Of which: Social Services	2,08,468	2,47,572	2,61,911	3,01,568
Of which:				
i) Education	98,027	1,17,812	1,21,196	1,35,766
ii) Medical and Public Health	47,144	56,932	58,370	67,877
Per cent of GDP				
Expenditure on Social Sector	7.6	7.6	8.5	8.1
Of which: Social Services	5.8	6.0	6.3	6.5
Of which:				
i) Education	2.7	2.9	2.9	2.9
ii) Medical and Public Health	1.3	1.4	1.4	1.5
Per cent of total expenditure				
Expenditure on Social Sector	27.9	28.2	30.0	28.4
Of which: Social Services	21.5	22.2	22.5	22.7
Of which:				
i) Education	10.1	10.6	10.4	10.2
ii) Medical and Public Health	4.9	5.1	5.0	5.1

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

I.4.31 To sum up, the combined Government finances are budgeted to show further improvement during 2007-08. The key deficit indicators of both the Central and the State Governments during 2007-08 are budgeted to be lower than a year ago, with many State Governments expected to record surpluses on their revenue account. The budgeted improvement in public finances is envisaged mainly through an increase in the tax-GDP ratio, aided by the sustained economic growth and stable tax environment. Although substantial improvement in public finances has been witnessed since 2002-03 onwards, the combined fiscal deficit and public debt still remain high *vis-à-vis* international standards.

V. FINANCIAL MARKETS

I.5.1 Indian financial markets remained generally orderly during the most part of 2006-07. There were, however, some spells of volatility, especially in March 2007, reflecting shifts in liquidity conditions arising from large changes in capital flows and cash balances of the Government. Interest rates in various segments of the financial markets hardened in tandem with the policy rates of the Reserve Bank. The overnight rates remained within the corridor set by the Reserve Bank's reverse repo and repo rates during the year, barring some occasions during December 2006-March 2007 (especially, the second half of March 2007), when the overnight rates increased sharply as the market experienced temporary tightness. Interest rates in the collateralised segment of the overnight money market also hardened, but remained below the call rate during the year. In the foreign exchange market, the Indian rupee exhibited two-way movements with a strengthening bias from mid-July 2006. Yields in the Government securities market hardened during the year. However, the yield curve flattened. Banks' deposit and lending rates edged up, especially in the second half of the year. The stock markets reached record highs during the year interspersed with periodic corrections (Table 1.58). The primary market segment of the capital market continued to exhibit buoyancy.

INTERNATIONAL FINANCIAL MARKETS

I.5.2 During 2006-07, short-term interest rates increased further in a number of economies (Table 1.59) as many central banks continued with monetary tightening to contain inflation and stabilise inflationary expectations (see Table 1.28). The increase in short-term rates in the US during 2006-07 was lower than that in other major advanced economies, reflecting the pause by the US Fed since end-June 2006. Short-term interest rates, however, declined in some emerging market economies (EMEs) such as Israel, Thailand and Brazil, reflecting the cut in policy rates during the year. In 2007-08 so far, short-term rates have hardened further in a number of economies in tandem with the policy rates. Short-term rates eased in a few EMEs such as Brazil and Thailand, as central banks in these countries continued to cut policy rates.

I.5.3 In contrast to the upward trend in short-term rates in major advanced economies during 2006-07, long-term Government bond yields exhibited mixed trends. While the long-term yields (10-year Treasuries) declined in the US (by 18 basis points) and in Japan (12 basis points), they rose in the UK (56 basis points) and in the euro area (32 basis points). The decline in the yields in the US could be attributed to the weakening of economic growth and the pause by the Federal Reserve (Chart I.15). The hardening of yields in the euro area and the UK could

Table 1.58: Domestic Financial Markets at a Glance

Year/Month	Call Money		Govt. Securities		Foreign Exchange				Liquidity Management		Equity			
	Average Daily Turnover (Rupees crore)	Average Call Rates* (Per cent)	Average Turnover in Govt. Securities (Rupees crore)+	Average 10-year Yield@ (Per cent)	Average Daily Inter-bank Turnover (US $ million)	Average Exchange Rate (Rs. per US $)	RBI's Net Foreign Currency Sales(-)/ Purchases(+) (US $ million)	Average 3-month Forward Premia (Per cent)	Average MSS Outstanding (Rupees crore) #	Average Daily 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	**14,170**	**4.65**	**4,826**	**6.22**	**8,892**	**44.93**	**20,847 ##**	**1.66**	**46,445**	**35,592**	**2,050**	**4,506**	**5741**	**1805**
2005-06	**17,979**	**5.60**	**3,643**	**7.12**	**12,738**	**44.27**	**8,143 ##**	**1.60**	**58,792**	**10,986**	**3,248**	**6,253**	**8280**	**2513**
2006-07	**21,725**	**7.22**	**4,863**	**7.78**	**18,540**	**45.25**	**26,824 ##**	**2.14**	**37,698**	**21,973**	**3,866**	**7,862**	**12320**	**3585**
Jan 2006	17,911	6.83	3,094	7.15	16,713	44.40	0	2.60	40,219	-15,386	3,966	7,472	9540	2893
Feb 2006	13,497	6.95	2,584	7.32	15,798	44.33	2,614	2.85	33,405	-13,532	3,688	7,125	10090	3019
Mar 2006	18,290	6.58	2,203	7.40	17,600	44.48	8,149	3.11	29,652	-6,319	5,398	9,518	10857	3236
Apr 2006	16,909	5.62	3,685	7.45	17,712	44.95	4,305	1.31	25,709	46,088	4,860	9,854	11742	3494
May 2006	18,074	5.54	3,550	7.58	18,420	45.41	504	0.87	26,457	59,505	4,355	9,155	11599	3437
Jun 2006	17,425	5.73	2,258	7.86	15,310	46.06	0	0.73	31,845	48,610	3,131	6,567	9935	2915
Jul 2006	18,254	5.86	2,243	8.26	14,325	46.46	0	0.83	36,936	48,027	2,605	5,652	10557	3092
Aug 2006	21,294	6.06	5,786	8.09	15,934	46.54	0	1.22	40,305	36,326	2,867	5,945	11305	3306
Sep 2006	23,665	6.33	8,306	7.76	18,107	46.12	0	1.31	40,018	25,862	3,411	6,873	12036	3492
Oct 2006	26,429	6.75	4,313	7.65	16,924	45.47	0	1.67	41,537	12,983	3,481	6,919	12637	3649
Nov 2006	25,649	6.69	10,654	7.52	20,475	44.85	3,198	2.07	38,099	9,937	4,629	8,630	13416	3869
Dec 2006	24,168	8.63	5,362	7.55	19,932	44.64	1,818	3.20	38,148	-1,713	4,276	8,505	13628	3910
Jan 2007	22,360	8.18	4,822	7.71	21,065 P	44.33	2,830	4.22	39,553	-10,738	4,380	8,757	13984	4037
Feb 2007	23,254	7.16	4,386	7.90	20,050 P	44.16	11,862	3.71	40,827	648	4,676	9,483	14143	4084
Mar 2007	23,217	14.07	2,991	8.00	24,231 P	44.03	2,307	4.51	52,944	-11,858	3,716	7,998	12858	3731
Apr 2007	29,689	8.33	4,636	8.10	28,131 P	42.15	2,055	6.91	71,468	-8,937	3,935	8,428	13478	3947
May 2007	20,476	6.96	4,442	8.15	24,843 P	40.78	4,426	4.58	83,779	-6,397	4,706	9,885	14156	4184
Jun 2007	16,826	2.42	6,250	8.20	30,122 P	40.77	3,192	2.59	83,049	1,689	4,512	9,221	14334	4222
Jul 2007	17,134	0.73	13,273	7.94	–	40.41	–	1.12	82,996	2,230	4,537	12,147	15253	4474

* : Average of daily weighted call money borrowing rates.
\+ : Average of daily outright turnover in Central Government dated securities.
@ : Average of daily closing rates.
\# : Average of weekly outstanding MSS.
** : Average of daily closing indices.
\## : Cumulative for the financial year.
LAF : Liquidity Adjustment Facility.
MSS : Market Stabilisation Scheme.
BSE : Bombay Stock Exchange Limited (BSE).
NSE : National Stock Exchange of India Ltd.
P : Provisional
– : Not available.

Note : In column 11, (-) indicates injection of liquidity while (+) indicates absorption of liquidity.

be attributed to improved growth prospects and further monetary tightening in these regions. Spreads on risky corporate debt in major advanced economies narrowed during the year, reaching record lows in the first quarter of 2007 on the back of strong risk appetite and sound corporate balance sheets. Spreads on emerging market debt also eased during the year, reaching record lows in the first quarter of 2007. During the 2007-08 so far, long-term bond yields have hardened, reflecting higher short-term rates and upward revision in growth expectations.

I.5.4 Global equity markets barring in Thailand recorded further gains during 2006-07, reflecting strong corporate results, decline in crude oil prices, better than expected growth in the euro area, and strong merger and acquisition activity (Table 1.60). These gains were interspersed with intermittent corrections on account of concerns over growing inflationary pressures (mid-May to early June 2006), imposition of unremunerated reserve requirement of 30 per cent on short-term capital flows by Thailand to discourage speculative short-term capital flows (December 2006) and developments in the sub-prime mortgage lending and slowdown in the US economy (March 2007). Notwithstanding these corrections, the Morgan Stanley Capital International (MSCI) World and MSCI emerging markets indices at end-March 2007 were higher by 13.4 per cent and 16.9 per cent, respectively, over their levels at end-March 2006 led by stock markets in China (145.2 per cent). Global equity markets recorded further gains during 2007-08, although the market turned volatile during the second and third weeks of August 2007 due mainly to problems in the US sub-prime mortgage markets.

Table 1.59: Short-term Interest Rates

(Per cent)

Region/Country	At end of			
	March 2005	March 2006	March 2007	August* 2007
1	2	3	4	5
Advanced Economies				
Euro Area	2.15	2.80	3.91	4.53
Japan	0.02	0.04	0.57	0.67
Sweden	1.97	1.99	3.21	3.24
UK	4.95	4.58	5.55	6.35
US	2.90	4.77	5.23	5.39
Emerging Market Economies				
Argentina	4.56	9.63	9.63	11.44
Brazil	19.25	16.54	12.68	11.43
China	2.25	2.40	2.86	3.20
Hong Kong	2.79	4.47	4.17	4.74
India	**5.37**	**6.11**	**7.98**	**6.73**
Malaysia	2.82	3.51	3.64	3.62
Philippines	7.25	7.38	5.31	6.81
Singapore	2.06	3.44	3.00	2.69
South Korea	3.54	4.26	4.94	5.22
Thailand	2.64	5.10	4.45	3.55

*: As on August 15, 2007.
Note : Data for India refer to 91-day Treasury Bills rate and for other countries 3-month money market rates.
Source : The Economist.

I.5.5 In the foreign exchange market, the US dollar depreciated against most of the currencies during 2006-07, reflecting narrowing of interest rate differentials, moderation of activity in the US and robust growth in the euro area (Table 1.61). The US dollar has depreciated further against the major currencies during 2007-08 so far, reflecting narrowing of interest rate differentials.

Chart I.15: 10-year Government Bond Yields

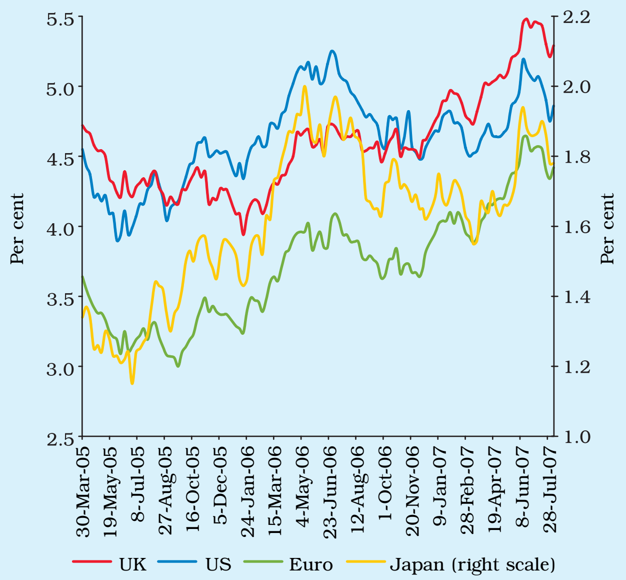


Table 1.60: International Stock Markets

Country (Index)	Percentage Variation (year-on-year)		P/E Ratio		Coefficient of Variation
	End-March 2006	End-March 2007	End-March 2006	End-March 2007	2006-07
1	2	3	4	5	6
Emerging Markets					
China	9.9	145.2	20.9	34.7	26.9
Russia (RTS)	114.5	34.9	11.6	12.9	9.8
India (BSE Sensex)	**73.7**	**15.9**	**20.9**	**20.3**	**11.1**
Brazil (Bovespa)	42.6	20.7	11.0	12.4	8.7
South Korea (KOSPI)	40.8	6.8	10.9	12.6	4.6
Indonesia (Jakarta Composite)	22.5	38.4	16.8	19.1	12.0
Singapore (Straits Times)	18.3	27.5	13.6	14.0	10.7
Taiwan	10.1	19.2	18.2	17.9	6.9
Thailand (SET Composite)	7.6	-8.1	11.1	10.6	5.1
Malaysia (KLSE Composite)	6.3	34.6	12.4	17.0	10.7
Developed Markets					
US (Dow Jones Industrial Average)	5.8	11.2	21.1	17.1	5.0
US (Nasdaq Composite)	17.0	3.5	41.8	34.6	6.0
UK (FTSE 100)	21.9	5.8	16.6	16.7	3.6
Japan (Nikkei 225)	46.2	1.3	40.4	36.9	5.4
Hong Kong (Hang Seng)	16.9	25.3	12.3	15.1	8.6
Memo:					
MSCI World	16.0	13.4	–	–	–
MSCI Emerging	45.1	16.9	–	–	–
MSCI Asia	31.4	20.1	–	–	–

– : Not available.
Source : Bloomberg and Bombay Stock Exchange Limited (BSE).

Table 1.61: Appreciation (+)/Depreciation (-) of the US dollar *vis-à-vis* other Currencies

(Per cent)

Currency	End-March 2006 @	End-March 2007 @	August 17 2007 *
1	2	3	4
Euro	7.1	-9.1	-1.0
Pound Sterling	8.5	-11.4	-1.0
Japanese Yen	9.4	0.2	-4.5
Chinese Yuan	-3.1	-3.4	-1.7
Russian Rubble	-0.6	-6.1	-0.9
Turkish Lira	-2.0	3.2	0.1
Indian Rupee	2.2	-2.5	-4.6
Indonesian Rupiah	-4.3	0.5	3.9
Malaysian Ringgit	-3.0	-6.2	1.8
South Korea Won	-4.7	-3.7	0.6
Thai Baht	-0.7	-9.9	-1.9
Argentine Peso	5.4	0.7	2.0
Brazilian Peso	-18.1	-6.4	-2.4
Mexican Peso	-2.6	1.3	0.8
South African Rand	-0.5	17.2	0.9

@: Year-on-year variation. *: Variation over end-March 2007.

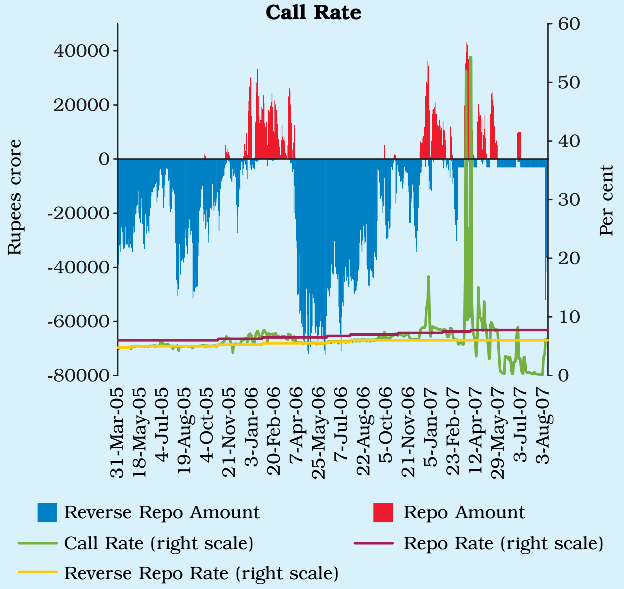
DOMESTIC FINANCIAL MARKETS

Money Market

Call/Notice Money Market

I.5.6 Money market rates edged up during 2006-07, broadly moving in line with the policy rates. The call rate averaged 7.22 per cent during 2006-07, 162 basis points higher than that in 2005-06. Movements of interest rates during the year depended upon the evolving liquidity conditions on account of factors such as advance tax outflows, Government cash balances, festive season currency demand, trends in capital flows and credit demand. The call money rate, which was generally anchored to the reverse repo rate up to mid-September 2006, remained mostly within the repo-reverse repo corridor from mid-September 2006 to December 12, 2006 (Chart I.16 and Appendix Table 35). Effective December 13, 2006, the call rate edged up and crossed the repo rate under the impact of advance tax outflows and the announcement (on December 8, 2006) of a hike of 25 basis points each in the cash reserve ratio (CRR) effective the fortnights beginning December 23, 2006 and January 6, 2007. The weighted average call rate touched 16.88 per cent on December 29, 2006 but eased in the first week of January 2007 on some improvement in liquidity conditions. The call rate, however, continued to remain above the repo rate till the first week of February 2007. The call rate eased further to around 6.5 per cent – below the repo rate – by the second week of February 2007 as a consequence of the Reserve Bank's foreign exchange operation. Following the announcement (on February 13, 2007) of a hike of 25 basis points each in the CRR effective the fortnights beginning February 17, 2007 and March 3, 2007, the call rate again firmed up to about 8.0 per cent by mid-February 2007 but quickly eased to around 6.1 per cent by end-February 2007. On a review of the liquidity conditions, modified arrangements of liquidity management were put in place effective March 5, 2007 under which a flexible arrangement of MSS auctions of dated securities was introduced along with a ceiling of Rs.3,000 crore under the LAF reverse repos (see Chapter III). After easing to below the reverse repo rate between March 5-15, 2007, the call rate hardened as liquidity conditions tightened again due to advance tax outflows, year-end considerations, sustained credit demand and asymmetric distribution of holdings of Government securities across the banks. The call rate averaged 19.84 per cent during March 16-30, 2007 and reached an intra-year high of 54.32 per cent as on March 30, 2007.

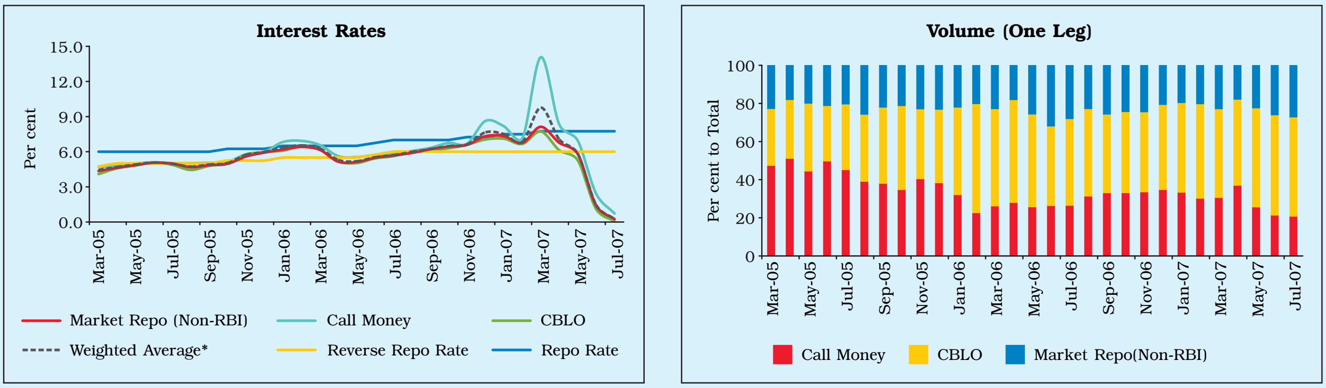
Chart I.16: Liquidity Adjustment Facility and the Call Rate



I.5.7 Interest rates in the collateralised segments of the money market – the market repo (outside the LAF) and the collateralised borrowing and lending obligation (CBLO) – increased in line with call rates. The collateralised market is now the predominant segment in the money market, and it accounted for about 70 per cent of the total volume during 2006-07 (Chart I.17 and Table 1.62). Rates in these segments continued to remain below those in the call market during 2006-07 and exhibited relative stability *vis-à-vis* the call rate. For the financial year 2006-07, as a whole, the interest rates averaged 6.24 per cent (5.34 per cent in 2005-06) in the CBLO segment and 6.34 per cent (5.36 per cent) in the market repo segment, respectively, as compared with 7.22 per cent (5.60 per cent) in the call money market. The weighted average interest rate of the call money, the CBLO and the repo segments rose from 5.43 per cent in 2005-06 to 6.57 per cent in 2006-07.

I.5.8 Beginning from end-May 2007, the call rate eased significantly and on a number of occasions in June 2007 it was below one per cent. The call rate reached 0.23 per cent on June 21, 2007 and remained low except for a couple of days towards end-June 2007. During 2007-08 (May-July), the rates averaged 3.37 per cent, 2.15 per cent and 2.49 per cent, respectively, in the call money, the CBLO and the market repo segments mainly due to liquidity emanating from Government expenditure and the Reserve Bank's foreign exchange operations. After the withdrawal of daily reverse repo ceiling effective August 6, 2007 (see Chapter III), the rates in the

Chart I.17: Money Market – Interest Rates and Turnover



*: Weighted average of interest rates in the call money, CBLO and market repo segments.

overnight money market increased in August 2007. The average rates in call, CBLO, market repo during August 6 – August 16, 2007 were at 6.17 per cent, 5.67 per cent and 5.76 per cent, respectively. Thus, the overnight rates converged to around the lower bound of the informal reverse repo – repo corridor.

Table 1.62: Activity in Money Market Segments

(Rupees crore)

Year/Month	Average Daily Volume (One Leg)					Commercial Paper		Certificates of Deposit Outstanding
	Call Money Market	Repo Market (Outside the LAF)	Collateralised Borrowing and Lending Obligation (CBLO)	Total (2+3+4)	Term Money Market	Outstanding	Amount Issued	
1	2	3	4	5	6	7	8	9
2004-05	**7,085**	**4,284**	**3,349**	**14,718**	**263**	**11,723**	**1,090**	**6,052**
2005-06	**8,990**	**5,296**	**10,020**	**24,306**	**417**	**17,285**	**3,140**	**27,298**
2006-07	**10,863**	**8,419**	**16,195**	**35,477**	**506**	**21,372**	**4,644**	**65,021**
Jan 2006	8,956	6,149	12,817	27,922	545	16,431	1,937	34,521
Feb 2006	6,749	6,024	17,081	29,854	407	15,876	3,160	34,487
Mar 2006	9,145	7,991	17,888	35,024	669	12,718	2,813	43,568
Apr 2006	8,455	5,479	16,329	30,263	447	16,550	6,065	44,059
May 2006	9,037	9,027	17,147	35,211	473	17,067	4,701	50,228
Jun 2006	8,713	10,563	13,809	33,085	628	19,650	4,981	56,390
Jul 2006	9,127	9,671	15,670	34,468	432	21,110	5,812	59,167
Aug 2006	10,647	7,764	15,589	34,000	510	23,299	6,460	65,621
Sep 2006	11,833	9,185	14,771	35,789	568	24,444	5,220	65,274
Oct 2006	13,214	9,721	16,964	39,899	466	23,171	3,373	65,764
Nov 2006	12,825	9,374	16,069	38,268	348	24,238	6,392	68,911
Dec 2006	12,084	7,170	15,512	34,766	481	23,536	3,080	68,619
Jan 2007	11,180	6,591	15,758	33,529	515	24,398	3,490	70,149
Feb 2007	11,627	7,794	19,063	38,484	467	21,167	2,763	72,795
Mar 2007	11,608	8,687	17,662	37,957	739	17,838	3,386	93,272
Apr 2007	14,845	7,173	18,086	40,104	440	18,759	3,767	95,980
May 2007	10,238	8,965	20,801	40,004	277	22,024	6,325	99,715
Jun 2007	8,413	10,294	20,742	39,431	308	26,256	7,525	98,337
Jul 2007 (P)	8,290	10,843	20,768	39,901	288	–	–	–

–: Not available. P: Provisional.

Certificates of Deposit

I.5.9 Banks continued to take recourse to certificates of deposit (CDs) to supplement their deposit resources to fund the credit demand. The flexibility of return that can be offered to attract bulk deposits has made CDs the preferred route for mobilising resources for the cash-strapped banks. The outstanding amount of CDs increased from Rs.43,568 crore at end-March 2006 (4.80 per cent of aggregate deposits of issuing banks) to Rs.93,272 crore (4.83 per cent) by end-March 2007 (see Table 1.62 and Appendix Table 36). As on June 22, 2007, the outstanding amount of CDs increased further to Rs.98,337 crore. A substantial part of the CDs issuance (around 20 per cent of total outstanding amount) took place during the first fortnight of March 2007, mainly by private sector banks. Smaller banks having lower deposit base had a higher ratio of CDs to aggregate deposit in comparison with large public sector banks. The weighted average discount rate (WADR) of CDs increased from 8.62 per cent at end-March 2006 to 10.75 per cent at end-March 2007 in tandem with the upward movement of other money market interest rates. The WADR softened to 9.37 per cent at end-June 2007. Mutual funds are the major investors in the CDs.

Commercial Paper

I.5.10 The outstanding amount of commercial paper (CP) issued by corporates increased from Rs.12,718 crore at end-March 2006 to Rs.17,838 crore at end-March 2007. The outstanding amount of CP increased sharply in the first half of 2006-07, but was largely range-bound during October 2006-January 2007 and declined during February-March 2007 (see Table 1.62 and Appendix Table 37). At present, a corporate having minimum credit rating of P2 of CRISIL or its equivalent can raise resource through CP. As a result, CP issuance is dominated by the prime rated companies. For instance, during the fortnight ended March 31, 2007, the prime rated companies raised funds aggregating Rs.1,190 crore (93.0 per cent of total) through CP at a weighted average discount rate (WADR) of 11.3 per cent, whereas medium rated companies raised funds worth Rs.90 crore (seven per cent) at a WADR of 11.78 per cent. Overall, the WADR on CP increased from 8.59 per cent during the fortnight ended March 31, 2006 to 11.33 per cent during the fortnight ended March 31, 2007 in tandem with the increase in other money market rates. The outstanding amount of CP increased to Rs.26,256 crore as on June 30, 2007. The WADR softened to 8.93 per cent in June 2007. The most preferred maturity of CP was for periods ranging from '61 to 90 days' and '181 days and above'.

Table 1.63: Commercial Paper – Major Issuers

(Rupees crore)

Category of Issuer	End of			
	March 2005	March 2006	March 2007	June 2007
1	2	3	4	5
Leasing and Finance	8,479 (59.6)	9,400 (73.9)	12,569 (70.5)	18,260 (69.5)
Manufacturing	2,881 (20.2)	1,982 (15.6)	2,754 (15.4)	3,956 (15.1)
Financial Institutions	2,875 (20.2)	1,336 (10.5)	2,515 (14.1)	4,040 (15.4)
Total	**14,235** **(100.0)**	**12,718** **(100.0)**	**17,838** **(100.0)**	**26,256** **(100.0)**

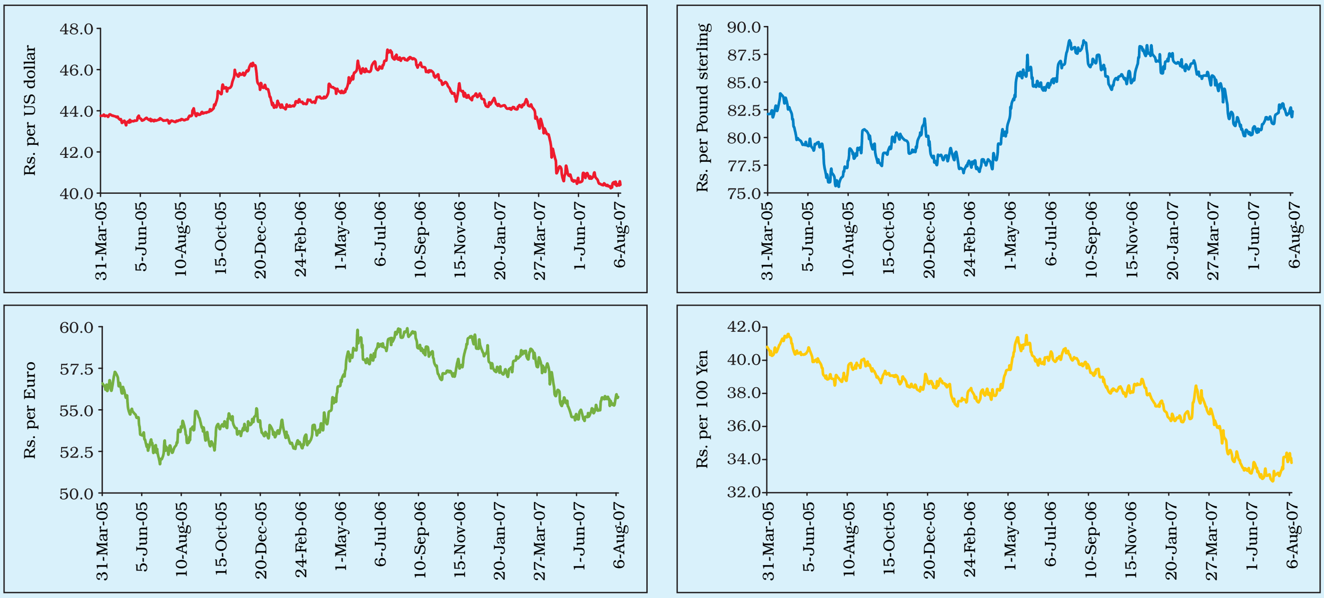
Note : Figures in parentheses are percentage shares in the total outstanding.

I.5.11 Leasing and finance companies accounted for the bulk of the CP – two-thirds of the total outstanding (Table 1.63). The share of the manufacturing corporates remained unchanged. The phenomenon of sub-PLR lending has enabled some of the manufacturing companies to raise funds at comparable rates from banks without incurring any additional cost towards stamp duty, demat costs and fees associated with the issuance of CP.

FOREIGN EXCHANGE MARKET

I.5.12 In the foreign exchange market, the Indian rupee exhibited two-way movements in the range of Rs.43.14–46.97 per US dollar during 2006-07 (Charts I.18 and I.19). The rupee initially depreciated against the US dollar during the year, reaching Rs.46.97 on July 19, 2006, reflecting higher crude oil prices and FII outflows. The rupee, however, strengthened thereafter on the back of moderation in crude oil prices, large capital inflows and weakness of the US dollar in the international markets to reach Rs.43.14 per US dollar on March 28, 2007. The exchange rate was Rs.43.60 per US dollar at end-March 2007. The Reserve Bank's net market purchases of foreign exchange amounted to US $ 26.8 billion during 2006-07 as compared with US $ 8.1 billion in 2005-06 (Table 1.64). Between end-March 2006 and end-March 2007, the Indian rupee appreciated by 2.3 per cent *vis-à-vis* the US dollar and by 2.7 per cent against the Japanese yen, while it depreciated by 9.1 per cent against the Pound sterling and 6.8 per cent against the Euro. Between

Chart I.18: Movement of Rupee *vis-a-vis* Major Currencies



March 2006 and March 2007, the nominal effective exchange rate (NEER) of the Indian rupee in terms of six-currency trade-based weights and the 36-currency trade-based weights depreciated by 3.8 per cent and 2.7 per cent, respectively. Over the same period, while there was no change in the real effective exchange rate (REER) of the Indian rupee in terms of six-currency trade-based weights, it depreciated by 0.2 per cent in terms of 36-currency trade-based weights (Appendix Table 38).

Chart I.19: Foreign Exchange Market Intervention and Exchange Rate

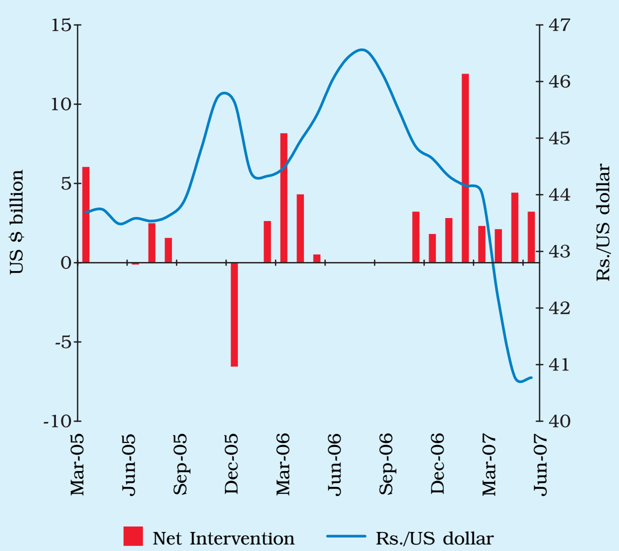


Table 1.64: Purchases and Sales of US dollars by the Reserve Bank

(US $ million)

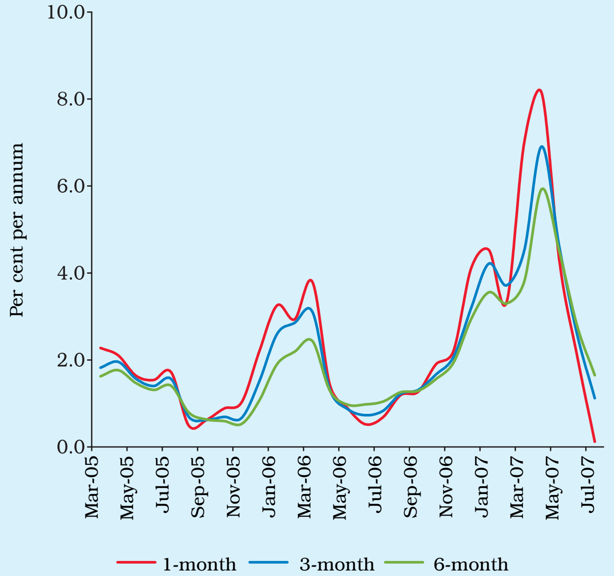
Year / Month	Purchases (+)	Sales (-)	Net (+/-) Purchases (+) Sales (-)	Outstanding Net Forward Sales (-) / Purchases (+) (end of month)
1	2	3	4	5
2004-05	**31,398**	**10,551**	**(+) 20,847**	**781**
2005-06	**15,239**	**7,096**	**(+) 8,143**	**0**
2006-07	**26,824**	**0**	**(+) 26,824**	**0**
Jan 2006	0	0	0	0
Feb 2006	2,614		(+) 2,614	0
Mar 2006	8,149	0	(+) 8,149	0
Apr 2006	4,305	0	(+) 4,305	0
May 2006	504	0	(+) 504	0
Jun 2006	0	0	0	0
Jul 2006	0	0	0	0
Aug 2006	0	0	0	0
Sep 2006	0	0	0	0
Oct 2006	0	0	0	0
Nov 2006	3,198	0	(+) 3,198	0
Dec 2006	1,818	0	(+) 1,818	0
Jan 2007	2,830	0	(+) 2,830	0
Feb 2007	11,862	0	(+) 11,862	0
Mar 2007	2,307	0	(+) 2,307	0
Apr 2007	2,055	0	(+) 2,055	0
May 2007	4,426	0	(+) 4,426	0
Jun 2007	3,192	0	(+) 3,192	0

(+) : Implies purchases including purchase leg under swaps and outright forwards.
(-) : Implies sales including sale leg under swaps and outright forwards.
Note : This Table is based on value dates and data are inclusive of transactions under the India Millennium Deposits.

I.5.13 During 2007-08 so far (up to August 17, 2007), the Indian rupee moved in a range of Rs.40.24-43.15 per US dollar. The Indian rupee was Rs.41.58 per US dollar as on August 17, 2007. Between end-March 2007 and August 17, 2007, the Indian rupee appreciated by 4.9 per cent *vis-à-vis* the US dollar, 4.2 per cent against the Pound sterling, 4.2 per cent against the Euro and 0.3 per cent against the Japanese yen.

I.5.14 Forward premia increased during 2006-07, reflecting growing interest rate differential in view of increase in domestic interest rates. While the one-month forward premia increased from 3.79 per cent in March 2006 to 6.99 per cent in March 2007, the six-month premia increased from 2.43 per cent to 3.80 per cent over the same period. Forward premia has declined during 2006-07 so far (April-July), mirroring the decline in domestic overnight interest rates (Chart I.20). In recent years, the growing investor interest in emerging market economies along with foreign exchange convertibility restrictions have led to the development of an offshore foreign exchange market, called the non-deliverable forward (NDF) market in several emerging market currencies (Box I.14).

Chart I.20: Movement in Forward Premia



I.5.15 The average daily turnover in the foreign exchange market increased from US $ 23.7 billion in March 2006 to US $ 33.0 billion in March 2007 in consonance with the increase in foreign exchange

Box I.14
Non-Deliverable Forward Market

With controls imposed by local financial regulators and consequently the non-existence of a natural forward market for non-domestic players, private companies and investors investing in some economies such as China, India and South Korea look for alternative avenues to hedge their exposure to such currencies. In this context, non-deliverable forwards (NDFs) have become popular derivative instruments for meeting the offshore investors' demand for hedging. NDFs are types of derivatives for trading in non-convertible or restricted currencies without delivery of the underlying currency.

The NDF market for Asian currencies is largely concentrated in Singapore, although their existence is found in London and New York as well. The major trading currencies in the NDF market are the Chinese renminbi, the Korean won, the New Taiwan dollar, the Indian rupee, the Indonesian rupiah and the Philippine peso. The volatility and bid-ask spread in the NDF market for Asian currencies are found to be lower for shorter maturities than for longer maturities.

The NDF market in the Indian rupee (INR NDF) has been in existence for around 10 years or so, reflecting onshore exchange controls and regulations. Besides, the INR NDF market also derives its liquidity from (i) non-residents wishing to speculate on the Indian rupee without any exposure to the country; and (ii) arbitrageurs who try to exploit the differentials in the prices in two markets. The spread as well as volatility of the INR NDF is higher than that of onshore spot and forward markets (Misra and Behera, 2006) . Though an accurate assessment of the volumes is difficult, estimated daily INR NDF turnover was around US $ 100 million in 2003/2004 (Ma *et al.,* 2004). NDF volumes have reportedly grown substantially since then. While these volumes are not large enough to affect the domestic onshore market under regular market conditions, in volatile market conditions, however, these may impact the domestic spot market. The NDF turnover for the Indian rupee is estimated to be lower than that in the Chinese renminbi, the Korean won and the New Taiwan dollar. This could be attributed to the gradual relaxation of exchange controls and reasonable hedging facilities available to offshore non-residents with exposures to the Indian rupee.

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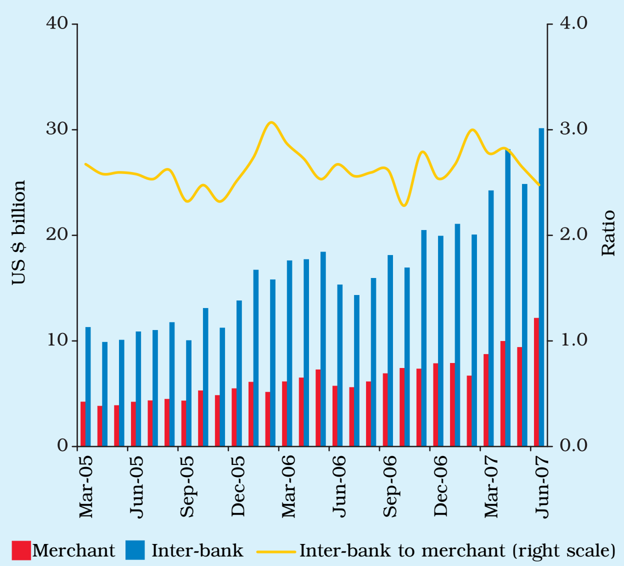
1. Ma, Guanon, Corrine Ho and Robert N. McCulay (2005), "Trading Asian Currencies", *BIS Quarterly Review*, March.

2. Misra, Sangita and Harendra Behera (2006), "Non-Deliverable Foreign Exchange Market: An Overview", *RBI Occasional Papers*, Vol.27, No.3, Winter, *Forthcoming*.

Chart I.21: Turnover in the Foreign Exchange Market



transactions. While the turnover in the inter-bank segment rose from US $ 17.6 billion to US $ 24.2 billion, that in the merchant segment rose from US $ 6.1 billion to US $ 8.7 billion (Chart I.21 and Appendix Table 39). The ratio of inter-bank to merchant turnover at 2.6 during 2006-07 was almost the same as a year ago.

GOVERNMENT SECURITIES MARKET

I.5.16 Yields in the secondary segment of the Government securities market hardened during 2006-07 accompanied by some flattening of the yield curve. Yields initially rose during 2006-07 to reach an intra-year peak of 8.40 per cent on July 11, 2006 on the back of sustained domestic credit demand, higher international crude oil prices, apprehensions over domestic fuel price hike and continuous pre-emptive monetary tightening globally as well as in India. Subsequently, however, yields softened in consonance with the easing of Government bond yields in the US, the Fed's decision to keep the fed funds rate target unchanged, easing of international crude oil prices, increased demand for gilts from banks to meet their SLR requirements and the announcement of the borrowing calendar of the Central Government for the second half of 2006-07 which was in accordance with market expectations. The 10-year yield reached a low of 7.38 per cent as on November 28, 2006. There was again some hardening of yields from the second half of December 2006 in tandem with tightness in domestic liquidity conditions on the back of advance tax outflows, higher inflation and hikes in the CRR. The 10-year yield was 7.97 per cent as on March 31, 2007, 45 basis points higher than the level as on March 31, 2006 (7.52 per cent) (Chart I.22).

I.5.17 During 2007-08 so far (up to August 17, 2007), the 10-year yield moved in the range of 7.80-8.41 per cent. Yields hardened up to mid-June 2007 but declined thereafter. The 10-year yield was 8.01 per cent as on August 17, 2007, four basis points higher than that at end-March 2007.

I.5.18 The yield curve flattened during 2006-07, with the spread between 1-10 year yields narrowing down to 42 basis points at end-March 2007 from 98 basis points at end-March 2006. During 2007-08, the increase in the yield spreads as at end-July 2007 indicated that the softening in the 10-year yield did not permeate the longer end of the yield curve. The yield spread of 5-year AAA-rated bonds over 5-year Government securities, however, widened to 142 basis points at end-March 2007 from 91 basis points

Chart I.22: Yields on Central Government Securities

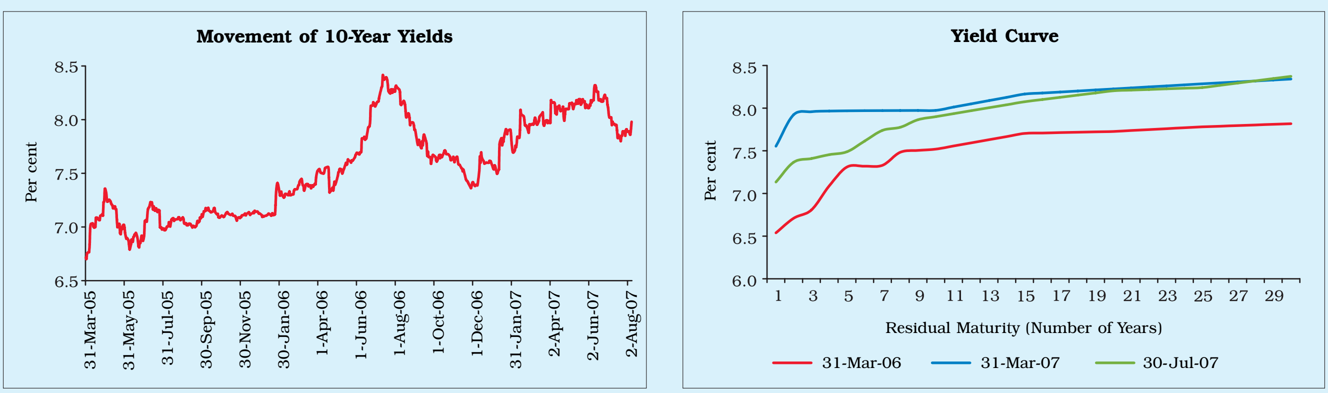


Table 1.65: Yield Spreads

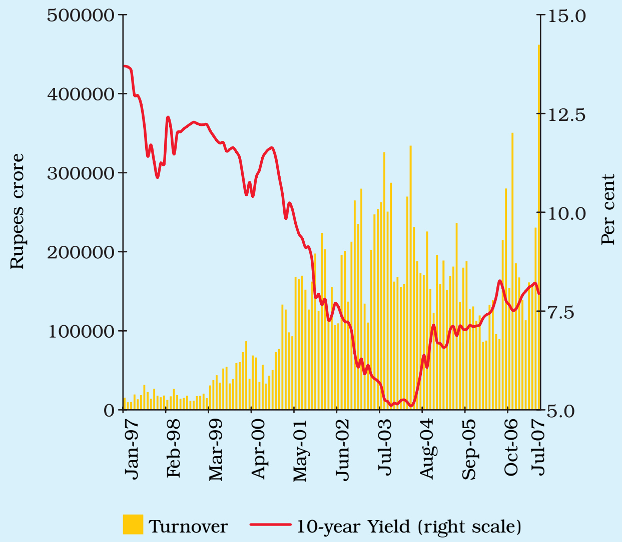
(Basis points)

Year-Month	10 Year-reverse repo rate	10 Year-1 Year	20 Year-10 Year	30 Year-10 Year	5 Year AAA Bond-5 Year G Sec.
1	2	3	4	5	6
2004-05	**164**	**101**	**55**	**77**	**64**
2005-06	**196**	**106**	**36**	**45**	**48**
2006-07	**189**	**77**	**32**	**43**	**106**
Jan 2006	178	51	30	35	67
Feb 2006	186	53	25	30	98
Mar 2006	202	98	21	30	91
Apr 2006	190	118	40	57	105
May 2006	218	120	36	52	86
Jun 2006	237	113	38	41	74
Jul 2006	223	132	49	65	69
Aug 2006	206	103	49	65	96
Sep 2006	167	94	43	61	91
Oct 2006	167	54	30	46	92
Nov 2006	142	47	17	19	95
Dec 2006	161	34	12	17	146
Jan 2007	176	36	32	35	126
Feb 2007	198	37	16	21	152
Mar 2007	197	42	26	37	142
Apr 2007	217	27	19	33	162
May 2007	212	41	25	36	174
Jun 2007	220	65	23	31	186
Jul 2007	190	77	30	47	137

at end-March 2006 after narrowing down to 69 basis points in July 2006 (Table 1.65).

I.5.19 The turnover in the Government securities market broadly mirrored the movements in yields (Appendix Table 40). During the period of rising yields (April-July 2006 and December 2006-March 2007), the turnover was subdued as banks preferred to hold securities rather than trade. During the period (August-November 2006) of softening in the yields, the turnover witnessed a sharp increase. The decline in turnover in October 2006 partly reflected fewer trading days (Chart I.23).

Chart I.23: Turnover and Yields in Government Securities Market



CREDIT MARKET

I.5.20 Deposit and lending rates of scheduled commercial banks (SCBs) increased during 2006-07. For instance, interest rates offered by public sector banks (PSBs) on deposits of maturity of one year to three years rose from a range of 5.75-6.75 per cent in March 2006 to a range of 7.25-9.50 per cent in March 2007, while those on deposits of maturity of above three years increased from 6.00-7.25 per cent to 7.50-9.50 per cent over the same period. Interest rates offered by private sector banks and foreign banks, generally, were also higher than a year ago (Table 1.66 and Appendix Table 41).

I.5.21 During the first quarter of 2007-08, deposit rates firmed up further. Interest rates of PSBs on deposits of maturity of one year to three years were placed in the range of 7.25-9.60 per cent in July as compared with 7.25-9.50 per cent in March 2007, while those on deposits of maturity of above three years were placed in the range of 7.75-9.60 per cent in July 2007 as compared with 7.50-9.50 per cent in March 2007. There was some softening in deposit rates in July 2007 as compared to June 2007, particularly at the short-end of the maturity spectrum.

I.5.22 The Benchmark Prime Lending Rates (BPLRs) of PSBs increased from a range of 10.25-11.25 per cent in March 2006 to a range of 12.25-12.75 per cent in March 2007. The BPLRs of private sector as well as foreign banks also rose during the year. During 2007-08, BPLRs of PSBs and private sector banks moved to a range of 12.50-13.50 per cent and 13.00-17.25, respectively, by July 2007. The BPLRs of foreign banks remained unchanged during the period. The weighted average BPLR of PSBs increased from 10.7 per cent in March 2006 to 12.4 per cent in March 2007 and 13.1 per cent in July 2007, while that of private sector banks increased from 12.4 per cent to 14.1 per cent and 14.9 per cent over the same period. The weighted average BPLR of foreign banks rose from 12.7 per cent in March 2007 as well

Table 1.66: Deposit and Lending Rates

(Per cent)

Item	March 2004	March 2005	March 2006	March 2007	June 2007	July 2007
1	2	3	4	5	6	7
1. Domestic Deposit Rate						
Public Sector Banks						
Up to 1 year	3.75-5.25	2.75-6.00	2.25-6.50	2.75-8.75	2.75-8.75	2.75-8.50
More than 1 year and up to 3 years	5.00-5.75	4.75-6.50	5.75-6.75	7.25-9.50	7.25-9.75	7.25-9.60
More than 3 years	5.26-6.00	5.25-7.00	6.00-7.25	7.50-9.50	7.75-9.75	7.75-9.60
Private Sector Banks						
Up to 1 year	5.00-6.50	3.00-6.25	3.50-7.25	3.00-9.00	3.00-9.50	1.00-9.25
More than 1 year and up to 3 years	5.00-6.50	5.25-7.25	5.50-7.75	6.75-9.75	6.75-10.25	6.75-10.25
More than 3 years	5.25-7.00	5.75-7.00	6.00-7.75	7.75-9.60	7.50-10.00	7.50-10.00
Foreign Banks						
Up to 1 year	2.75-7.75	3.00-6.25	3.00-6.15	3.00-9.50	0.25-9.00	0.25-8.50
More than 1 year and up to 3 years	3.25-8.00	3.50-6.50	4.00-6.50	3.50-9.50	3.50-9.50	2.50-9.00
More than 3 years	3.25-8.00	3.50-7.00	5.50-6.50	4.05-9.50	4.05-9.50	2.50-9.50
2. Benchmark Prime Lending Rate						
Public Sector Banks	10.25-11.50	10.25-11.25	10.25-11.25	12.25-12.75	12.50-13.50	12.50-13.50
Private Sector Banks	10.50-13.00	11.00-13.50	11.00-14.00	12.00-16.50	13.00-17.25	13.00-17.25
Foreign Banks	11.00-14.85	10.00-14.50	10.00-14.50	10.00-15.50	10.00-15.50	10.00-15.50
3. Actual Lending Rate*						
Public Sector Banks	4.00-16.00	2.75-16.00	4.00-16.50	4.00-16.50	–	–
Private Sector Banks	4.50-22.00	3.15-22.00	3.15-20.50	3.15-20.50	–	–
Foreign Banks	3.75-23.00	3.55-23.50	4.75-26.00	4.75-26.00	–	–

– : Not available.
* : Interest rate on non-export demand and term loans above Rs.2 lakh excluding lending rates at the extreme five per cent on both sides.

as March 2006 to 13.9 per cent in July 2007. A significant proportion of bank lending continued to be below the BPLR. Almost 79 per cent of the lending by the SCBs was at sub-BPLR at end-March 2007 (69 per cent a year ago). Bank group-wise, the PSBs, private sector banks and foreign banks lent funds at sub-BPLR to the extent of 74 per cent, 92 per cent and 72 per cent, respectively, of their total loans at end-March 2007.

EQUITY AND DEBT MARKETS

Primary Market

I.5.23 The resource mobilisation from the primary market through the public issues (excluding offer for sale) increased by 20.2 per cent to Rs.32,382 crore during 2006-07 (Table 1.67). The bulk of the resource mobilisation continued to be through equity issuances (97 per cent of the total during 2006-07 as compared with 99 per cent during the previous year). The average size of public issues was Rs.272 crore during 2006-07 (Rs.195 crore during 2005-06). Private sector entities continued to dominate the public issues market, mobilising nearly 98 per cent of the total resource mobilisation during 2006-07 (79 per cent during 2005-06) (Chart I.24 and Appendix Table 42). Resources mobilised by financial institutions (public and private sector combined), however, declined during the year. The share of initial public offerings (IPOs), both in terms of number of issues and amounts mobilised, in the total public issues increased substantially during 2006-07. Out of 119 public issues in the financial year 2006-07, 75 issues were IPOs, accounting for 85 per cent of the total resource mobilisation.

I.5.24 The Indian corporate sector continued to rely heavily on the domestic private placement market. Mobilisation of resources through the private placement route during 2006-07 increased by 50.9 per cent to Rs.1,45,571 crore (Table 1.67 and Chart I.24). Bulk of resources from the private placement market during 2006-07 were mobilised by private sector entities – both financial and non-financial – 58.0 per cent as compared with 42.7 per cent in the preceding year. While resources mobilised by the private sector more than doubled during 2006-07, those by public

Table 1.67: Mobilisation of Resources from the Primary Market

(Amount in Rupees crore)

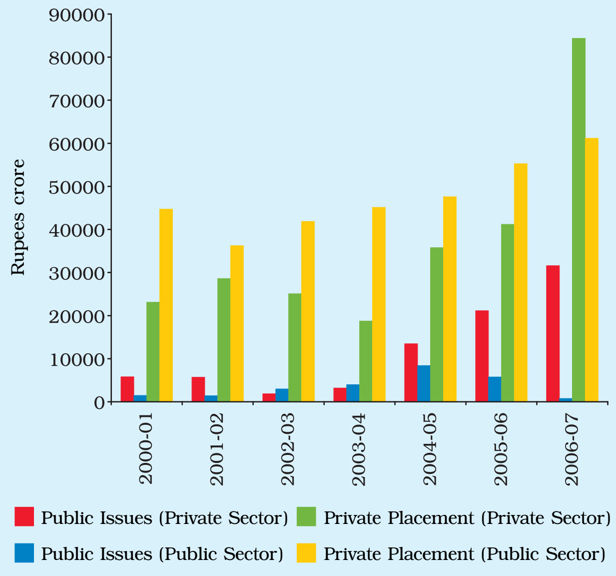
Item	2005-06		2006-07P	
	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5
A. Prospectus and Rights Issues*				
1. Private Sector (a+b)	**131**	**21,154**	**118**	**31,600**
		(56.9)		**(49.4)**
a) Financial	11	7,746	9	2,420
b) Non-financial	120	13,408	109	29,180
2. Public Sector (a+b+c)	**7**	**5,786**	**1**	**782**
		(-31.2)		**(-86.5)**
a) Public Sector Undertakings	–	–	–	–
b) Government Companies	1	373	–	–
c) Banks/Financial Institutions	6	5,413	1	782
3. Total (1+2)	**138**	**26,940**	**119**	**32,382**
		(23.1)		**(20.2)**
(i) Equity	136	26,695	116	31,535
(ii) Debt	2	245	3	847
B. Private Placement				
1. Private Sector	**946**	**41,190**	**1,539**	**84,387**
		(16.5)		**(104.9)**
a) Financial	375	26,463	649	51,321
b) Non-financial	571	14,727	890	33,066
2. Public Sector	**169**	**55,284**	**139**	**61,184**
		(15.0)		**(10.7)**
a) Financial	137	39,165	108	49,026
b) Non-financial	32	16,119	31	12,158
3. Total (1+2)	**1,115**	**96,473**	**1,678**	**1,45,571**
		(15.7)		**(50.9)**
(i) Equity	1	150	1	57
(ii) Debt	1,114	96,323	1,677	1,45,514
C. Euro Issues #	**48**	**11,352**	**40**	**17,005**
		(315.8)		**(49.8)**

P : Provisional. * : Excluding offers for sale. – : Nil/Negligible.
: Includes only ADRs and GDRs.
Note : Figures in parentheses are percentage variation over the previous year.

sector entities increased by 10.7 per cent. The resource mobilisation by financial intermediaries (both public and private sectors) increased by 52.9 per cent to Rs.1,00,347 crore, accounting for 69.0 per cent of the total resource mobilisation. Within the financial intermediaries group, banks (both public and private sectors) mobilised Rs.30,994 crore, an increase of 2.8 per cent over the previous year.

I.5.25 The resources raised by Indian corporates from international capital markets (ADRs and GDRs) increased sharply by 49.8 per cent to Rs.17,005 crore during 2006-07 (Table 1.67). Out of these, Rs.8,737 crore were mobilised in the form of Global Depository Receipts (GDRs) and Rs.8,268 crore in the form of American Depository Receipts (ADRs). Most of the Euro issues were made by private sector non-financial companies.

Chart I.24: Resource Mobilisation in the Primary Market



Mutual Funds

I.5.26 Net resources mobilised by mutual funds increased by 78.1 per cent to Rs.93,985 crore during 2006-07 due primarily to higher resource mobilisation by private sector mutual funds. Net assets managed by mutual funds also increased significantly by 40.7 per cent to Rs.3,26,292 crore at end-March 2007 on account of increased resource mobilisation and increase in the market value of their portfolio (Table 1.68).

I.5.27 Resources mobilised by mutual funds under income/debt-oriented schemes almost quadrupled during 2006-07. Such schemes are being preferred

Table 1.68: Resource Mobilisation by Mutual Funds

(Rupees crore)

Category	2005-06		2006-07	
	Net@ Mobilisation	Net Assets*#	Net@ Mobilisation	Net Assets*#
1	2	3	4	5
Private Sector	42,977	1,81,515	79,038	2,62,079
Public Sector*	9,802	50,348	14,947	64,213
Total	**52,779**	**2,31,863**	**93,985**	**3,26,292**

@ : Net of redemptions. # : As at end of March.
* : Including UTI Mutual Fund. The erstwhile UTI was divided into UTI Mutual Fund (registered with the SEBI) and the specified undertaking of UTI. Data in the Table contain information only of UTI Mutual Fund.
Note : Data exclude funds mobilised under Fund of Funds Schemes.
Source: Securities and Exchange Board of India.

Table 1.69: Funds Mobilised by Mutual Funds – Type of Schemes

(Amount in Rupees crore)

Scheme	2005-06			2006-07		
	No. of Schemes	Net Mobilisation	Net Assets*	No. of Schemes	Net Mobilisation	Net Assets*
1	2	3	4	5	6	7
A. Income/Debt Oriented Schemes	**325**	**16,621**	**1,24,913**	**450**	**64,068**	**1,93,585**
(i) Liquid/ Money Market	45	4,205	61,500	55	4,986	72,006
(ii) Gilt	29	-1,560	3,135	28	-964	2,257
(iii) Debt (other than assured return)	251	13,976	60,278	367	60,046	1,19,322
(iv) Debt (assured return)	0	0	0	0	0	0
B. Growth/Equity Oriented Schemes	**231**	**35,231**	**99,456**	**267**	**28,206**	**1,23,598**
(i) Equity Linked Saving Scheme	37	3,592	6,589	40	4,453	10,212
(ii) Others	194	31,639	92,867	227	23,753	1,13,386
C. Balanced Schemes	**36**	**927**	**7,494**	**38**	**1,711**	**9,109**
D. Fund of Funds Scheme	**13**	**-241**	**1,012**	**33**	**1,164**	**2,215**
TOTAL #	**592**	**52,779**	**2,31,863**	**755**	**93,985**	**3,26,292**

* : As at end-March. # : Total excludes Fund of funds Scheme.
Source : Securities Exchange Board of India.

for parking surplus funds for short periods with minimum risk. Net mobilisation of funds in the case of growth/equity oriented schemes declined during the year. Bulk of the resources mobilised by mutual funds during 2006-07 were under debt market schemes (Table 1.69). The decline in mobilisation under growth/equity oriented schemes and the large increase under income/debt-oriented schemes could be partly attributed to risk aversion on the part of investors against the backdrop of stock markets touching record levels and some episodes of volatility in stock markets.

All-India Financial Institutions

I.5.28 All-India financial institution (AIFIs) can raise resources, both short-term and long-term, provided the total outstanding at any time does not exceed 10 times of its net owned funds (NOF) as per its latest audited balance sheet. Within this overall ceiling, eight FIs, *viz*., IFCI, EXIM Bank, SIDBI, IIBI, TFCI, NABARD, IDFC and NHB have been given umbrella limits to raise resources equivalent to 100 per cent of their NOF through instruments such as term money, term deposit, inter-corporate deposits, CDs and CP. The aggregate mobilisation of resources by these FIs under the umbrella limits increased from Rs.17,046 crore as on March 31, 2006 to Rs.19,001 crore as on March 31, 2007. The outstanding amount increased to Rs.3,293 crore (17.3 per cent of total limits) at end-March 2007 from Rs.1,449 crore (8.5 per cent of total limit) at end-March 2006. Commercial paper was the most preferred instrument by FIs during the year. Only four institutions, *viz*., EXIM Bank, NHB, IDFC and SIDBI were active in mobilising resources through these instruments during 2006-07.

I.5.29 Total resources mobilised by AIFIs in the form of bonds and debentures declined by 9.7 per cent to Rs.14,265 crore during 2006-07 (Table 1.70). Some FIs such as IFCI Ltd., and IIBI Ltd. continued to be barred from mobilising fresh resources on account of their poor financial performance. Financial assistance sanctioned by AIFIs declined by 1.1 per cent during 2006-07, while financial assistance disbursed increased by 52.2 per cent (Appendix Table 43).

Secondary Market

I.5.30 The domestic stock markets recorded further gains during 2006-07 (Chart I.25 and Appendix Table 44). The BSE Sensex at end-March 2007 increased by 15.9 per cent (year-on-year) on top of the increase of 73.7 per cent a year ago. Strong corporate profitability (see Table 1.16) and continued liquidity support from FIIs and domestic mutual funds (Table 1.71) buoyed up the stock markets even as they witnessed sharp corrections on a few occasions (May-June 2006, December 2006 and February-March 2007) in consonance with the trends in global equity markets. During 2006-07, the BSE Sensex moved in a range of 8929 (June 14, 2006) and an all-

Table 1.70: 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 Maturity (years)	
	2005-06	2006-07	End-March 2006	End-March 2007	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5	6	7	8	9
IIBI	..	..	1,574	1,217	12.1	11.8	6-15	6-8
IFCI	..	..	10,806	10,192	7.8	7.6	7.2	8.6
TFCI	..	..	277	240	10.1	9.9	5.2	4.3
Exim Bank	2,860	2,512	9,384	9,676	6.9	7.3	4.6	4.9
SIDBI	2,610	572	3,836	3,853	5.9	6.5	3.9	4.5
NABARD	8,194	10,899	23,313	31,260	5.8	8.7	3.5	5.0
NHB	2,131	283	13,109	10,411	6.4	7.5	2.2	2.0
Total	**15,795**	**14,265**	**62,299**	**66,849**	**..**	**..**	**..**	**..**

.. : Nil/Not applicable.

Note : 1. Data relate to rupee resources only.

2. Data on resources raised include: long-term resources mobilised through bonds/debentures; short-term resources mobilised through commercial paper, certificates of deposit, ICDs, term deposits and term money.

3. Data are provisional.

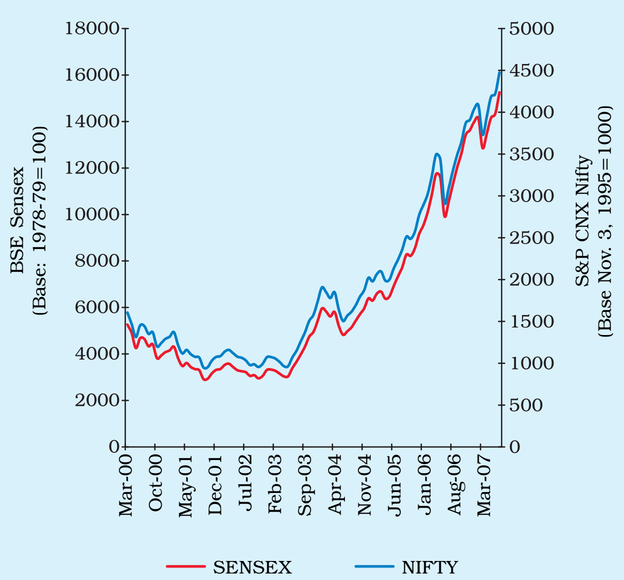
Source : Respective Financial Institution (FI).

time high of 14652 (February 8, 2007), before closing at 13072 on March 30, 2007.

I.5.31 Although net investments by FIIs were lower than a year ago, their gross purchases and gross sales were higher than a year ago indicative of continuous churning of portfolios.

I.5.32 The domestic stock markets recorded further gains during 2007-08 so far (up to August 17, 2007) amidst intermittent corrections. Between end-March 2007 and August 17, 2007, the BSE Sensex moved in a range of 12455-15795. The BSE Sensex reached a record high of 15795 on July 24, 2007. The S&P CNX Nifty also reached a record high of 4621 on July 24, 2007. The BSE Sensex closed at 14142 on August 17, 2007, an increase of 8.2 per cent over end-March 2007.

Chart I.25: Indian Stock Markets



I.5.33 The market capitalisation of the BSE increased by 17.3 per cent during 2006-07, reflecting increase in stock prices as well as new listing of securities (Table 1.72 and Appendix Table 45). The market capitalisation of the BSE, as per cent to GDP, rose from 84.7 per cent at end-March 2006 to 85.9 per cent of GDP at end-March 2007. The price-earnings (P/E) ratio of BSE Sensex scrips was 20.3

Table 1.71: 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
2001-02	8,067	685	-3,796	10,959
2002-03	2,528	60	-2,067	12,604
2003-04	39,959	5,805	1,308	22,701
2004-05	44,123	1,759	448	16,987
2005-06	48,542	-7,065	14,306	36,801
2006-07	25,236	5,605	9,024	52,546

Source : Securities and Exchange Board of India.

Table 1.72: Stock Market Indicators

Indicator	BSE			NSE		
	2004-05	2005-06	2006-07	2004-05	2005-06	2006-07
1	2	3	4	5	6	7
1. BSE Sensex / S&P CNX Nifty						
(i) End-period	6493	11280	13072	2036	3403	3822
(ii) Average	5741	8280	12277	1805	2513	3572
2. Coefficient of Variation	11.2	16.7	11.1	11.3	15.6	10.4
3. Price-Earning Ratio (end-period)*	15.6	20.9	20.3	14.6	20.3	18.4
4. Price-Book Value Ratio*	3.7	5.1	5.1	3.8	5.2	4.9
5. Yield* (per cent per annum)	1.7	1.2	1.3	2.0	1.3	1.3
6. Listed Companies	4,731	4,781	4,821	970	1,069	1,228
7. Cash Segment Turnover (Rupees crore)	5,18,716	8,16,074	9,56,185	11,40,071	15,69,556	19,45,285
8. Derivative Segment Turnover (Rupees crore)	16,112	9	59,007	25,46,982	48,24,174	73,56,242
9. Market Capitalisation (Rupees crore) @	16,98,429	30,22,191	35,45,041	15,85,585	28,13,201	33,67,350

* : Based on 30 scrips included in the BSE Sensex and 50 scrips included in the S&P CNX Nifty.
@: As at end-March.
Source : Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Ltd. (NSE).

at end-March 2007 as compared with 20.9 at end-March 2006. Volatility in the stock market declined substantially during 2006-07, although it remained higher than that in some of the major international stock markets. The turnover in the major stock exchanges increased sharply during 2006-07. While the combined turnover of the BSE and the NSE in the cash segment increased by 21.6 per cent during 2006-07, that in the derivatives segment rose by 53.7 per cent (Appendix Table 46). Trading in stock futures accounted for a significant share of the turnover in equity derivatives.

I.5.34 The rally in domestic stock market during 2006-07 was mainly concentrated in the index heavyweights. While the BSE Sensex gained 15.9 per cent, the broad-based index, the BSE 500 gained 9.7 per cent and the BSE Mid-cap gained only 0.7 per cent. The BSE Small-cap, on the other hand, lost 1.8 per cent during 2006-07. The BSE sectoral indices witnessed a mix trend (Table 1.73).

Wholesale Debt Market Segment of NSE

I.5.35 Activity in the Wholesale Debt Market (WDM) segment of the NSE remained subdued with the turnover declining by 53.9 per cent to Rs.2,19,106 crore in 2006-07. The number of securities available for trading at 3,253 as on March 30, 2007 was higher than a year ago (3,174). Total market capitalisation of the securities available for trading on the WDM segment worked out to Rs.17,84,801 crore as on March 31, 2007.

I.5.36 To sum up, domestic financial markets remained orderly during 2006-07, although there were some episodes of volatility, especially during the last fortnight of March 2007. Interest rates edged up in the various market segments – the money market, the Government securities market and the credit market – during the year broadly mirroring the trend in the Reserve Bank's policy rates. The yield curve flattened during the year. The foreign exchange market witnessed two-way movements. The stock markets reached record highs during 2006-07 interspersed with some corrections.

Table 1.73: BSE Sectoral Stock Indices

(Base: 1978-79=100)

Sector	Year-on-Year Growth (per cent)	
	End-March 2006	End-March 2007
1	2	3
Auto	101.2	-8.5
Bankex	36.8	24.3
Capital Goods	156.0	11.1
Consumer Durables	115.4	11.1
Fast Moving Consumer Goods	109.9	-21.3
Health Care	51.2	21.6
Information Technology	49.2	-5.4
Metal	40.3	-4.3
Oil & Gas	61.1	30.5
Public Sector Undertakings	44.0	-3.2
BSE 500	**65.2**	**9.7**
BSE Sensex	**73.7**	**15.9**

Source : Bombay Stock Exchange Limited.

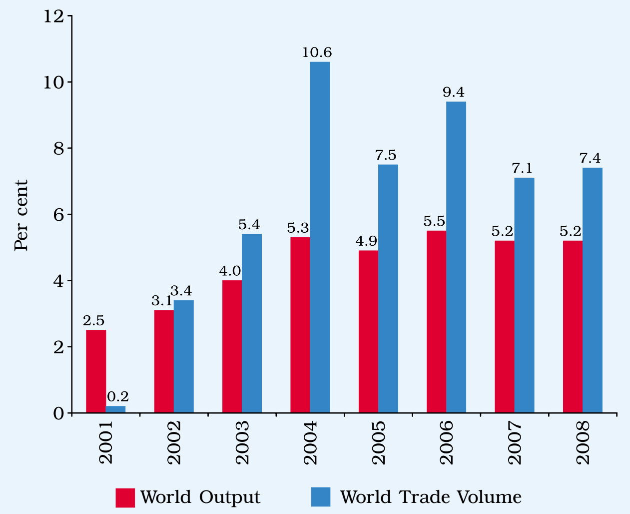
VI. EXTERNAL SECTOR

I.6.1 Developments in India's balance of payments during 2006-07 continued to reflect sustained strength and vibrancy of the external sector. Merchandise export and non-oil import growth remained robust, although there was some deceleration from the strong pace of the previous year. Earnings from exports of software and other business services as well as remittances from Indians working abroad continued to exhibit buoyancy. The net surplus under invisibles expanded further during 2006-07 and continued to finance a large part of the growing merchandise trade deficit. Consequently, the current account deficit remained modest during the year, and, as a proportion to GDP, was at the same level as a year ago. Led by foreign direct investment and external commercial borrowings (ECBs), capital flows (net) to India witnessed a large increase during 2006-07 on the back of strengthening of growth prospects, and buoyancy in domestic investment and import demand. Outward direct investment also witnessed a jump reflecting growing overseas acquisitions by Indian corporates. With net capital flows remaining in excess of the current account deficit, the overall balance of payments recorded a significant surplus, which was mirrored in an accretion of US $ 47.6 billion to foreign exchange reserves during 2006-07. While the stock of external debt rose due to higher ECBs and non-resident deposits, net international liabilities fell, reflecting the continuous build-up of foreign exchange reserves.

INTERNATIONAL DEVELOPMENTS

I.6.2 Global economic activity gathered further pace during 2006, with growth accelerating to 5.5 per cent from 4.9 per cent in 2005 (Appendix Table 47 and Chart I.26). Economic activity was more broad-based, benefiting from the pick-up in the euro area where the growth accelerated to 2.8 per cent in 2006 – its fastest pace in six years – from 1.5 per cent in the previous year due to strengthening of domestic demand, increasing business confidence and improving labour markets. In the US, economic activity slowed down in the second half of 2006 on the back of cooling of the housing market; for the year on the whole, real GDP growth at 2.9 per cent was marginally lower than that in 2005 (3.1 per cent). In Japan, growth accelerated towards the year-end. Emerging market and developing countries, led by China and India, continued to exhibit rapid growth. Growth in Developing Asia accelerated from 9.2 per cent in 2005 to 9.7 per cent in 2006, the fastest pace since 1995, aided by strong global demand, favourable terms of trade, and easy access to external financing (Box I.15).

Chart I.26: Growth in World Output and Trade



Note : Data for 2007 and 2008 are projections.
Source : World Economic Outlook, April 2007 and WEO Update, July 2007, IMF.

I.6.3 Global merchandise trade expanded at a robust pace in 2006, with growth in volume of world trade accelerating from 7.5 per cent in 2005 to 9.4 per cent in 2006 on the back of a notable increase in trade in capital goods driven by recovery in global investment. According to IMF data, private capital flows to emerging market and developing countries in 2006 remained almost at the same level as in 2005 (Table 1.74). Amongst the major components, foreign direct investment flows were almost unchanged from

Table 1.74: Net Capital Flows to Emerging Markets and Developing Economies

(US $ billion)

Item	2004	2005	2006	2007P	2008P
1	2	3	4	5	6
Private Capital Flows	**238.6 (412.5)**	**257.2 (551.4)**	**255.8 (646.8)**	**252.7**	**259.3**
Direct investment	190.0	266.3	266.9	283.7	288.9
Portfolio investment	25.0	29.4	-76.3	-62.0	-52.2
Others	23.5	-38.5	65.2	30.9	22.6
Official Capital Flows	**-57.8**	**-122.6**	**-143.8**	**-96.4**	**-116.6**

P : IMF Projections.
Note : Figures in parentheses pertain to net capital flows to developing countries and are based on Global Development Finance, 2007.
Source : World Economic Outlook, IMF, April 2007; Global Development Finance, World Bank, 2007.

Box I.15
Asia in the Global Economy

The rapid growth of emerging market economies in Asia has been a notable feature of the global economy in recent years. The rise of Asia on the world stage started with the so-called "Asian miracle" - the economic success of Japan beginning in the 1960s and then the small "dragons" and "tigers", *viz*., South Korea, Hong Kong, Singapore and Thailand. The burst of the economic bubble in Japan in the 1990s and the 1997-98 Asian financial crisis cast a shadow over Asia's success story for a short period. Most East Asian economies, however, quickly resumed their growth path. Furthermore, China's rapid emergence as an economic power on the world stage and, more recently, India are adding to Asia's strength and resilience.

In recent years, the driver of the world economy has been Asia, contributing almost 35 per cent of world GDP and nearly half of the world's growth since 2001 in purchasing power parity (PPP) terms. It is interesting to note that among the top four economies in terms of GDP based on PPP, three Asian economies, *viz*., China, Japan and India are ranked second, third and fourth, respectively. It is recognised that the resilience of China and India helped the global economy to avoid a deep recession in 2002. Accordingly, it is perceived that the sharp ongoing slowdown in the US economy could possibly be offset by the growing Asian region.

The impressive performance of Asia has been associated with the region's firm integration into the global economy. The economic and political relations between Asia and the rest of the world, especially the US, have become deeper and assumed new dimensions. As a result, the Asian region has increasingly become a major centre of world trade, global capital flows and other macroeconomic parameters. At present, the share of Asia in global trade is about 29 per cent. Asian emerging economies are capturing a significant portion of total net private capital flows. Two-thirds of private equity flowing into the region are in the form of direct investment. Concomitantly, there has been a substantial accumulation of foreign exchange reserves by several countries of Asia. Asian economies hold foreign exchange reserves of about US $ 3.5 trillion, about 66 per cent of total global reserves. A large part of the current account deficit (CAD) of the US has been financed by surpluses in major Asian economies.

Table: Asia in the World

(Per cent)

Indicator	1991	1997	2006
1	2	3	4
Contribution of Developing Asia in World PPP based GDP Growth	28.1	28.6	38.1
Share of Developing Asia in World PPP based GDP	15.1	20.5	27.0
Share of Asia in World GDP (Current Prices)	20.7	22.8	21.0
Share of Asia in World PPP based GDP	26.2	30.6	35.6
Share of Asia in World Reserves	36.9	47.1	65.7
Share of Asia in World Exports	28.2	29.7	29.8
Share of Asia in World Imports	25.5	27.5	29.0

Note : Developing Asia excludes Japan, Middle-Eastern Asian countries. Asia includes Developing Asia, Japan and Middle-Eastern Asian Countries.

Source : Calculations made on the basis of World Economic Outlook database and International Financial Statistics, IMF.

Asia's remarkable growth performance reflects total factor productivity (TFP) growth, as well as rapid accumulation of both physical and human capital driven by a relatively favourable institutional and policy environment, including, in particular, greater trade openness, macroeconomic stability, financial development, and in many cases educational attainment. However, growth benefits need to trickle down further in Asian economies.

Given the enormous contribution of Asia to global growth and financial stability in recent years, the region needs to be given adequate voice in the international financial architecture. Looking ahead, Asia's high growth and strong fundamentals point to continued interest of global investors in the region, including direct and portfolio investments. The emerging markets of Asia, with their dynamic and increasingly skilled work force, are well-placed to take advantage of new technologies and seize opportunities in the international markets to become a major engine of growth in the global economy.

Fast-growing Asian EMEs, however, face a number of challenges, particularly in sustaining stability while maintaining the growth momentum (Reddy, 2007). First, there are concerns about inflationary pressures being reinforced by ample liquidity driven by excess capital flows and rapidly rising credit. While some appreciation of currencies of countries enjoying current account surplus is evident, the macro policy may need to be predominantly governed by the compulsions of domestic supply and demand considerations. Second, significant improvements have taken place in developing local currency markets, especially bond markets. However, the operations of large players in financial markets in some Asian economies tend to respond more to their global needs than that of host country. Third, the banking sector has been strengthened and non-banking intermediation expanded providing both stability and efficiency to the financial sector in many economies. However, to some extent, aligning the operations of large financial conglomerates and foreign institutions with local public policy priorities remains a challenge for domestic financial regulators in many EMEs. Furthermore, competition in the financial sector is somewhat limited in many Asian economies.

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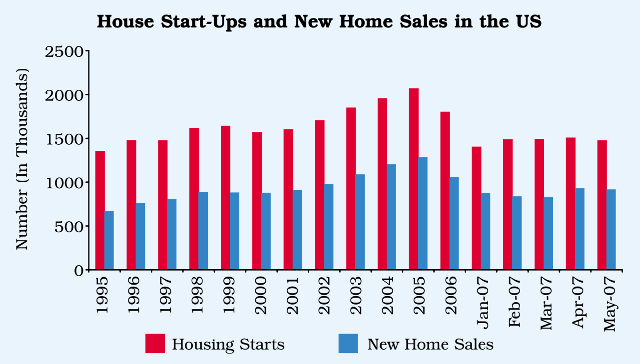
their 2005 levels, while net private portfolio flows recorded outflows. On the other hand, 'other capital flows' comprising bank and other borrowings registered an increase during 2006 in contrast to outflows witnessed in the preceding year. Emerging Europe followed by the Commonwealth of Independent States and emerging Asia were the major recipient of private capital flows. Emerging Asia continued to dominate in terms of net FDI flows in 2006.

I.6.4 According to the IMF, global growth is likely to witness some moderation in 2007; the volume of trade and the private capital flows are also expected to ease somewhat in 2007 in line with the projected moderation in world growth (Appendix Table 47). Emergence of inflationary pressures due to narrowing output gaps, possibility of further increase in oil and other commodity prices, developments in the US sub-prime market (Box I.16), financial market volatility in

Box I.16
Slowdown in the US Housing Market

One of the downside risks to the global economy at the current juncture is the possibility of a sharper slowdown in the US housing market. In the US, economic growth has slowed down since the second half of 2006 on the back of a substantial cooling of the housing sector. Low interest rates in the US, after the burst of the equity bubble in 2000, provided the property market a boost. Rising house prices boosted consumer wealth, incomes and confidence, and spurred spending on new construction, associated goods and services. However, with the gradual withdrawal of monetary accommodation by the US Fed from June 2004 onwards, construction spending, housing starts, building permits, and sales of existing and new homes started declining from 2006 onwards (Chart). Recent developments in the sub-prime mortgage market add somewhat to the usual uncertainty in forecasting housing demand. Sub-prime mortgage borrowing had nearly tripled during the housing boom years of 2004 and 2005. But decelerating house prices, higher interest rates, and slower economic growth have resulted in increased rate of delinquency among sub-prime borrowers. This increase has occurred almost entirely among borrowers with adjustable-rate (Bernanke, 2007). Mortgage delinquencies and foreclosures are likely to rise further as sub-prime adjustable rate loans face interest rate resets and tightening of lending standards.

At the same time, household consumption in the US has remained relatively resilient so far, supported by robust income growth, still low long-term interest rates, and past stock market gains. Nonetheless, there are concerns that problems in the sub-prime mortgage market may lead to



a more significant tightening of consumer credit, thereby putting household finances under greater strain; more generally, if sub-prime developments are symptomatic of loose lending and underwriting standards over a broader range of markets, this could lead to a more general tightening of the US and global financial conditions that would put downward pressure on activity. Such a development could imply a deeper and more prolonged slowdown or even a recession in the United States, with potential spillovers to other countries. Recent developments indicate that sub-prime lending concerns are spreading globally. Perceiving the shortage of credit, major central banks including the Federal Reserve, the European Central Bank, Bank of Japan and Reserve Bank of Australia have injected liquidity support to their banking systems in order to facilitate orderly functioning of financial markets. Furthermore, in view of tighter credit conditions, deterioration in financial market conditions and increased uncertainty with underlying potential to restrain economic growth going forward in US, the Federal Reserve Board decreased discount rate (interest rate charged to commercial banks and other depository institutions) from 6.25 per cent to 5.75 per cent, effective August 20, 2007.

Although global stock markets have experienced significant disruptions over a credit crunch owing to the problems in the US sub-prime loan sector, its impact on the growth performance of the US economy and in turn, on the rest of the world is yet to be clear. However, if the US economy were to experience a sharper slowdown because of a broader-than-expected impact of the housing sector difficulties, the spillover effects into other economies would be larger, and decoupling from the US economy would be more difficult.

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response to sub-prime developments and possible disorderly adjustment of global imbalances pose downside risks to global growth prospects. Over the past few months, there have been some positive developments for containing large global imbalances and the risk associated with an abrupt unwinding. Relevant developments include a further reduction in the real effective value of the US dollar, some increase in flexibility in the currencies of surplus countries in Asia, and a somewhat more balanced pattern of growth in the global economy.

BALANCE OF PAYMENTS

Merchandise Trade

I.6.5 According to the data released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), growth in merchandise exports and imports maintained the growth momentum during 2006-07. India's share in world trade (exports and imports taken together) increased from 1.1 per cent in 2005 to 1.2 per cent in 2006; during 2006, India's exports and imports were 1.0 per cent and 1.4 per cent of world exports and imports, respectively. India was the 28th largest exporter and the 17th largest importer in the world in 2006. The merchandise trade deficit, based on DGCI&S data, widened from US $ 46.1 billion during 2005-06 to US $ 64.2 billion during 2006-07 (Appendix Table 49).

I.6.6 India's merchandise exports recorded a growth of 22.5 per cent during 2006-07 as compared with 23.4 per cent during 2005-06. Commodity-wise data reveal that engineering goods and petroleum products recorded a strong growth during 2006-07, while exports of other principal items like chemicals and related products, gems and jewellery, textiles and related products and ores and minerals showed a moderation in growth (Appendix Table 50). Exports of primary products posted a growth of 19.4 per cent (20.8 per cent in 2005-06), even though ores and minerals showed a deceleration in growth. Within agricultural exports, tea, tobacco, spices and sugar and molasses maintained high growth during 2006-07. Deceleration in exports of chemicals and related products was mainly due to slowdown of growth in exports of drugs, pharmaceuticals and fine chemicals. India's textile exports after registering a sharp acceleration in 2005-06, slowed down in 2006-07.

I.6.7 Over the years, India's merchandise exports have witnessed a shift in the commodity composition. While the share of primary products in total exports remained at almost 16 per cent between 2000-01 and 2006-07, that of manufactured goods fell from 77.1 per cent in 2000-01 to 65.6 per cent in 2006-07. On the other hand, the share of petroleum exports increased substantially (from 4.2 per cent in 2000-01 to 14.7 per cent in 2006-07), reflecting higher refining capacity as well as higher prices. Within the manufactured exports, engineering goods have emerged as the major growth driver in place of gems and jewellery and textiles and related products. The emergence of engineering goods as the major item of India's export basket reflects the technological improvement in India's exports. Apart from iron and steel and machinery and instruments, exports of project goods are also driving growth in exports of engineering goods. The importance given to export of project goods, a technology intensive item, also reflects the growing realisation of the need to promote value added and technology intensive products.

I.6.8 In 2006-07, the US remained the major destination of India's exports accounting for 14.9 per cent of India's total exports, followed by the UAE (9.5 per cent), China (6.6 per cent) and Singapore (4.8 per cent). During 2006-07, growth of exports to most of the major markets, with the exception of the UAE, decelerated (Table 1.75). Acceleration of growth in the exports to UAE can be attributed to the increased petroleum exports to the country. Over the years,

Table 1.75: Direction of India's Exports

Group/ Country	US $ billion		Variation (per cent)	
	2005-06	2006-07	2005-06	2006-07
1	2	3	4	5
1. OECD Countries	**45.8**	**52.1**	**25.6**	**13.6**
of which:				
a) EU	22.4	25.8	27.6	15.3
b) North America	18.4	20.0	25.6	9.0
US	17.4	18.9	26.1	8.8
2. OPEC	**15.2**	**20.7**	**15.4**	**35.6**
of which:				
UAE	8.6	12.0	16.9	39.8
3. Developing Countries	**39.7**	**50.7**	**25.8**	**27.6**
of which:				
Asia	31.0	37.6	24.1	21.3
People's Republic of China	6.8	8.3	20.4	22.7
Singapore	**5.4**	6.0	35.6	11.0
4. Total Exports	**103.1**	**126.3**	**23.4**	**22.5**

Source : DGCI&S.

developing countries, particularly, the Asian countries have emerged as the major destinations of India's exports, while the share of developed countries has tended to decline.

I.6.9 Growth of India's merchandise imports moderated to 27.8 per cent during 2006-07 from 33.8 per cent a year ago (Appendix Table 51). Growth in oil imports moderated to 29.8 per cent during 2006-07 (47.3 per cent a year ago), mirroring some slowdown of growth in the price of the Indian basket of crude oil (12.7 per cent during 2006-07 as compared with 42.2 per cent during 2005-06). On the other hand, growth in the volume of oil imports at 19.3 per cent during 2006-07 was significantly higher than that of 4.2 per cent a year ago.

I.6.10 Growth in non-oil imports moderated to 26.9 per cent during 2006-07 from 28.8 per cent a year ago, mainly on account of decline in imports of pearls, precious and semi-precious stones. On the other hand, imports of gold and silver expanded by 29.4 per cent during 2006-07 as compared with growth of 1.5 per cent a year ago, partly mirroring the movement in gold prices (Appendix Table 51). Gold prices rose by almost 32 per cent during 2006-07 as compared with 15 per cent in 2005-06. Non-oil imports, excluding gold and silver, increased by 26.6 per cent during 2006-07 as compared with 33.1 per cent growth a year ago. Growth in imports of 'mainly' industrial inputs (*i.e.*, non-oil imports net of gold and silver, bulk consumption goods, manufactured fertilisers and professional instruments) also moderated to 26.4 per cent during 2006-07 (34.7 per cent a year ago) mainly due to decline in imports of pearls, precious and semi-precious stones. Imports of capital goods continued to exhibit a buoyant growth (40.6 per cent during 2006-07 on top of 49.9 per cent during 2005-06), in consonance with strong domestic investment demand. Capital goods remained the mainstay of imports, accounting for almost 61 per cent of the increase in non-oil non-bullion imports during 2006-07.

I.6.11 During 2006-07, China remained the major source of total imports (oil *plus* non-oil imports) with a share of 9.1 per cent in India's total imports followed by Saudi Arabia (7.0 per cent),Germany (6.6 per cent), the US (6.6 per cent), Switzerland (4.8 per cent) and the UAE (4.5 per cent) (Table 1.76).

I.6.12 During 2007-08 (April-June), merchandise exports recorded growth of 17.9 per cent (23.5 per cent a year ago). Merchandise imports expanded by 34.2 per cent (18.9 per cent). While oil imports rose by 8.0 per cent (45.2 per cent), non-oil imports increased by 47.4 per cent (8.9 per cent). Merchandise trade deficit widened to US $ 20.6 billion during April-June 2007 from US $ 11.8 billion a year ago.

Table 1.76: Direction of India's Imports

(US $ billion)

Group/ Country	2005-06	2006-07
1	2	3
1. OECD Countries	**51.8**	**69.5**
of which:		
a) EU	25.2	**33.5**
Germany	6.0	12.7
UK	3.9	4.2
b) North America	10.4	14.1
US	9.5	12.6
2. OPEC	**11.2**	**56.1**
of which:		
UAE	4.4	8.6
3. Developing Countries	**37.9**	**59.6**
of which:		
Asia	30.5	47.2
People's Republic of China	10.9	17.4
Singapore	**3.4**	5.5
South Korea	4.6	4.8
4. Total Imports	**149.2**	**190.6**

Note : Data for 2006-07 include country-wise distribution of petroleum imports and are not strictly comparable with 2005-06.

Source : DGCI&S.

Invisibles

I.6.13 Invisibles surplus (services, transfers and income taken together) remained buoyant during 2006-07, led by robust growth in exports of software and other services, and supported by private remittances (Table 1.77 and Appendix Table 52). Gross invisible receipts comprising services, income from financial assets, labour and property and workers' remittances are rapidly catching up with the merchandise exports. Gross invisible receipts were 48 per cent of current receipts during 2006-07 as compared with 29 per cent during 1990-91 (Chart 1.27). The net surplus under invisibles expanded from 2.1 per cent of GDP in 2000-01 to 6.0 per cent of GDP in 2006-07 on the back of sharp expansion in gross invisible receipts from 7.0 per cent to 13.0 per cent. During 2006-07, the net surplus under invisibles financed more than three-fourths of the trade deficit.

Table 1.77: Balance of Payments – Key Indicators

(US $ million)

Item/Indicator	1990-91	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 PR	2006-07 P
1	2	3	4	5	6	7	8	9
i) Trade Balance	-9,438	-12,460	-11,574	-10,690	-13,718	-33,702	-51,841	-64,905
ii) Invisibles, net	-242	9,794	14,974	17,035	27,801	31,232	42,655	55,296
iii) Current Account Balance	-9,680	-2,666	3,400	6,345	14,083	-2,470	-9,186	-9,609
iv) Capital Account	7,056	8,840	8,551	10,840	16,736	28,022	23,400	44,944
v) Overall Balance #	-2,492	5,868	11,757	16,985	31,421	26,159	15,052	36,606
vi) Foreign Exchange Reserves* [Increase (-), Decrease (+)]	1,278	-5,842	-11,757	-16,985	-31,421	-26,159	-15,052	-36,606
Indicators (in per cent)								
1. Trade								
i) Exports/GDP	5.8	9.9	9.4	10.6	11.0	12.2	13.1	13.9
ii) Imports/GDP	8.8	12.6	11.8	12.7	13.3	17.1	19.5	21.1
iii) Trade Balance/GDP	-3.0	-2.7	-2.4	-2.1	-2.3	-4.9	-6.4	-7.1
iv) Export Volume Growth	11.0	23.9	3.9	21.7	6.0	17.5	11.8	n.a.
2. Invisibles								
i) Invisible Receipts/GDP	2.4	7.0	7.7	8.2	8.9	10.0	11.5	13.0
ii) Invisible Payments/GDP	2.4	4.9	4.5	4.9	4.3	5.5	6.2	7.0
iii) Invisibles (Net)/GDP	-0.1	2.1	3.1	3.4	4.6	4.5	5.3	6.0
3. Current Account								
i) Current Receipts@/GDP	8.0	16.9	16.9	18.7	19.8	22.1	24.4	26.9
ii) Current Payments/GDP	11.2	17.5	16.3	17.6	17.6	22.6	25.7	28.0
iii) Current Receipts Growth@	6.6	14.8	4.5	17.6	25.2	28.3	27.7	24.8
iv) Current Receipts@/Current Payments	71.5	96.4	103.8	106.6	112.8	98.0	95.2	96.0
v) Current Account Balance/GDP	-3.1	-0.6	0.7	1.2	2.3	-0.4	-1.1	-1.1
4. Capital Account								
i) Foreign Investment/GDP	–	1.5	1.7	1.2	2.6	2.2	2.5	2.9
ii) Capital Flows (net)/GDP	2.2	2.0	1.8	2.1	2.8	4.0	2.9	4.9
iii) Capital Inflows/GDP	7.2	11.8	9.0	9.1	12.6	14.1	17.6	24.8
iv) Capital Outflows/GDP	5.0	9.8	7.2	7.0	9.8	10.1	14.7	19.9
v) Foreign Investment/Exports	0.6	14.9	18.2	11.2	23.7	18.0	19.2	20.8
5. Others								
i) Debt - GDP Ratio	28.7	22.4	21.1	20.4	17.8	17.3	15.8	16.4
ii) Debt- Service Ratio	35.3	16.2	13.6	16.0	15.9	6.1	9.9	4.8
iii) Liability - Service Ratio	35.6	18.4	14.9	16.1	19.1	7.1	11.5	7.9
iv) Import Cover of Reserves (in months)	2.5	8.9	11.7	14.2	16.9	14.3	11.6	12.4

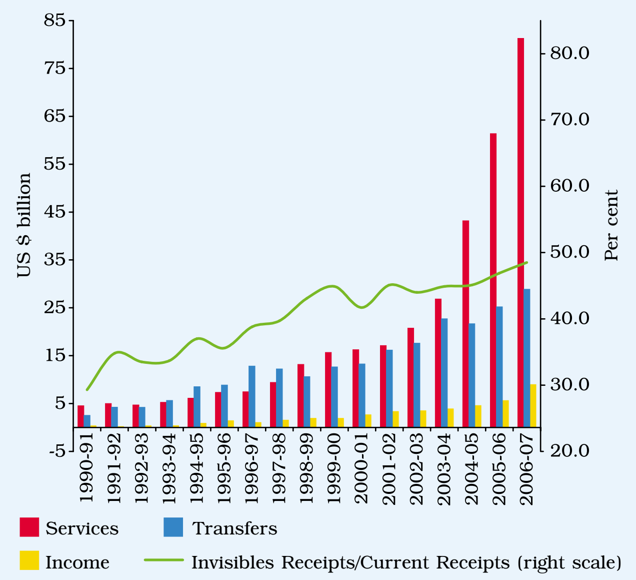
PR : Partially Revised. P : Provisional.
: Includes errors and omissions. @ : Excluding official transfers. * : Excluding valuation changes. n.a. : Not Available.

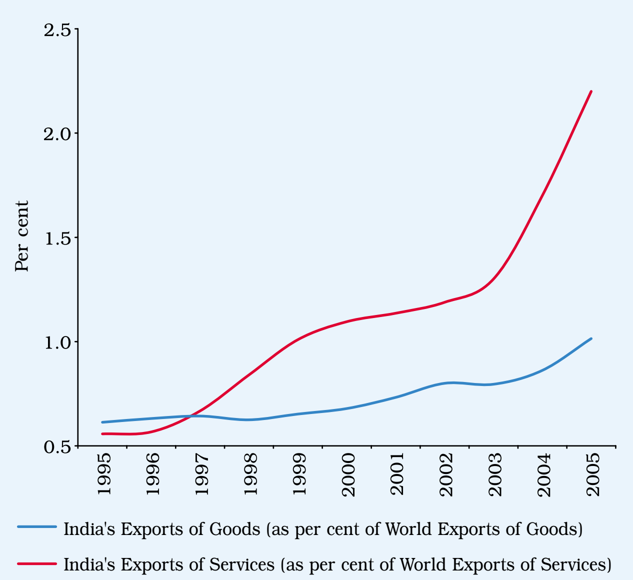
Services

I.6.14 Net surplus under services expanded from US $ 23.9 billion during 2005-06 to US $ 32.7 billion during 2006-07 led by an increase of 29.4 per cent in net surplus under software services to US $ 28.8 billion during 2006-07. India's services exports are dominated by exports of software and other business services, reflecting the global competitiveness and the high skill intensity of the Indian workforce (Table 1.78).

I.6.15 The share of India's services exports in the world increased between 1995 and 2005 from 0.6 per cent to 2.2 per cent (Chart I.28). An important feature of India's services exports, besides the shift in the trend level, is the reduced volatility, which has imparted stability to current receipts.

I.6.16 Exports of software and IT enabled services reached US $ 31.3 billion during 2006-07. Notwithstanding increasing competitive pressures,





India remains an attractive source due to its low cost of operations, high quality of product and services, readily available skilled manpower, and a favourable time zone difference. According to the NASSCOM, India has a share of about 12 per cent of world's total offshore market. To withstand global competition, Indian companies have started moving up the value chain by exploring untapped potential in IT consulting and system integration, hardware support and installation and processing services. Security concerns are also being recognised to maintain customer confidence. Globally, India is the leading exporter of computer and information services (Table 1.79). Growth in non-software business services also remained buoyant during 2006-07, mainly driven by trade related services, business and management consultancy services, architectural and engineering services and other technical services, and office maintenance services.

I.6.17 Amongst the major services, travel receipts continued to benefit from the robust growth in tourist arrivals (Table 1.80). In recent years, travel payments have risen sharply, reflecting the impact of liberalised payment system, rising services trade and associated business travel. The surplus on travel account increased from US $ 1.4 billion during 2005-06 to US $ 2.2 billion during 2006-07.

Table 1.78: Structure of India's Services Exports

Year	Amount (US $ million)	Share in Total Services Exports (Per cent)					
		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	–	14.4
1980-81	2,804	43.5	16.3	2.3	4.0	–	33.9
1990-91	4,551	32.0	21.6	2.4	0.3	–	43.6
2000-01	16,268	21.5	12.6	1.7	4.0	39.0	21.3
2003-04	26,868	18.7	11.9	1.6	0.9	47.6	19.2
2004-05	43,249	15.4	10.8	2.0	0.9	40.9	29.9
2005-06	61,404	12.8	10.2	1.7	0.5	38.4	36.3
2006-07	81,330	11.6	9.9	1.5	0.3	38.5	38.2

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

Table 1.79: Computer and Information Services Exports, 2005

(US $ billion)

Rank*	Country	2000	2003	2004	2005
1	2	3	4	5	6
1	**India**	**6.3**	**12.8**	**17.7**	**23.6**
2	Ireland	7.5	14.2	18.8	18.7
3	U.K.	4.3	8.2	11.7	10.6
4	Germany	3.8	6.7	8.0	8.1
5	U.S.A.	5.6	6.3	6.8	6.0
6	Israel	4.2	3.7	4.4	4.5
7	Netherlands	1.2	2.9	3.7	3.6
8	Spain	2.0	2.9	3.0	3.6
9	Canada	2.4	2.8	3.1	3.4
10	Belgium	–	2.1	2.4	2.6

* : Ranking is for the year 2005.

Source : Balance of Payments Statistics Yearbook 2006, IMF and Reserve Bank of India.

Private Transfers

I.6.18 Private transfers (net) at US $ 27.2 billion during 2006-07 were 12.8 per cent higher than a year ago. Workers' remittances have remained buoyant in recent years on the back of robust global output growth, amidst constant improvement in remittance infrastructure domestically. India is the leading remittance receiving country in the world with relative stability in such inflows (Table 1.81).

I.6.19 Remittances include repatriation of funds for family maintenance and local withdrawals from the non-resident Indian (NRI) deposits. Private transfers constitute around 3 per cent of GDP. North America is the largest source of remittances (Box I.17).

Table 1.80: 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
2000	2.7	6.9	4.4	7.3
2001	2.5	-7.4	4.6	4.5
2002	2.4	-4.0	4.9	6.5
2003	2.7	12.5	5.4	10.2
2004	3.5	29.6	6.2	14.8
2005	3.9	11.4	7.2	16.1
2006	4.5	15.4	–	–

Source : Ministry of Tourism, Government of India.

Table 1.81: Workers' Remittances – Top Ten Remittance Receiving Countries

(US $ million)

Country	1996	2003	2004	2005
1	2	3	4	5
Brazil	1,866	2,018	2,459	2,480
China	1,672	3,343	4,627	5,495
Colombia	..	3,060	3,170	3,314
Egypt	3,107	2,961	3,341	5,017
India	**10,930**	**21,885**	**20,012**	**23,518**
Mexico	4,224	13,396	16,613	20,035
Morocco	2,165	3,614	4,221	4,589
Pakistan	..	3,963	3,943	4,277
Portugal	3,575	2,752	3,032	2,826
Spain	2,749	4,718	5,196	5,339

Source : Balance of Payments Statistics Yearbook, 2006, IMF and Reserve Bank of India.

Investment Income

I.6.20 Investment income deficit narrowed from US $ 4.9 billion during 2005-06 to US $ 4.3 billion during 2006-07, on account of higher earnings on India's external assets. Investment income receipts continued to rise during 2006-07 in tandem with higher foreign currency assets held by the Reserve Bank as well as rising Indian overseas investment.

Current Account

I.6.21 The sustained rise in invisibles surplus during 2006-07 continued to moderate the impact of the growing merchandise trade deficit (Chart I.29). As a result, the current account deficit could be contained at US $ 9.6 billion during 2006-07, marginally higher than that in the corresponding period of the previous year (Appendix Table 48). As a proportion to GDP, the current account deficit at 1.1 per cent in 2006-07 was the same as a year ago. Merchandise trade deficit, after fluctuating around 3-4 per cent of GDP between the mid-1990s and 2003-04, widened sharply to 7.1 per cent of GDP in 2006-07 on the back of higher oil as well as non-oil imports. The import-led trade deficit and predominance of capital goods imports and export-related items signify the underlying strong investment demand backed by encouraging growth prospects. Nonetheless, the current account deficit has remained relatively low - averaging around one per cent of GDP since 1990-91 - attributable to sustained trend growth in net invisibles

Box I.17
Workers Remittance Inflows to India

In view of the sustained growth in the magnitude of remittance inflows to India since the early 1990s, there has been a growing interest about the micro aspects of remittances such as the modes of transfer, transaction cost, speed of delivery, regularity in sending remittances and the pattern of utilisation. Accordingly, the Reserve Bank conducted a survey on banks, engaged in foreign exchange transactions, during 2006. The survey was based on the data collected through a random sampling of the bank branches across major centres in India. These included Ahmedabad, Bangalore, Chandigarh, Chennai, Puducherry, Delhi, Hyderabad, Jaipur, Kolkata, Mumbai and Kochi. The selected cities are not only representative of the major remittances receiving cities, but are also the corridors for delivering remittances in the interior areas of the States. The study mainly focused on addressing the issues such as (i) relative use of instruments available for remittances transfers, (ii) size and the frequency of remittance transfers, (iii) cost and efficiency of the present system, and (iv) source regions of remittances and the utilisation pattern of remittances. The key findings of the survey are set out below:

- North America is the most important source region of remittances to India (about 44 per cent of the total remittances), while the Asian region (Gulf and East Asia) contributed about 32 per cent of the remittance flows to India. The higher share of North America could be attributed to the growing strength of professionals in software and other technology related areas.
- A predominant portion of the remittances (54 per cent) is utilised for family maintenance, *i.e.,* to meet the requirements of migrant families regarding food, education and health. On an average, about 20 per cent of the funds received are deposited in bank accounts locally and 13 per cent of the funds received are invested in land/property/equity shares.
- The average size of remittances transfer to India is relatively high. The remittances with average size of US $ 1,100 and above accounted for 52 per cent of the total value of remittance inflows. An inverse relationship was observed between the size of the remittance and its frequency, consistent with the findings of various cross-country studies.
- Electronic wires/Swift are the dominant modes of transferring remittances from abroad by the overseas Indians, indicating the preference of the senders for time efficient modes *vis-à-vis* the relatively time consuming means of transfer such as drafts/cheques. Swift transfers (electronic/telegraphic transfer of funds) are found to be the most time efficient means of remitting money, with average time taken being 1-2 days. Transfers through debit/credit cards are also less time consuming (2-6 days). Remittances made through cheques, drafts and money orders can take as long as 30 days, but at relatively low costs. While the cost of sending up to US $ 500 from the US to India is 2.5-8.0 per cent in the case of SWIFT, it is only 0.7-2.0 per cent in the case of drafts/cheques. The handling charges imposed domestically on delivering funds to non-customers or remote locations are found to be in the range of 0.1-0.6 per cent of the total value of funds.

Aspects relating to costing/pricing of remittances have also been examined recently by the Working Group on Cost of NRI Remittances (May 2006). While noting that bank charges in India in respect of inward remittances are relatively nominal, the Group's major recommendations were:

- In order to keep the cost of remittances at the foreign centre low, the NRIs should try to route their remittances though a branch of an Indian bank or a foreign bank with a presence in India.
- Banks active in NRI remittances should view this business as a volume play and consciously reduce the fee based costs so that volume can grow. Banks may, therefore, review their existing scale of charges, while also conducting an awareness programme for the diaspora.
- The restriction on the number of Exchange House relationships that an Indian bank can enter into may be relaxed and perhaps done away with especially for banks that have instituted adequate risk management controls.

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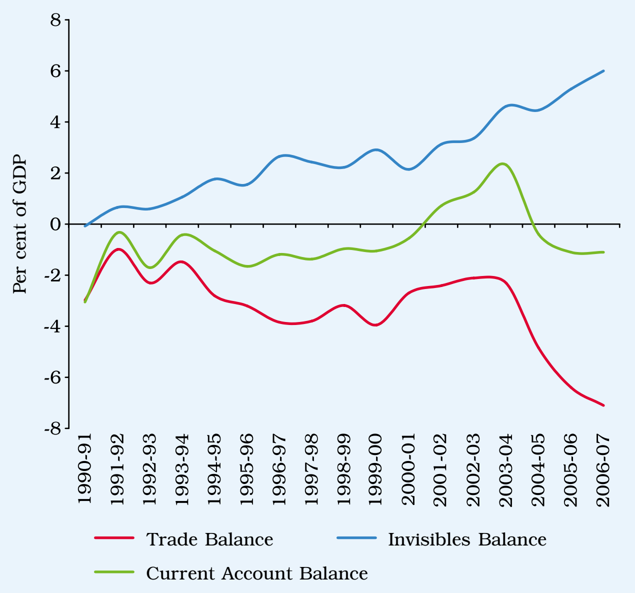
surplus from 2.1 per cent of GDP in 2000-01 to 6.0 per cent in 2006-07. Unlike India, a number of EMEs recorded surpluses on trade and current accounts during 2006 (Table 1.82).

I.6.22 India's linkages with the global economy are getting stronger, underpinned by the growing openness of the economy. The ratio of merchandise exports to GDP increased from 5.8 per cent in 1990-91

Chart I.29: India's Current Account



to 13.9 per cent in 2006-07, while that of imports increased from 8.8 per cent to 21.1 per cent over the same period. Taking into account the earlier noted upward trend in invisible receipts, current receipts (*i.e.*, merchandise exports and invisible receipts taken together) increased from 8.2 per cent of GDP during 1990-91 to 27.0 per cent in 2006-07. Total current account transactions – both receipts and payments – were more than one half of GDP (55.0 per cent of GDP in 2006-07 as compared with 19.4 per cent in 1990-91) indicative of the growing integration of the Indian economy with the rest of the world.

Capital Account

I.6.23 Net capital flows rose further during 2006-07, reflecting growing investor interest in India's growth prospects as well as global liquidity conditions. Capital flows (net) jumped from an average of around US $ 9 billion (1.9 per cent of GDP) during 2000-03 to around US $ 30-31 billion (3.5 per cent of GDP) (adjusted for the IMD effect) during 2004-06, remaining well above the current account deficit. During 2006-07, capital flows (net) were US $ 44.9 billion led by external commercial borrowings and foreign direct investment flows (Appendix Table 53).

Foreign Investment

I.6.24 Foreign direct investment (FDI) to India increased sharply from US $ 7.7 billion during 2005-06 to US $ 19.5 billion during 2006-07 on the strength of expansion in domestic activity, positive investment

Table 1.82: Trade and Current Account Balances in Select Countries

(Per cent to GDP)

Country	2000	2001	2002	2003	2004	2005	2006	Country	2000	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8	1	2	3	4	5	6	7	8
			Trade Balance								**Current Account Balance**				
Argentina	0.9	2.7	17.6	13.2	8.7	7.2	6.6	Argentina	-3.2	-1.4	8.9	6.3	2.1	1.9	2.4
Brazil	-0.1	0.5	2.6	4.5	5.1	5.1	n.a.	Brazil	-3.8	-4.2	-1.5	0.8	1.8	1.6	1.3
Chile	2.8	2.7	3.5	5.0	10.0	9.1	15.3	Chile	-1.2	-1.6	-0.9	-1.3	1.7	0.6	3.8
China	2.9	2.6	3.0	2.7	3.1	6.0	n.a.	China	1.7	1.3	2.4	2.8	3.6	7.2	9.1
Egypt	-8.4	-7.3	-6.6	-5.2	-8.3	-8.6	n.a.	Egypt	-1.2	0.0	0.7	2.4	4.3	3.2	0.8
India	**-2.7**	**-2.4**	**-2.1**	**-2.3**	**-4.9**	**-6.4**	**-7.1**	**India**	**-0.6**	**0.7**	**1.2**	**2.3**	**-0.4**	**-1.1**	**-1.1**
Indonesia	15.1	14.1	12.0	10.5	7.8	7.8	n.a.	Indonesia	4.8	4.3	4.0	3.5	0.6	0.1	2.7
Japan	2.5	1.7	2.4	2.5	2.9	2.1	1.9	Japan	2.6	2.1	2.9	3.2	3.7	3.6	3.9
Korea	3.3	2.8	2.7	3.6	5.5	4.1	3.3	Korea	2.4	1.7	1.0	2.0	4.1	1.9	0.7
Malaysia	23.1	20.9	19.0	24.7	23.2	25.3	24.4	Malaysia	9.4	8.3	8.4	12.7	12.6	15.2	15.8
Mexico	-1.4	-1.5	-1.2	-0.9	-1.3	-1.0	-0.7	Mexico	-3.2	-2.8	-2.2	-1.4	-1.0	-0.6	-0.2
Philippines	-7.9	-8.8	-7.2	-7.3	-6.6	-7.7	n.a.	Philippines	-2.9	-2.5	-0.5	0.4	1.9	2.0	2.9
Russia	23.2	15.7	13.4	13.9	14.5	15.5	14.2	Russia	18.0	11.1	8.4	8.2	9.9	10.9	9.8
South Africa	3.5	4.4	4.3	2.1	-0.1	-0.5	-2.4	South Africa	-0.1	0.3	0.8	-1.1	-3.2	-3.8	-6.4
Thailand	9.5	7.4	7.2	7.8	6.7	1.8	7.2	Thailand	7.6	4.4	3.7	3.4	1.7	-4.5	1.6
Turkey	-11.1	-2.6	-4.0	-5.8	-7.9	-9.1	n.a.	Turkey	-5.0	2.4	-0.8	-3.3	-5.2	-6.3	-8.0

n.a. : Not Available.
Note : (-) indicates deficit.
Source : World Economic Outlook, International Finanancial Statistics, IMF and Reserve Bank of India.

Table 1.83: Foreign Investment Flows to India

(US $ million)

Item	2003-04	2004-05	2005-06	2006-07P
1	2	3	4	5
A. Direct Investment (I+II+III)	**4,322**	**6,051**	**7,722**	**19,531**
I. Equity (a+b+c+d+e)	**2,229**	**3,778**	**5,820**	**16,065**
a) Government (SIA/FIPB)	928	1,062	1,126	2,156
b) RBI	534	1,258	2,233	7,151
c) NRI	–	–	–	–
d) Acquisition of shares*	735	930	2,181	6,278 ±
e) Equity capital of unincorporated bodies	32	528	280	480
II. Re-invested earnings	**1,460**	**1,904**	**1,676**	**2,936**
III. Other capital #	**633**	**369**	**226**	**530**
B. Portfolio Investment (a+b+c)	**11,377**	**9,315**	**12,492**	**7,003**
a) GDRs/ADRs	459	613	2,552	3,776
b) FIIs @	10,918	8,686	9,926	3,225
c) Off-shore funds and others	–	16	14	2
C. Total (A+B)	**15,699**	**15,366**	**20,214**	**26,534**

P : Provisional
– : Nil/Negligible.
* : Relates to acquisition of shares of Indian companies by non-residents under section 6 of the FEMA, 1999.
± : Include Swap of shares of US $ 3.1 billion.
\# : 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 2005-06 and 2006-07 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.

climate, progressive liberalisation of the FDI policy regime, and simplification of procedures (Table 1.83). The rising pace of mergers and acquisitions in sectors such as financial services, manufacturing, banking services, information technology and construction also boosted FDI inflows. FDI flows into India during 2006-07 were significantly higher than portfolio flows (Chart I.30). India follows the internationally accepted definition of FDI. According to the IMF definition, FDI is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence by the investor on the management of the enterprise. In line with international best practices, FDI includes both equity capital, reinvested earnings (retained earnings of FDI companies) and 'other direct capital' (inter-corporate debt transactions between related entities). Data on equity capital include equity of unincorporated entities (mainly foreign bank branches in India and Indian bank branches operating abroad), besides equity of incorporated bodies.

I.6.25 Among the developing countries, India has now emerged as the second most preferred FDI destination after China. India's share in global FDI flows increased from 2.3 per cent in 2005 to 4.5 per cent in 2006 (Chart I.31).

Chart I.30: Foreign Investment into India

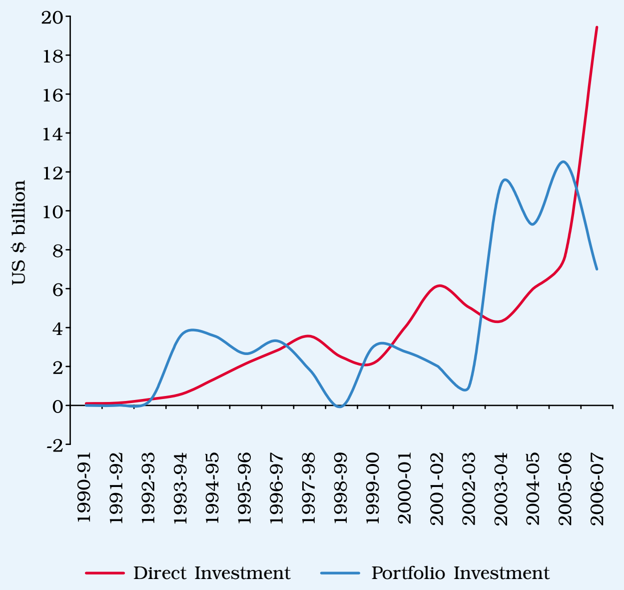
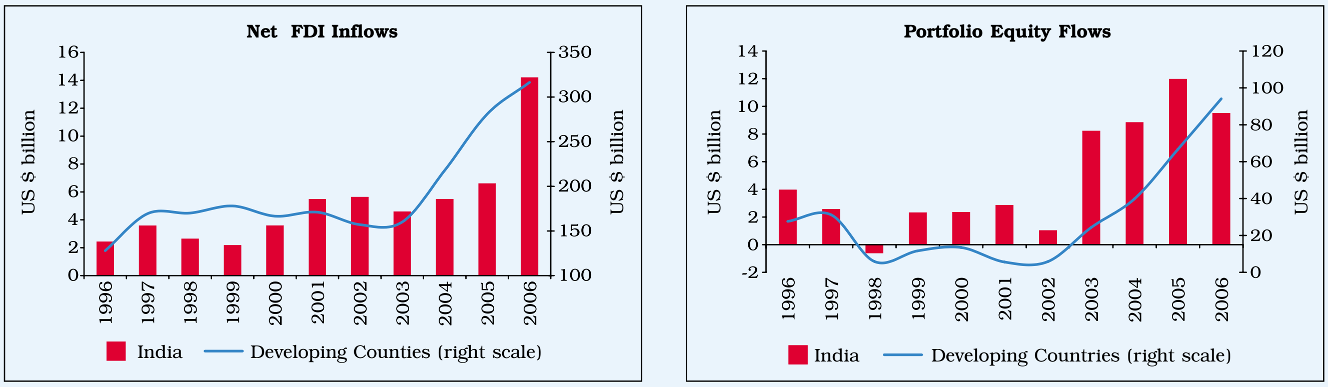


Chart I.31: Foreign Investment Flows to India and Developing Countries



I.6.26 Country-wise, Mauritius and the UK are the major FDI investors in India (Table 1.84). Large flows from Mauritius could be attributed to its use by investors in other countries for channeling FDI flows into India. FDI flows from the US, the Netherlands and Singapore also increased sharply during 2006-07. Sector-wise, manufacturing industries and services, particularly finance and business services, remained the major beneficiary of FDI inflows. The services sector attracted the maximum FDI inflows (US $ 6.1 billion in 2006-07 as compared with US $ 1.4 billion in 2005-06). FDI inflows into the construction sector and 'financing, real estate, and business services' increased substantially during 2006-07.

I.6.27 Overseas direct investment from India also exhibited a significant rise during the year - from US $ 4.5 billion during 2005-06 to US $ 11.0 billion during 2006-07 - reflecting large overseas acquisition deals by Indian corporates to gain market shares and reap economies of scale, amidst the progressive liberalisation of the external payments regime. Both FDI inflows and outflows during 2006-07 included one transaction amounting to US $ 3.1 billion involving swap of shares. Even net of this transaction, FDI inflows and outflows at US $ 16.4 billion and US $ 7.9 billion, respectively, during 2006-07 were significantly higher than those in the previous year. Investments in joint ventures (JV) and wholly owned subsidiaries (WOS) abroad are also a source of increased exports of plants and machinery, and goods from India. Overseas investment which started off initially with the acquisition of foreign companies in the IT and related services sector has now spread to other areas such as non-financial services (Table 1.85).

I.6.28 Foreign institutional investors (FIIs) continued to invest large funds in the Indian securities market

Table 1.84: Foreign Direct Investment to India: Country-wise and Industry-wise*

(US $ million)

Source/Industry	2003-04	2004-05	2005-06	2006-07P
1	2	3	4	5
Total FDI	**1,462**	**2,320**	**3,359**	**9,307**
Country-wise Inflows				
Mauritius	381	820	1,363	3,780
US	297	469	346	706
UK	157	84	261	1,809
Singapore	15	64	166	582
Germany	69	143	45	116
Netherlands	197	196	50	559
Japan	67	122	86	80
France	34	44	12	100
Switzerland	5	64	68	57
South Korea	22	14	61	68
Others	218	300	901	1,450
Industry-wise Inflows				
Fisheries	2	10	28	40
Mining	18	11	6	3
Manufacturing	426	924	1,257	1,610
Food and Dairy Products	64	183	148	9
Electricity	90	14	83	111
Construction	172	209	191	968
Trade, Hotels & Restaurants	67	22	95	277
Transport	20	70	66	140
Financing, Insurance, Real Estate & Business Services	206	363	452	4,416
Computer Services	166	372	770	823
Educational Services	0	2	4	95
Research & Scientific Services	1	5	5	2
Health & Medical Services	15	25	61	37
Other Services	2	10	49	455
Others	213	100	143	321

* : Data in this table relate to only the equity capital under Automatic route and Government route. Acquisition of shares of Indian Company by non-residents under section 6 of FEMA, 1999 and equity capital of unincorporated bodies are not included.

P: Provisional.

Table 1.85: India's Direct Investment Abroad

(US $ million)

Industry	2003-04	2004-05	2005-06*	2006-07*
1	2	3	4	5
Manufacturing	893	1,068	2,933	1,913
Financial Services	1	7	159	21
Non-Financial Services	456	283	881	7,382
Trading	113	181	361	613
Others	31	108	195	1079
Total	**1,494**	**1,647**	**4,529**	**11,008**

* : Based on the latest reported revised data. Therefore, these may differ from the data earlier published as part of balance of payments.

Note : Data include equity and loan components.

(see Table 1.71). Investments during 2006-07 were, however, lower than a year ago mainly due to global developments such as meltdown in global commodities and equity markets (May-July 2006), fall in Asian equity markets subsequent to the tightening of capital controls by Thailand (December 2006) and fall in Asian equity markets on account of concerns of slowdown in the US economy (late February 2007 till mid-March 2007). Resources raised by domestic corporates through the issuances of American depository receipts (ADRs)/global depository receipts (GDRs) at US $ 3.8 billion during 2006-07, however, remained higher than the previous year (US $ 2.6 billion).

I.6.29 According to the IMF definition, portfolio investment refers to cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets. Generally, FIIs include hedge funds, insurance companies, pension funds and mutual funds. In India, FIIs cover overseas pension funds, mutual funds, investment trusts, asset management companies, nominee companies, banks, institutional portfolio managers, university funds, endowments, foundations, charitable trusts, charitable societies, trustees or power of attorney holders incorporated or established outside India proposing to make proprietary investments or investments on behalf of a broad-based fund (*i.e.*, fund having more than 20 investors with no single investor holding more than 10 per cent of the shares or units of the fund). India is one of the largest recipients of portfolio inflows among EMEs (Table 1.86 and Chart I.31).

Debt Flows

I.6.30 Debt flows witnessed a large expansion during 2006-07 led by external commercial borrowings (ECBs) as well as non-resident deposits. Gross disbursements under ECBs rose from US $ 14.5 billion during 2005-06 to US $ 20.6 billion during 2006-07, reflecting sustained domestic investment demand as well as import demand amidst some hardening of domestic interest rates. Greater risk appetite of global investors for emerging market bonds also facilitated higher ECB drawals. Net inflows nearly doubled to US $ 16.4 billion in 2006-07 from US $ 8.5 billion in 2005-06 (adjusted for IMDs). Net inflows under non-

Table 1.86: Foreign Direct and Portfolio Investment to Select Countries

(US $ million)

Country	Foreign Direct Investment						Foreign Portfolio Investment					
	2000	2001	2002	2003	2004	2005	2000	2001	2002	2003	2004	2005
1	2	3	4	5	6	7	8	9	10	11	12	13
India	**3584**	**5472**	**5626**	**4585**	**5474**	**6598**	**2345**	**2853**	**1022**	**8216**	**8835**	**11968**
Argentina	10418	2166	2149	1652	4274	4730	-3227	31	-116	65	-86	-48
Brazil	32779	22457	16590	10144	18166	15193	3076	2481	1981	2973	2081	6451
Chile	4860	4200	2550	4307	7173	6667	-427	-217	-320	318	8	1635
China	38399	44241	49308	47077	54936	79127	6912	849	2249	7729	10923	20346
Indonesia	-4550	-2977	145	-597	1896	5260	-1021	442	877	1131	2043	-165
Malaysia	3788	554	3203	2473	4624	3966	0	0	-55	1340	4239	-1200
Mauritius	266	-28	32	63	14	39	-4	-9	-1	8	19	36
Mexico	17773	27142	19044	15256	18941	18772	447	151	-104	-123	-2522	3353
Philippines	2240	195	1542	491	688	1132	-202	125	227	501	518	1461
Russian Federation	2714	2748	3461	7958	15444	15151	150	542	2626	422	233	-215
South Africa	969	7270	735	783	701	6257	4169	-962	-388	685	6661	7230
Thailand	3366	3892	953	1949	1718	4527	901	352	539	1787	1319	5665

Source : Global Development Finance, World Bank Online.

Table 1.87: Balances under NRI Deposit Schemes

(US $ million)

Scheme	Outstanding (End-March)		Net Inflows@ (April-March)	
	2006	2007	2005-06	2006-07
1	2	3	4	5
1. FCNR(B)	13,064	15,129	1,612	2,065
2. NR(E)RA	22,070	24,495	1,177	1,830
Total	**35,134**	**39,624**	**2,789**	**3,895**

@ : 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 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.

resident deposits also increased during 2006-07 (Table 1.87), partly attributable to the higher interest rates on various deposit schemes (see Table 3.2) as well as favourable economic conditions in the source regions of such deposits.

I.6.31 India received external assistance (net) of US $ 1.8 billion during 2006-07 (Appendix Table 48). India continued to extend assistance to other countries, mainly in the form of grants and loans (Table 1.88).

Table 1.88: India's Grants and Loans to Foreign Governments

(US $ million)

Item	2000-01			2006-07		
	Grant	Loan	Total	Grant	Loan	Total
1	2	3	4	5	6	7
A. Plan (External Affairs)	**76**	**44**	**120**	**41**	**8**	**49**
B. Non-Plan (i+ii+iii)	**88**	**38**	**127**	**305**	**28**	**333**
i. External Affairs	**81**	**16**	**97**	**290**	**0**	**290**
Bangladesh	2	16	18	4	0	4
Bhutan	44	0	44	108	0	108
Nepal	14	0	14	46	0	46
Africa	1	0	1	4	0	4
Myanmar	4	0	4	9	0	9
Sri Lanka	2	0	2	6	0	6
Other Developing Countries	14	0	14	113	0	113
ii. Finance	7	22	29	14	28	42
Contribution to U.N.D.P.	5	0	5	5	0	5
Mauritius	0	2	2	0	2	2
Myanmar	0	4	4	0	0	0
Sri Lanka	0	3	3	0	22	22
Surinam	0	0	0	0	0	0
Other Countries	2	13	15	4	3	7
Development Assistance	0	0	0	6	0	6
iii. Shipping	1	0	1	0	0	0
Bangladesh	1	0	1	0	0	0
C. Grand Total (A+B)	**165**	**82**	**247**	**347**	**36**	**382**

Source : Union Budgets, Government of India.

India provides aid mainly in the form of technical cooperation and training, with the grants component dominating external aid with a share of over 90 per cent. The major beneficiaries of the assistance during 2006-07 were Bhutan, Nepal, and other developing countries.

EXTERNAL DEBT

I.6.32 Reflecting rise in net inflows under external commercial borrowings and NRI deposits, as alluded to earlier, India's total external debt increased by US $ 28.6 billion during 2006-07. The external debt was placed at US $ 155.0 billion at end-March 2007 (Table 1.89 and Appendix Table 55). The stock of external commercial borrowings rose by US $ 15.9 billion accounting for nearly 55.6 per cent of the increase in the total external debt during 2006-07. Among different components of ECBs, commercial bank loans increased from US $ 16.4 billion at end March 2006 to US $ 25.8 billion at end-March 2007, while securitised borrowings (including FCCBs) increased from US $ 9.7 billion to US $ 15.7 billion. Large flows under the ECBs have implications for the conduct of monetary and exchange rate policy. Loans raised by resident entities from international capital markets with maturity of more than three years are classified as ECBs. The policy stance on ECB, which aims at managing the level of external borrowings within manageable limits, is regularly reviewed and revised by the Government in consultation with the Reserve Bank taking into account a host of factors such as current macro economic situation, borrowing requirements of the

Table 1.89: India's External Debt

(US $ million)

Item	End-March 2006	End-March 2007	Variation during 2006-07	
			Amount	Per cent
1	2	3	4	5
1. Multilateral	32,559	35,641	3,082	9.5
2. Bilateral	15,727	16,104	377	2.4
3. Export Credit	5,398	6,964	1,566	29.0
4. External Commercial Borrowings	26,869	42,780	15,911	59.2
5. NRI Deposit	35,134	39,624	4,490	12.8
6. Rupee Debt	2,031	1,949	-82	-4.0
7. Long-term (1 to 6)	1,17,718	1,43,062	25,344	21.5
8. Short-Term	8,696	11,971	3,275	37.7
Total	**1,26,414**	**1,55,033**	**28,619**	**22.6**

Table 1.90: External Debt Service Payments

(US $ million)

Item	2004-05	2005-06	2006-07
1	2	3	4
1. External Assistance @	2,468	2,666	2,904
2. External Commercial Borrowings*	5,223	14,749	6,819
3. IMF	0	0	0
4. NRI Deposits (Interest Payments)	1,353	1,497	1,969
5. Rupee Debt service	417	572	162
6. Total Debt Servicing	9,461	19,484	11,854
7. Total Current Receipts #	1,54,123	1,96,778	2,45,615
8. External Debt to GDP Ratio (%)	17.3	15.8	16.4
9. Short Term Debt to Total Debt Ratio (%)	6.1	6.9	7.7
10. Short Term Debt to Foreign Exchange Reserve Ratio (%)	5.3	5.7	6.0
11. Foreign Exchange Reserves to External Debt Ratio (%)	114.9	119.9	128.5
12. Debt Service Ratio (6/7) (%)	6.0	9.9	4.8
13. Interest Payments to Current Receipts Ratio (%)	2.5	2.8	2.3
14. Debt to Current Receipts Ratio (%)	93.6	64.2	63.1
15. Liability Service Ratio (%)	7.4	11.2	6.2

@ : Inclusive of non-Government loans. * : Inclusive of interest components of trade credits. # : 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 a cash basis.

2. The liability service ratio represents debt service payments and remittances of profits and dividends taken together as a ratio of total current receipts.

3. Ratios at item nos. 8, 9, 10 and 11 are calculated from their respective outstanding balances.

corporate sector, domestic liquidity conditions and external debt parameters. ECB can be raised through two routes, *viz*., (i) Automatic Route and (ii) Approval Route. Under the present guidelines, corporates in India can avail ECB up to US $ 500 million during a financial year under the Automatic Route, with minimum average maturity period of 5 years; in addition, US $ 250 million with average maturity of more than 10 years is permitted under the Automatic Route. ECBs above these limits come under the Approval Route (see Chapter IV).

I.6.33 Almost 49 per cent of the external debt stock was denominated in US dollars, followed by the Indian Rupee (17.4 per cent), SDR (13.3 per cent) and Japanese Yen (12.9 per cent). The ratio of external debt to GDP has witnessed a steady decline since the 1990s, reaching 16.4 per cent at end-March 2007 from 30.8 per cent at end-March 1995. Although India was the seventh largest debtor country in 2005, its debt-GDP ratio was the second lowest among the top 20 debtor countries, next only to China. As at end-March 2007, foreign exchange reserves were 28.5 per cent in excess of the stock of external debt. Current receipts exceeded the external debt stock by 58.4 per cent, reflecting the sustained robust growth in exports of goods, services and remittances. The ratio of short-term to total debt and short-term debt to foreign exchange reserves remained relatively modest. The debt-service ratio fell to 4.8 per cent in 2006-07. The increase in debt service ratio during 2005-06 reflected the one-off impact of the bullet redemption of the IMDs (Table 1.90).

FOREIGN EXCHANGE RESERVES

I.6.34 With capital flows (net) remaining significantly higher than the current account deficit, the overall balance of payments continued to record large surplus during 2006-07. As a result, foreign exchange reserves comprising foreign currency assets, gold, SDRs and the reserve tranche position with the IMF increased by US $ 47.6 billion during 2006-07 to US $ 199.2 billion at end-March 2007 (Table 1.91 and Appendix Table 56). As at end-March 2007, the total quantum of India's contribution under the Financial Transactions Plan (FTP) of the IMF was SDR 493 million.

Table 1.91: Foreign Exchange Reserves

(US $ million)

As at end of March	Gold	SDRs	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
2006	5,755	3	1,45,108	756	1,51,622	0
2007	6,784	2	1,91,924	469	1,99,179	0

I.6.35 India held the fifth largest stock of international reserve assets among EMEs at end-March 2007. India's foreign exchange reserves are at comfortable level as reflected by different reserve adequacy indicators. Total reserves were equivalent of over 12.4 months of imports at end-March 2007, and 16.6 times the short-term debt.

I.6.36 Foreign exchange reserves were US $ 226.4 billion on August 17, 2007, US $ 27.3 billion higher than those at end-March 2007.

Management of Foreign Exchange Reserves

I.6.37 Movements in the foreign currency reserves occur mainly out of purchases and sales of foreign exchange by the Reserve Bank in the market. In addition, there is income from the deployment of foreign exchange assets held in the portfolio of the Reserve Bank. External aid receipts of the Government of India also flow into the reserves. In line with the international trends, the Reserve Bank follows the practice of expressing foreign exchange reserves in US dollar terms, which implies that the movement of the US dollar against other currencies in which foreign currency assets (FCA) are held would also influence its share in FCA.

I.6.38 The overall approach to the management of India's foreign exchange reserves takes into account the changing composition of the balance of payments and endeavours to reflect the 'liquidity risks'. The objectives of reserve management in India are preservation of the long-term value of reserves in terms of purchasing power and the need to minimise risk and volatility in returns. The Reserve Bank of India Act, 1934 provides the over-arching legal framework for deployment of foreign currency assets and gold. The relevant provisions, contained in Section 17 of the Act, define the broad parameters in respect of currency, instruments, issuers and counterparties. While the major convertible currencies constitute the choice set for the currency composition of FCA, the investment universe for FCA comprises 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 (Table 1.92). The 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 entire FCA is invested in assets of the highest quality with a significant proportion convertible into cash at short notice.

I.6.39 The broad strategy for reserve management places emphasis on managing and controlling the exposure to financial and operational risks associated with deployment of reserves. The risk management functions are aimed at ensuring

Table 1.92: Deployment Pattern of Foreign Currency Assets

(US $ million)

Item	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006	March 31, 2007
1	2	3	4	5	6
Foreign Currency Assets	**71,890**	**1,07,448**	**1,35,571**	**1,45,108**	**1,91,924**
(a) Securities	26,929	35,024	36,819	35,172	52,996
(b) Deposits with other Central Banks and BIS	33,463	45,877	65,127	65,399	92,175
(c) Deposits with Foreign Commercial Banks	11,403	26,518	33,625	44,537	46,753

development of sound governance structures in line with the international best practices, improved accountability, a culture of risk awareness across all operations and efficient allocation of resources for development of in-house skills and expertise. In tune with the global trend in this regard, considerable attention has been paid to strengthen the operational risk control arrangements.

I.6.40 With the concurrence of the Government of India, the Reserve Bank compiles and makes public half-yearly reports on management of foreign exchange reserves for bringing about more transparency and also for enhancing the level of disclosure in this regard. The first such report with reference to September 30, 2003 was put in public domain through websites of both the Government of India and the Reserve Bank in February 2004. Subsequently, seven more reports pertaining to position as at end-March 2004, end-September 2004, end-March 2005, end-September 2005, end-March 2006, end-September 2006 and end-March 2007 have been placed on the Reserve Bank's website.

INTERNATIONAL INVESTMENT POSITION

I.6.41 India's net international liabilities declined by US $ 4.6 billion between end-March 2006 and end-December 2006 as the increase in international assets (US $ 41.0 billion) exceeded international liabilities (US $ 36.4 billion). The increase in international assets during 2006-07 was mainly on account of accretion to foreign exchange reserves, and, to some extent, rise in direct investment abroad. India's international liabilities expanded, reflecting inflows on account of direct and portfolio investment, commercial borrowings and non-resident deposits (Table 1.93).

I.6.42 Cross-country data indicate that India's gross international assets and liabilities were lower in comparison to China, Hong Kong, Singapore and Russia at end-December 2005 (Table 1.94). Moreover, while India had international liabilities, China, Hong Kong and Singapore had net international assets.

I.6.43 International liabilities of the Indian banking sector rose by 12.5 per cent between end-March

Table 1.93: International Investment Position of India

(US $ million)

Item	End-March			End-Dec.
	2004	2005PR	2006PR	2006P
1	2	3	4	5
A. Assets	**137.8**	**168.2**	**183.5**	**224.5**
1. Direct Investment	7.8	10.0	13.0	21.6
2. Portfolio Investment	0.8	0.8	1.3	1.2
2.1 Equity Securities	0.4	0.4	0.7	0.6
2.2 Debt Securities	0.4	0.4	0.6	0.6
3. Other Investment	16.3	15.9	17.6	24.4
3.1 Trade Credits	1.9	2.2	0.4	4.1
3.2 Loans	1.7	1.9	2.5	3.6
3.3 Currency and Deposits	9.5	8.4	11.2	12.9
3.4 Other Assets	3.1	3.4	3.5	3.8
4. Reserve Assets	113.0	141.5	151.6	177.3
B. Liabilities	**183.1**	**210.0**	**231.3**	**267.7**
1. Direct Investment	38.2	44.0	50.7	65.3
2. Portfolio Investment	43.7	55.7	64.6	73.6
2.1 Equity Securities	34.0	43.2	54.7	60.0
2.2 Debt Securities	9.8	12.5	9.9	13.6
3. Other Investment	101.2	110.3	116.0	128.8
3.1 Trade Credits	6.3	9.6	10.5	11.8
3.2 Loans	61.9	65.7	68.2	76.2
3.3 Currency and Deposits	32.1	33.6	36.2	39.4
3.4 Other Liabilities	0.9	1.4	1.1	1.4
C. Net Position (A-B)	**-45.3**	**-41.8**	**-47.8**	**-43.2**
D. Net Foreign Liabilities to GDP (%)	**7.4**	**5.9**	**6.0**	
Memo:				
Debt Liabilities/Total Liabilities (%)	60.6	58.5	54.4	53.2
Non-debt Liabilities/Total Liabilities (%)	39.4	41.5	45.6	46.8

PR : Partially revised. P : Provisional.

Table 1.94: International Investment Position: Select Countries

(End-December 2005; US $ billion)

	Argentina	Brazil	Chile	China	Hong Kong	India	Philippines	Russia	Singapore
1	2	3	4	5	6	7	8	9	10
A. Total Financial Assets	**161**	**170**	**92**	**1218**	**1495**	**183**	**41**	**495**	**586**
Direct Investment Abroad	23	79	21	64	471	12	2	139	111
Portfolio Investment	0	11	37	117	437	1	5	18	117
Equity	0	3	33	0	228	1	0	0	54
Debt	0	8	4	117	209	1	5	17	63
Other Investments	110	26	15	211	445	18	16	157	242
Monetary Authority	0	1	0	0	0	0	0	1	0
General Government	7	2	0	0	0	2	0	72	0
Banks	3	12	2	0	351	14	10	31	0
Other Securities	100	10	13	0	95	3	5	53	0
Reserve Assets	28	54	17	826	125	152	18	182	116
Financial Derivatives	0	0	1	0	17	0	0	0	0
B. Total Financial Liabilities	**142**	**499**	**124**	**931**	**1055**	**229**	**76**	**540**	**482**
Direct Investment	55	196	74	610	523	50	15	169	188
Portfolio Investment	34	233	18	77	179	63	22	169	90
Equity	2	126	7	64	168	54	4	121	74
Debt	32	107	11	13	11	9	18	48	16
Other Investment	53	70	31	244	336	116	39	202	204
Monetary Authority	9	0	0	0	0	1	2	11	0
General Government	23	0	1	0	0	45	14	42	0
Banks	3	8	6	0	295	37	9	48	0
Other Securities	18	62	23	0	41	33	14	101	0
Financial Derivatives	0	0	1	0	17	0	0	0	0
C. Net Position (A-B)	**19**	**-329**	**-33**	**287**	**440**	**-46**	**-35**	**-45**	**104**

Source : International Financial Statistics, International Monetary Fund.

Table 1.95: International Liabilities and Assets of Banks in India

(US $ million)

Category/Item	Amount outstanding at end of		
	March-05	March-06P	Dec.-06P
1	2	3	4
Total International Liabilities	**58,292**	**68,723**	**77,326**
of which:			
FCNR(B) Deposits	11,612	13,025	15,042
NRE Rupee Deposits	19,616	22,483	25,070
Foreign Currency Borrowings	10,410	14,283	12,687
Bonds (including IMDs)	6,681	988	1,158
Non-Resident ordinary Rupee Deposits	1,461	1,221	1,390
ADRs and GDRs	2,265	3,325	5,152
EEFC Accounts	1,296	1,348	1,958
Total International Assets	**30,458**	**35,459**	**41,227**
of which:			
Foreign Currency Loans to Residents	13,280	14,176	14,756
Outstanding Export Bills	5,983	7,075	8,173
NOSTRO Balances	8,155	9,980	14,005

P : Provisional.
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.

2006 and end-December 2006. International assets, however, increased by 16.2 per cent during the same period (Table 1.95). 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 95.9 per cent of total international assets, the proportion of foreign currency denominated liabilities in total international liabilities was 48.6 per cent.

I.6.44 To sum up, the balance of payments remained comfortable during 2006-07. Although the merchandise trade deficit widened further during the year, it was largely, as in the past, financed by the sustained growth in net surplus under invisibles, reflecting mainly exports of software and other business services and remittances from the Indians working abroad. The current account deficit, as per cent to GDP, at 1.1 per cent was at the same level as a year ago. Capital flows (net), on the other hand, increased further led by foreign direct investment and external commercial borrowings (ECBs), offsetting the outflows associated with overseas acquisitions by Indian corporates. The overall balance of payments surplus led to an accretion of US $ 47.6 billion to foreign exchange reserves during 2006-07.

II ASSESSMENT AND PROSPECTS

ASSESSMENT OF 2006-07

II.1 During 2006-07, the Indian economy exhibited acceleration in growth, led by manufacturing and services sector activities. The sustained high growth since 2003-04 has been supported by increase in domestic savings and investment. Robust growth during 2006-07, however, was accompanied by inflationary pressures on account of capacity constraints in certain sectors, strong growth in monetary and credit aggregates, demand-supply gaps in domestic production of foodgrains and oilseeds, and firm global commodity prices. A series of timely and appropriate measures undertaken by the Reserve Bank, and other supply side responses to rising prices made by the Government helped to contain headline inflation. More importantly, the measures facilitated the anchoring of inflationary expectations to a certain extent. Strong growth in general and of the industrial sector in particular enabled the corporate sector to maintain high profitability. This, in turn, resulted in buoyant tax collections and played a major role in improving public finances. The growth process was facilitated by financial market conditions, which remained orderly, barring a few episodes of volatility. However, interest rates in various segments of the financial market hardened to some extent. Strong growth led to a widening of the trade deficit. Nonetheless, the current account deficit, as per cent of GDP, remained unchanged from the previous year since the widening of the merchandise trade deficit was offset to a large extent by the continuing buoyancy in net invisibles surplus. Large capital flows led by external commercial borrowings and net foreign direct investment (FDI) inflows resulted in large accretion to foreign exchange reserves.

II.2 The Indian economy recorded robust growth for the fourth successive year during 2006-07. Real GDP growth accelerated from 9.0 per cent during 2005-06 to 9.4 per cent during 2006-07. The growth, thus, averaged 8.6 per cent per annum during the four-year period ended 2006-07. Real GDP growth during the Tenth Five Year Plan period averaged 7.6 per cent per annum, the highest in any Plan period. Acceleration in the growth rate during 2006-07 was attributable to buoyancy in the industrial and services sectors, which exhibited double-digit growth (11.0 per cent each), since higher growth in the industrial and services sectors more than offset the deceleration in the agricultural sector.

II.3 Growth in the agricultural sector decelerated from 6.0 per cent in 2005-06 to 2.7 per cent in 2006-07, partly on account of uneven rainfall during the South-West monsoon and also the base effect reflecting high growth in 2005-06. Although the overall foodgrains production rose by 3.6 per cent in 2006-07, the production of major crops still did not reach the previous peak touched in 2001-02. Amongst the major crops, the production of rice, wheat and pulses during 2006-07 was below the peaks reached in 2001-02, 1999-2000 and 1998-99, respectively. The stagnation in the production of major foodgrains and decline in stocks amidst firming up of global prices led to a significant hardening of domestic food prices during 2006-07. Amongst the non-foodgrains, the production of sugarcane and cotton scaled new peaks during 2006-07, while that of oilseeds declined.

II.4 The industrial upturn that started in April 2002 maintained its momentum during 2006-07. Based on the index of industrial production, industrial growth accelerated from 8.2 per cent in 2005-06 to 11.5 per cent in 2006-07, the highest growth achieved over the past decade. The growth led by the manufacturing sector (12.5 per cent) was broad-based. In terms of use-based classification, all sectors, except consumer goods, exhibited acceleration in growth. The production of capital goods remained buoyant with growth of 18.2 per cent indicative of robust investment demand. The basic goods and intermediate goods sectors also recorded higher growth during 2006-07. The growth of core infrastructure industries at 8.6 per cent during 2006-07 has been the highest since 1999-2000 (9.1 per cent).

II.5 The services sector with double-digit growth for the third successive year consolidated its position as the key driver of economic activity in the country. The services sector accounted for 61.8 per cent of GDP in 2006-07 and contributed nearly three-fourths to the overall real GDP growth during the year. The services sector benefited from the robust growth in domestic tourism, foreign tourist arrivals, telecom sector, railways traffic, civil aviation, cargo handled, construction, business process outsourcing (BPO), information technology enabled services (ITES), and banking and insurance activity.

II.6 The strengthening of economic activity in recent years has been supported by a steady upward trend in domestic savings and investment rates coupled with an efficient use of capital. The savings rate continued its upward trend from 23.5 per cent of GDP in 2001-02 to 32.4 per cent in 2005-06, while the investment rate rose from 22.9 per cent to 33.8 per cent over the same period. Data for 2006-07 suggest continuation of these trends, with the rate of gross fixed capital formation increasing by 1.4 percentage points to 29.5 per cent of GDP from 28.1 per cent in 2005-06.

II.7 The sustained economic growth since the early 1990s has also been associated with a significant reduction in poverty. The proportion of people living below the poverty line (based on uniform recall period) declined from 36.0 per cent in 1993-94 to 27.8 per cent in 2004-05. There is also evidence of pick-up in employment growth (based on usual principal status) from 1.57 per cent per annum (1993-94 to 1999-2000) to 2.48 per cent (1999-2000 to 2004-05). The annual growth in employment (2.48 per cent) was, however, marginally lower than that of the labour force (2.54 per cent) during 1999-2000 to 2004-05. As a result, the unemployment rate rose from 2.78 per cent in 1999-2000 to 3.06 per cent in 2004-05.

II.8 Growth in money supply (M_3) accelerated from 17.0 per cent during 2005-06 to 21.3 per cent during 2006-07. Amongst the major components, time deposits exhibited a higher growth during 2006-07 which could be attributed to factors such as higher interest rates on bank deposits and availability of tax benefits under Section 80C for bank deposits of appropriate maturity. On the sources side, growth of bank credit remained high, although there was some moderation from the previous two years. Demand for bank credit was largely broad-based with agriculture, industry and personal loans sectors absorbing 14 per cent, 36 per cent and 24 per cent, respectively, of the incremental expansion in overall non-food credit during 2006-07. Growth of credit to sectors such as real estate remained high, *albeit* with some moderation. In order to maintain asset quality, the Reserve Bank further tightened the provisioning requirements and risk weight prescriptions in respect of sectors witnessing high growth in credit. Commercial banks' SLR investments, as a proportion of their net demand and time liabilities (NDTL), declined further to 28.0 per cent by end-March 2007 (close to the prescribed ratio of 25 per cent) as the expansion in investments did not keep pace with the expansion in the NDTL. Net foreign assets (NFA) remained the key driver of reserve money and the Reserve Bank continued to modulate market liquidity through operations under the liquidity adjustment facility (LAF), issuance of securities under the market stabilisation scheme (MSS) and use of the cash reserve ratio (CRR).

II.9 Headline inflation firmed up from 4.0 per cent, y-o-y, on April 1, 2006 to 5.9 per cent on March 31, 2007 with an intra-year high of 6.7 per cent on January 27, 2007 and a low of 3.7 per cent on April 15, 2006. Both demand and supply side factors added to inflationary pressures during 2006-07. Supply side pressures emerged from higher food prices due to demand-supply gaps in domestic foodgrains and oilseeds production amidst rising global prices. Consumer price inflation rose from 4.9-5.3 per cent in March 2006 to 6.7-9.5 per cent in March 2007, mainly reflecting the impact of higher food prices. In order to contain inflation and to stabilise inflationary expectations, the Reserve Bank persevered with the policy of pre-emptive actions and gradual withdrawal of monetary accommodation, using various instruments at its disposal flexibly. Since the second half of 2004, the repo and the reverse repo rates have been increased by 175 basis points and 150 basis points, respectively. In addition, the cash reserve ratio has been raised by 250 basis points. The Government also took various fiscal and supply-side measures to contain inflation during the latter part of 2006-07.

II.10 The Central Government's provisional accounts for 2006-07 reflected the Government's commitment of staying on course with the path of fiscal correction under the Fiscal Responsibility and Budget Management (FRBM) Rules, 2004. Gross fiscal deficit (GFD) and revenue deficit (RD), as ratios to GDP, at 3.5 per cent and 1.9 per cent, respectively, in 2006-07 (provisional accounts) were lower by 0.6 percentage point and 0.7 percentage point in comparison with 2005-06. The fiscal corrections, thus, turned out to be higher than the respective minimum reductions of 0.3 percentage point and 0.5 percentage point stipulated per year under the FRBM Rules, 2004, thereby partly compensating for the pause taken in 2005-06. Furthermore, the provisional accounts showed a primary surplus during 2006-07, reflecting containment of non-interest expenditure below the non-debt receipts. For the first time since 1970-71 (the period for which such data are readily available), primary surpluses were recorded in 2004-05 and again in 2006-07. If this trend continues in the coming years, it will help in stabilising and then reducing the debt/GDP ratio. The reduction in deficit indicators was enabled by buoyant revenue growth, reflecting both cyclical and structural factors that have resulted in higher economic growth, and improved expenditure management. The gross tax/GDP ratio maintained its upward trend and reached 11.5 per cent in 2006-07 (provisional accounts). Expenditure management efforts focused on moderating non-plan expenditure, while increasing plan expenditure. However, capital outlay continued to be low at around 1.4 per cent of GDP.

II.11 The consolidated fiscal position of the State Governments during 2006-07 (revised estimates) reflected the progress made by the States towards fiscal correction and consolidation.The consolidated revenue deficit was placed at 0.03 per cent of GDP in 2006-07 (revised estimates). In all, 17 States (including NCT Delhi) reported revenue surplus during the year. The correction in the revenue account was facilitated by buoyant own tax revenues of the States, aided by implementation of Value Added Tax (VAT) and higher devolution and transfers from the Centre consequent to the implementation of the recommendations of the Twelfth Finance Commission (TFC). The increase in revenue receipts more than compensated for the increase in revenue expenditure. The sustainability of this positive trend will depend upon the continued growth in States' own tax efforts over a period of time. The State Governments stepped up capital outlays, especially for education, rural and infrastructure development, which translated into GFD exceeding the budget estimates. A number of State Governments managed to bring down the ratio of GFD to Gross State Domestic Product (GSDP) to less than 3 per cent, two years ahead of the targets of the TFC. The State Governments continued to draw comfort from the accruals under the National Small Savings Fund (NSSF), notwithstanding some moderation in the accruals during 2006-07. Most of the State Governments continued to maintain high level of surplus cash balances. Consequently, the recourse to Ways and Means Advances (WMA) was low.

II.12 Financial markets remained orderly during 2006-07, barring some episodes of volatility, especially during the second half of March 2007. Capital inflows and movements in Government cash balances continued to be the key drivers of liquidity conditions and overnight interest rates. Interest rates in the various market segments hardened during the year, broadly in tandem with the pre-emptive monetary tightening measures taken by the Reserve Bank. By and large, the exchange rate of the Indian rupee exhibited two-way movement with respect to the main reserve currencies during 2006-07. The stock markets remained buoyant, with the benchmark indices reaching record highs during 2006-07, amidst intermittent corrections. The primary segment of the capital market also exhibited buoyant conditions.

II.13 India's balance of payments in 2006-07 reflected a number of positive features. Merchandise trade continued to exhibit robust growth during 2006-07, although there was some loss of pace from the strong growth of 2005-06. Based on the DGCI&S data, merchandise exports and imports expanded by 22.5 per cent and 27.8 per cent, respectively, during 2006-07, building upon the high growth phase that began in 2002-03. Export and import growth averaged 23.6 per cent and 30.2 per cent, respectively, during the five-year period ended 2006-07. On the import side, oil imports remained the largest component of imports in 2006-07 (29.9 per cent of total imports). Growth in oil imports during 2006-07 was on account of both volume and price changes. Non-oil imports continued to record strong growth in tandem with economic activity. Reflecting the growing integration with the global economy, import intensity (imports-GDP ratio) increased to 20.9 per cent in 2006-07 from 18.5 per cent in 2005-06. The higher growth of imports *vis-a-vis* exports led to a persistent rise in the trade deficit, on a balance of payments basis, from US $ 10.7 billion in 2002-03 to US $ 64.9 billion in 2006-07. The trade deficit, as a percentage of GDP, widened from 2.1 per cent in 2002-03 to 7.1 per cent in 2006-07. However, the spill over of the widening trade deficit to the current account was contained by robust growth in exports of services, led by software and other business services, and remittances from overseas Indians. Gross invisible receipts are fast catching up with the level of merchandise exports. Net surplus under invisibles at 6.0 per cent of GDP during 2006-07 offset a substantial part of the trade deficit. The current account deficit at 1.1 per cent of GDP during 2006-07 was the same as in 2005-06.

II.14 Net capital flows to India remained buoyant at US $ 45 billion or 4.9 per cent of GDP, far exceeding the current account deficit. Higher capital flows could be attributed to the strengthening of macroeconomic fundamentals, greater investor confidence and ample global liquidity. Both debt and non-debt flows witnessed a large increase during 2006-07. Direct investment flows showed a strong bi-directional movement. Net FDI inflows to India increased sharply from US $ 7.7 billion during 2005-06 to US $ 19.4 billion during 2006-07, while net FDI outflows increased from US $ 2.9 billion to US $ 11.0 billion.

Hence, FDI flows (net) at US $ 8.4 billion exceeded FII inflows (net) of US $ 3.2 billion during 2006-07. The debt flows (net) at US $ 25.0 billion were led by external commercial borrowings reflecting strong demand for capacity expansion, greater risk appetite of global investors for emerging market bonds and further liberalisation of the policy framework. Net capital flows, after financing the current account deficit, led to accretion of US $ 36.6 billion, excluding valuation changes, to foreign exchange reserves during 2006-07. While the stock of external debt rose during 2006-07, net international liabilities of the country declined reflecting a large increase in foreign exchange reserves.

II.15 Although the current account deficit has remained modest, averaging one per cent of GDP since the early 1990s, the integration of the Indian economy with the global economy has increased significantly over the same period. This can be seen in the steady rise in the current receipts-GDP ratio from around 8 per cent in 1990-91 to 27 per cent in 2006-07. Over the same period, current receipts and current payments combined together increased from 19 per cent to 55 per cent. Gross capital inflows and outflows constituted 45 per cent of GDP in 2006-07 as compared with only 12 per cent in 1990-91.

II.16 To sum up, the Indian economy witnessed acceleration in growth during 2006-07 led by manufacturing and services sector activities, extending the current phase of high growth that began in 2003-04. Growth in agricultural production, however, decelerated with the agriculture sector characterised by stagnation in output of major foodgrains. Both structural and cyclical factors contributed to the acceleration in growth of the Indian economy during 2006-07. The step-up in investment and domestic savings rates, growing linkages with the global economy, both on the trade and capital accounts, and signs of some improvement in productivity growth are the key structural changes that have provided support to economic activity in recent years. Several cyclical factors have also boosted domestic growth. These include: (i) robust global GDP growth for the fourth successive year; (ii) the persistent high growth in bank credit and money supply; (iii) the pick-up in non-oil import growth and the widening of the trade deficit in recent years. Cyclical forces were also evident in the steady increase in prices of manufactures, resurgence of pricing power among corporates, indications of wage pressures in some sectors, high level of capacity utilisation and elevated asset prices.

OUTLOOK FOR 2007-08

II.17 According to the latest forecast by the India Meteorological Department, the rainfall during the South-West monsoon season (June-September) is likely to be 93 per cent of the normal rainfall, with a model error of +/- 4 per cent. The cumulative rainfall during the season so far (up to August 8, 2007) has been 7 per cent above normal, *albeit* uneven in terms of temporal and spatial distribution. As on August 2, 2007, the total live water storage in 78 major reservoirs was 59 per cent of the full reservoir level (FRL); this was higher than that of 47 per cent last year and the average of 36 per cent for the past ten years. Sowing under *kharif* crops is picking up and as of August 3, 2007, 78.6 per cent of normal area had been sown (about 4.2 per cent higher than a year ago).

II.18 Industrial production remained buoyant during April-June 2007, led by manufacturing activity. Industrial production expanded by 11.0 per cent during April-June 2007 (10.5 per cent a year ago) on the back of 11.9 per cent growth in the manufacturing sector. In terms of use-based classification, basic, capital and consumer goods sectors exhibited accelerated growth. Growth of intermediate goods sector, however, decelerated. The growth of infrastructure industries was 6.9 per cent during April-June 2007 as compared with 7.4 per cent during April-June 2006.

II.19 Available information on lead indicators of service sector performance presents a mixed picture. Growth in tourist arrivals, revenue earning freight traffic of the railways, new cell phone connections, export cargo handled by civil aviation, passengers handled by civil aviation, cement, steel and banking aggregates moderated during April-June 2007. On the other hand, cargo handled at major ports and import cargo handled by civil aviation accelerated *vis-à-vis* the previous year.

II.20 Global economic activity in 2007 so far has remained buoyant, notwithstanding continuing weakness in the US economy. Robust growth in advanced economies other than the US and major emerging economies provided support to global growth. According to the estimates by the International Monetary Fund (IMF) (released in July 2007), global growth is likely to moderate from 5.5 per cent in 2006 to 5.2 per cent each in 2007 and 2008. Growth in the world trade volume is also expected to decelerate from 9.4 per cent in 2006 to 7.1 per cent in 2007 and 7.4 per cent in 2008.

II.21 Strong global growth since 2003 onwards and the growing integration of the Indian economy with the global economy have provided a boost to export demand and domestic economic activity. The emergence of protectionist pressures, further rise in oil prices, persisting global imbalances, adjustment in the US on account of housing slowdown and potential shifts in financial market sentiment pose downward risks to global growth prospects. These risks, if materialise, could have some adverse impact on the domestic economy. In particular, global financial market could turn volatile with attendant implications for EMEs like India. Conditions in the sub-prime mortgage sector in the US have deteriorated significantly as reflected in the rise in delinquencies on adjustable-rate loans. Further deterioration in sub-prime delinquencies could lead to reassessment of risk by investors across products and markets and retrenchment of capital from the emerging market economies (EMEs), given the contagion and herd mentality. The volatility in capital flows could be exacerbated by the growing dominance of players such as hedge funds in the volume of cross-border flows. Furthermore, private equity funds have emerged as a key source of capital flows to the EMEs. Such flows are sensitive to interest rate changes. Therefore, any further monetary tightening in major economies and reassessment of risks by investors has the potential to accentuate volatility in global financial markets, and adversely impact growth and stability in the EMEs.

II.22 Expansion of money supply (y-o-y) as on August 3, 2007 (21.7 per cent) was higher than a year ago (19.3 per cent) and also higher than the indicative projection of 17.0-17.5 per cent set out in the Annual Policy Statement. Growth in aggregate deposits accelerated, led by time deposits. Bank credit witnessed some deceleration from the strong pace of the preceding three years. Growth of non-food credit of scheduled commercial banks was 23.6 per cent, y-o-y, as on August 3, 2007 as compared with 32.5 per cent a year ago. Commercial banks' investments in SLR securities, as per cent of their NDTL at 28.6 per cent were marginally higher than those at end-March 2007, but below those of 31.1 per cent a year ago. Growth of reserve money as on August 10, 2007 at 26.9 per cent (19.6 per cent adjusted for the first round impact of the increase in the CRR) was higher than a year ago (17.2 per cent) and much beyond the trend growth mainly on account of high increase in bankers' deposits with the Reserve Bank due to CRR increases during last one year which were backed by accretion to the Reserve Bank's NFA.

II.23 Headline inflation, based on movements in the wholesale price index (WPI), moderated to 4.1 per cent on August 4, 2007 from 5.9 per cent at end-March 2007 and 5.1 per cent a year ago. Inflation for all the three sub-groups of the WPI eased from their end-March levels. Fuel group inflation y-o-y turned negative (-2.1 per cent) reflecting cuts in domestic prices during November 2006 and February 2007. International crude oil (average) prices have, however, increased by around 28 per cent up to July 2007 from February 2007, when domestic prices were cut last. Non-oil global commodity prices also remain firm led by food items and metals. Various measures of consumer price inflation were placed lower in June 2007 (5.7-7.8 per cent) than those in March 2007 (6.7-9.5 per cent). However, consumer price inflation continued to exceed wholesale price inflation, mainly on account of higher food prices. Although inflation has eased since end-March 2007, inflationary pressures could potentially persist for several reasons. There are concerns regarding further hardening of international commodity prices, in particular, oil prices. Moreover, the possibility of inflationary pressures from domestic factors such as strong growth in monetary aggregates, elevated asset prices and large capital flows with implications for domestic liquidity conditions need to be recognised. Accordingly, a continuous vigil supported by appropriate policy actions by all concerned would be needed to maintain price stability so as to anchor inflationary expectations on a sustained basis.

II.24 For monetary policy purposes, the Reserve Bank, in its Annual Policy Statement (April 2007), placed real GDP growth for 2007-08 at around 8.5 per cent, assuming no further escalation in international crude oil prices and barring domestic or external shocks. In view of the lagged and cumulative effects of monetary policy on aggregate demand and assuming that supply management would be conducive, capital flows would be managed actively and in the absence of shocks emanating in the domestic or global economy, the Statement noted that the policy endeavour would be to contain inflation close to 5.0 per cent in 2007-08. The Reserve Bank in its First Quarter Review of the Annual Statement of Monetary Policy in July 2007 retained its projection of real GDP growth at around 8.5 per cent, barring domestic and external shocks. Assuming that aggregate supply management will continue to receive public policy attention and that a more active management of the capital account will be demonstrated, the outlook for inflation in 2007-08 in the First Quarter Review remained unchanged.

Accordingly, it was indicated in the Review that holding headline inflation within 5.0 per cent in 2007-08 assumes priority in the policy hierarchy; while reinforcing the medium-term objective to condition policy and perceptions to reduce inflation to 4.0-4.5 per cent on a sustained basis.

II.25 The stance of monetary policy in 2007-08, as the Annual Policy Statement observed, would be conditioned by the patterns in which the global and, more particularly, the domestic environment unfold. The likely evolution of macroeconomic and financial conditions indicates an environment supportive of sustaining the current growth momentum in India. Monetary policy, while contributing to growth, has to ensure and maintain conditions of price and financial stability. Accordingly, the policy preference for the period ahead was articulated strongly in favour of reinforcing the emphasis on price stability and anchoring inflation expectations. The Reserve Bank in its First Quarter Review of the Annual Statement on Monetary Policy in July 2007 observed that monetary policy in India would continue to be vigilant and proactive in the context of any accentuation of global uncertainties that posed a threat to growth and stability in the domestic economy. The domestic outlook continues to be favourable and would dominate the dynamic setting of monetary policy in the period ahead. It is important to design monetary policy such that it protects growth by contributing to the maintenance of stability. Accordingly, while the stance of monetary policy would continue to reinforce the emphasis on price stability and well-anchored inflation expectations and thereby sustain growth momentum, contextually financial stability may assume greater importance in the months to come.

II.26 Both the Central and State Governments have proposed to further strengthen the fiscal consolidation process during 2007-08. The revenue deficit and the gross fiscal deficit of the Central Government are budgeted at 1.5 per cent of GDP and 3.3 per cent of GDP during 2007-08, 0.5 percentage point and 0.4 percentage point lower than 2006-07 (revised estimates). Available information for 2007-08 (April-June) indicates that revenue deficit declined by 2.9 per cent. The fiscal deficit [adjusted for the expenditure incurred on acquisition of the Reserve Bank's stake in State Bank of India (Rs.35,531 crore)] also declined by 1.1 per cent over the corresponding period of 2006. The reduction in deficit indicators was primarily on account of higher tax revenue and non-debt capital receipts. However, as per cent of full-year budget estimates (BE), the revenue deficit during April-June 2007 increased to 96.0 per cent from 83.4 per cent a year ago, while the adjusted fiscal deficit declined to 50.9 per cent from 52.3 per cent during the corresponding period of the previous year. During 2007-08 (up to August 10, 2007), gross and net market borrowings (including 364-day Treasury Bills) amounted to Rs.96,628 crore and Rs.56,047 crore, respectively. Gross and net borrowings amounted to 51.5 per cent and 50.6 per cent, respectively, of the full year estimates as compared with 47.2 per cent and 39.3 per cent a year ago. The weighted average maturity of dated securities issued during 2007-08 (up to August 10, 2007) at 14.32 years was higher than that of 13.21 years during the corresponding period of the previous year, while the weighted average yield increased to 8.23 per cent from 7.87 per cent.

II.27 The State Governments have budgeted a revenue surplus during 2007-08, which would facilitate a reduction in the GFD to 2.4 per cent of GDP from 2.8 per cent in 2006-07. The surplus in the revenue account would also enable enhancement in capital disbursements for the social and rural sectors in line with the priorities set out in the Eleventh Five Year Plan. Adoption of fiscal reform measures aimed at augmentation of revenue and containment of non-plan revenue expenditure has helped several State Governments to achieve the targets set by the TFC ahead of the recommended schedule. All States, except eight, have budgeted revenue surpluses during 2007-08, a year ahead of the TFC target. Furthermore, 12 States (five special category and seven non-special category) have budgeted for gross fiscal deficit at less than three per cent of their respective GSDP, two years ahead of the target. The State Governments have budgeted for a deceleration in both revenue receipts and expenditure during 2007-08, after a sharp increase in the previous year. The accruals to the NSSF would remain the major source of financing the GFD; their share would, however, come down on account of reduction in the obligatory share of the State Governments in the NSSF to 80 per cent as announced in the Union Budget 2007-08. The State Governments have continued to maintain high levels of cash surplus during 2007-08 so far, as reflected in their investments in Treasury Bills.

II.28 Financial markets have remained generally orderly during 2007-08 so far. Short-term interest rates have eased from end-March 2007 levels. The amount of liquidity absorbed through the reverse repo operations under the liquidity adjustment facility was limited to a maximum of Rs.3,000 crore each day in terms of the modified arrangements from March 5, 2007. Overnight interest rates continued to exhibit volatility reflecting the impact of movements in Government cash balances and capital flows on liquidity conditions. Subsequently, in view of the prevailing macroeconomic and overall monetary and liquidity conditions, the First Quarter Review of the Annual Statement on Monetary Policy for 2007-08 announced the withdrawal of the ceiling of Rs. 3,000 crore on daily reverse repo under the LAF and the withdrawal of the Second LAF with effect from August 6, 2007. Call rates reverted to within the reverse repo-repo corridor from the second week of August 2007. Long-term Government bond yields and banks' deposit and lending rates have hardened. The Indian rupee has appreciated *vis-à-vis* the US dollar and other major currencies from its end-March 2007 levels till May but depreciated thereafter. The stock markets have recorded gains during 2007-08 so far, even as they turned volatile in the second and third weeks of August 2007 mainly on account of problems in the US sub-prime mortgage market.

II.29 Growth in merchandise exports was lower during April-June 2007, while imports posted a higher growth during this period as compared with the corresponding period of the previous year. According to DGCI&S, merchandise exports increased by 17.9 per cent during April-June 2007 (23.5 per cent a year ago). Imports expanded by 34.2 per cent (18.9 per cent), led by non-oil imports (growth of 47.4 per cent as compared with 8.9 per cent). Growth in oil imports moderated, mainly reflecting the impact of international crude oil prices. The trade deficit widened to US $ 20.6 billion in April-June 2007 from US $ 11.8 billion in April-June 2006. The growth momentum in India's exports of software services and ITES-BPO, and other business services continues to be strong. The remittances from overseas Indian workers also remain an important stable source of financial inflows with a continuous transition to higher skill categories of Indian migrant workers.

II.30 Capital inflows during 2007-08 so far have been higher than those in the corresponding period of 2006-07, led by a significant turnaround in FII inflows (net) (an increase of US $ 10.1 billion) during 2007-08 (up to August 10, 2007) in contrast to outflows (of US $ 1.5 billion) a year ago. FDI flows were US $ 3.7 billion during April-May 2007 (US $ 1.2 billion during April-May 2006). There were, however, net outflows of US $ 0.6 billion during April-May 2007 under non-resident deposits as against net inflows of US $ 0.7 billion a year ago. Foreign exchange reserves rose by US $ 27.3 billion between end-March 2007 and August 17, 2007. The overall trade and current account deficits in 2007-08 are expected to be of the same order as in 2006-07. Net capital flows are also likely to adequately finance the expected current account deficit in 2007-08.

II.31 To sum up, available information so far indicates continuation of the growth momentum during 2007-08 so far at a strong pace with the impulses of growth getting more broad-based. Steady increases in the gross domestic saving and investment rates, consumption demand, addition of new capacity as well as more intensive and efficient utilisation/ capitalisation of existing capacity are expected to provide support to growth during 2007-08. Despite some efforts to remove the supply constraints in infrastructure, the higher growth in demand is placing greater pressure for accelerated expansion of supply of infrastructure, resulting in the stretching of capacity utilisation in sectors such as electricity generation, roads, ports and major airports. Supply constraints emanating from shortfalls in agricultural performance, and physical and social infrastructure could constrain future growth while also exerting inflationary pressures. In this environment of demand-supply mismatches, inflation can emerge as the key downside risk to the evolving macroeconomic outlook. The recent gains in bringing down inflation and in stabilising inflation expectations should support the current expansionary phase of the growth cycle. It is, however, necessary to continuously assess the risks to the inflation outlook emanating from high and volatile international crude oil prices, the continuing firmness in key food prices and uncertainties surrounding the evolution of demand-supply gaps globally as well as in India.

II.32 Appropriate macroeconomic policies have to be in place to avoid risks of financial imbalances and recurrence of inflationary pressures while facilitating the growth momentum in an inclusive fashion. In this regard, policy priority needs to be accorded to: (a) removal of infrastructure constraints; (b) improving investment climate especially for domestic investors, in particular small and medium enterprises; (c) stepping up growth of agriculture, in particular, production of foodgrains to ensure food security; (d) strengthening of institutional and micro structural environment that enhances flexibilities, especially supply elasticities in the economy; and (e) fiscal empowerment, emphasising provision of education, health, water and sanitation along with an equitable tax structure. These are some of the critical elements that need attention to enable non-disruptive and optimal path of further liberalisation in the financial and external sectors. Indeed, the progress in these critical elements will help resolve the dilemmas that were faced in 2006-07 in terms of large rupee liquidity and excess capital flows in foreign currency.

REAL SECTOR

Agriculture

II.33 The recent upward trends in global prices of major food items have significant implications for the domestic agricultural sector and overall macroeconomic and financial stability. Global wheat prices in July 2007 were 52 per cent above the average prices prevailing during the calendar year 2004, while rice prices were 38 per cent higher. Prices of major edible oils increased by 44 to 71 per cent over the same period. In view of large dependency on edible oil imports (about 45 per cent of domestic consumption), the higher international prices coupled with diversion of acreage from oilseeds towards coarse cereals, especially maize as bio-fuel feed stock as alluded to earlier, could further exacerbate pressure on prices of edible oils. Sugar prices, notwithstanding substantial correction since the second half of 2006, were also higher by 42 per cent. Increases in global food prices reflected a shortfall in global production and the rising demand for non-food uses such as bio-fuels. According to the latest assessment by the US Department of Agriculture (USDA), world vegetable oils stocks were expected to fall by about 12 per cent during 2006-07 and by an additional 9 per cent during 2007-08. Although global wheat production is expected to increase by 2.9 per cent in 2007-08 (June-May), global wheat stocks are likely to decline further in 2007-08 to 114.8 million tonnes - the lowest levels since 1981-82. Furthermore, wheat, apart from oilseeds, is reportedly also being diverted for bio-fuels. Rice stocks are also expected to decline by about 5 per cent during 2007-08. Reflecting the sustained uptrend in major food prices, the food price index (compiled by the IMF) reached a 26-year high in June 2007 - the highest since the early 1981. Against the backdrop of these hardening trends in global food prices, there is an urgent need to take measures to accelerate the growth in Indian agriculture, especially food crops.

II.34 Although the share of agriculture in overall GDP has declined over the years from around 40 per cent in 1980-81 to less than a fifth in 2006-07, it continues to play an important role in the Indian economy. The proportion of the population dependent upon agriculture remains large (almost 60 per cent). Since the mid-1990s, however, the growth of the agricultural sector has been low as well as volatile; the growth decelerated from an annual average of 4.7 per cent per annum during the 1980s to 3.1 per cent during the 1990s and further to 2.2 per cent during the Tenth Plan period. Per capita annual production of cereals declined from 192 kilogram (kg) during 1991-95 to 174 kg during 2004-07 and that of pulses from 15 kg to 12 kg over the same period. Per capita availability of foodgrains has, thus, fallen close to the levels prevailing during the 1970s.

II.35 Volatility in agricultural production has not only implications for overall growth but also, as the experience of 2006-07 amply demonstrated, for maintaining low and stable inflation. Although domestic foodgrains production rose by 3.6 per cent in 2006-07, the production of major crops was still below the previous peaks. Demand-supply gaps were reflected in higher domestic food prices in 2006-07. The recent rise in international agriculture prices could potentially represent the beginning of a structural increase in prices, reflecting both demand and supply side factors. Demand pressures for food items could strengthen further in view of strong growth in emerging economies, particularly India and China, and the growing demand for animal proteins. The supply side pressures could emanate from diversion of corn and oilseeds to produce bio-fuel as energy substitute, exacerbated by tendencies towards global warming. The consequent impact of demand-supply mismatches on inflation perceptions and hence, on inflation expectations could be disproportionately large, perhaps even in the industrialised economies. Developments such as the increasing global financialisation of commodity markets pose additional challenges to public policy in managing food prices. According to a recent joint assessment by the OECD and the FAO, global prices of agricultural commodities are likely to rule higher than their historic equilibrium levels over the next ten years.

II.36 Thus, enhanced growth of the agricultural sector is vital for ensuring food security, poverty alleviation, price stability, overall inclusive growth and sustainability of growth of the overall economy. The Eleventh Plan envisages agricultural growth of 4 per cent per annum. In view of the Eleventh Plan's vision of faster, more broad-based and inclusive growth, reversing the deceleration in agricultural growth was placed on top of the agenda in the Union Budget 2007-08.

II.37 The reduction in agricultural growth since the mid-1990s could be attributed to stagnant/declining yields, which, in turn, reflect a variety of factors such as declining investment, lack of proper irrigation facilities, inadequate other infrastructural facilities, inadequate attention to R&D for developing high yielding varieties of seeds, absence of major technological breakthroughs, improper use of fertilisers/nutrients and institutional weaknesses. Public investment in agriculture declined from 3.4 per cent of agricultural GDP during 1976-80 to 2.6 per cent during 2005-06, while budgetary subsidies to agriculture increased from three per cent (1976-80) to seven per cent of GDP (2001-03). Given the budget constraint, higher subsidies come at the cost of higher investments. While subsidies may provide short-term benefits, they tend to hinder long-term investments which may yield more durable benefits to the agricultural and rural sectors. Subsidies also encourage inefficiency in the use of resources. For instance, the existing scheme of subsidy with regard to fertilisers encourages excessive use of nitrogen at the cost of other nutrients. Indian agriculture is becoming increasingly unsustainable both from the point view of overall economic progress and environmental balance. Intensive and concentrated input usage for some of the crops is causing salinity, water logging and ground water depletion with adverse implications of desertification of soil in the long-run. As noted by the Prime Minister[1], the weak performance of the agricultural sector can be attributed to four deficits, *viz*., public investment and credit deficit, infrastructure deficit, market economy deficit and knowledge deficit. In this context, it is noteworthy that the National Development Council (NDC) in its 53rd meeting held on May 29, 2007 adopted a resolution to reorient agricultural development strategies to meet the needs of the farmers. The NDC called upon the Central and the State Governments to evolve a strategy to rejuvenate agriculture to achieve 4 per cent annual growth in the agricultural sector during the Eleventh Plan. Furthermore, the Central Government committed Rs. 25,000 crore for public investment in agriculture in the next four years.

II.38 In view of stagnation in the production of major foodgrains, there may be a need to refocus production efforts in alternative potential areas with suitable agro-climatic conditions, rather than the traditional areas, particularly in the case of rice and wheat. The closing of the substantial yield gaps that exist in the case of major crops amongst various States can increase the production of cereals and pulses. This would need intensive efforts to improve inputs such as timely availability of seeds and fertilisers, provision of irrigation facilities, and adequate availability of credit.

II.39 As Indian agriculture continues to be heavily dependent on the monsoon, the need for enhancing the irrigation potential to meet the growing water requirements of farmers and to impart stability to agricultural production and yield assumes greater emphasis. While there was an addition of 8.8 million hectares to the potential irrigated area during the Tenth Plan, it was only one half of the target. Nonetheless, there was no increase in irrigated area over the Plan period, partly because water use was more intense than planned and partly due to some existing irrigated area going out of the system due to poor maintenance/decay. In view of the diminishing scope for new large scale irrigation projects, greater focus may be needed on completing ongoing projects and on modernisation of the existing projects. The Government has revamped the Accelerated Irrigation Benefit Programme (AIBP) to complete more irrigation projects in the quickest possible time. A National Rainfed Area Authority has been established to coordinate all schemes relating to watershed development and other aspects of land use. As past efforts in terms of increased outlays have not yielded the expected/targeted results in terms of actual addition to the existing potential, greater emphasis needs to be placed on monitoring the ongoing projects and their timely completion to avoid time and cost overruns.

II.40 Greater focus needs to be placed on agricultural research in the coming years as the success so far has been restricted to select crops. Efforts to modernise and strengthen the agricultural research system, including the agricultural universities, need to be intensified. A growing disparity between the actual and the potential yields points to a crucial gap between research and extension. There is an urgent need to revive the extension system so that it is able to respond to the emerging demands of renewed agricultural growth. The public extension system needs to become more demand driven, with stronger synergies between public and private extension efforts. There is a need for a more regionally differentiated research strategy and greater co-ordination between the public and the private sectors. According to the estimates of the Planning

[1] Address by the Prime Minister at the 2nd Agricultural Summit (October 2006).

Commission, public expenditure on research would need to increase from the present 0.7 per cent of agricultural GDP to 1.0 per cent by the end of the Eleventh Plan.

II.41 In order to bring marketing reforms, there is a need to take forward the process of implementing Agricultural Produce Marketing Committee (APMC) Act in all the States. So far, 15 States and five Union Territories have amended their APMC Acts; rules in many States are yet to be notified. There is also a need to have an appropriate legislative framework that is conducive to participatory organisations. In view of significant weather and price risks, appropriate risk mitigation policies would need to be put in place to provide relief to the distressed farmers as well as enhance efficiency of production.

II.42 While agricultural growth is envisaged at four per cent per annum during the Eleventh Plan, the Planning Commission's projections suggest that the production of foodgrains needs to increase by 2.0-2.5 per cent per annum. The production of non-foodgrains will, thus, have to expand at a much higher rate to achieve the overall target of four per cent which will necessitate substantial development of activities such as horticulture, dairy, poultry and fishery. This would require a revolution on the lines of the green revolution of the 1970s. In view of relatively homogeneous nature of cereal production and of milk, it was possible to design national programmes that were broadly applicable country wide with relatively easy regional variations. However, in the case of new agricultural activities, products are very heterogeneous and they also exhibit great regional differences. Accordingly, there may be a need for decentralised and regionally disaggregated packages for many different activities. Finally, the financing requirements of the supply chain from farm to market – warehouses, cold storages, rural transportation, refrigerated trucks and other service intermediaries – will need to be in place while minimising the transaction costs.

II.43 Inclusive growth calls for greater financial inclusion with *inter alia* enhanced and easy access to institutional credit. The programme for financial inclusion initiated by the Reserve Bank in collaboration with banks and several State Governments by adopting modern technology needs to be intensified and expanded urgently. Farm credit continues to grow at a satisfactory pace. The goal of doubling farm credit in three years, initiated in June 2004, was achieved in two years. Reform of the cooperative sector on the lines of the recommendations of the Vaidyanathan Committee would further increase the flow of credit to the agricultural sector on a sustainable basis.

II.44 In view of small and fragmented farm holdings, the population dependent upon agricultural activity and incomes will have to increasingly rely on non-farm sources of income in future. Thus, diversification towards activities such as poultry, food processing and other rural industries will be critical for the betterment of living standards in rural areas. While there has been rapid integration of the Indian economy with the global economy since the early 1990s, the pace of progress on intra-regional integration within the country needs to be quickened to enable the rural areas to reap the benefits of higher growth. Inadequate intra-national integration prevents the rural population from accessing new economic opportunities arising from rapid economic growth elsewhere. Greater intra-regional integration is hampered by a variety of factors such as segmented markets for agricultural produce, virtual absence of markets in land (arising from lack of clear titles and land records) to facilitate consolidation of fragmented and unviable holdings, lack of reliable and stable power supply, absence of connectivity to outside markets through wired and wireless communication systems, lack of all-weather village roads, non-availability of rural infrastructure to support fruit and vegetable processing, preservation and transport to marketing centres, and poor service delivery in primary education and basic health services.

Industry and Infrastructure

II.45 The rebound in industrial production that started in 2002-03 continued during 2006-07 benefiting from increased domestic and external demand. The sustained growth has led to high capacity utilisation and is contributing to higher investment activity. Industry grew, on an average, at 8.1 per cent in the five-year period ended 2006-07, mainly on account of 8.8 per cent growth in manufacturing. Industrial growth during the Tenth Plan period (2002-2007), however, fell short of the targeted 10 per cent. The continued double-digit growth of the capital goods sector since 2002-03, along with robust growth in imports of capital goods, indicates that the industrial sector is responding to the buoyant demand conditions of the economy through new capacity additions. Modernisation of the capital stock, reduction/rationalisation of import tariffs and other taxes, increased openness of the economy, higher foreign direct investment inflows, greater competitive pressures, increased investment in information and communication technology, and greater financial deepening are contributing to productivity gains in the industry. As a result, the industry is increasingly becoming an important growth driver in conjunction with the services sector. Many of the services such as trade, transport, communication and construction are directly linked to the industry.

II.46 The buoyancy in industrial performance in recent years highlights the beneficial impact of economic reforms over the past 15 years, which have enhanced the competitiveness and productivity of industry in an increasingly open economy amidst significant reduction in tariffs. The manufacturing companies in India are fast emerging as internationally efficient and low-cost producers in some areas. Many companies have started acquiring foreign firms to increase their presence in the international market.

II.47 It is encouraging to note that employment generation in the economy accelerated during the period 1999-2000 to 2004-05 from the preceding period (1993-94 to 1999-2000). Growth in employment during the period 1999-2000 to 2004-05, however, still trailed the growth in labour force over the same period. Moreover, it is the unorganised manufacturing sector that has generated more employment in recent years. The sustained growth in industry is, therefore, vital to generate employment opportunities and to absorb the disguised labour force dependent upon the agricultural sector. The formation of appropriate skills through a wide variety of vocational training as well as greater flexibility in labour laws could lead to greater employment generation, especially in the organised sector.

II.48 The manufacturing sector has recorded robust growth, despite several infrastructure deficiencies. As the Approach Paper to the Eleventh Plan (2007-12) has noted, the absence of world class infrastructure and shortage of skilled manpower are the most critical short-term barriers to the growth of the manufacturing sector. It is imperative to augment the existing infrastructure facilities, particularly roads, ports and power, to provide the enabling environment for industry to prosper.

II.49 There has been mixed progress in the infrastructure sector so far. The telecom sector has witnessed high growth as reflected in the accelerated spread of mobile telephony in the country. Railways and ports have also witnessed some improvement. However, progress remains less than adequate in other sectors such as power, coal, water, urban infrastructure and rural infrastructure.

II.50 During 2006-07, the electricity sector performed well benefiting largely from improved plant load factor in thermal power plants and higher hydro power generation due to improved reservoir levels. However, the overall performance of the power sector was not very promising. The power shortage of around 10 per cent and a peak hour shortage of over 13 per cent is a deterrent to the sustained current high growth phase. In the Tenth Plan, capacity addition was around 50 per cent of the target. Expansion of private investment in the power sector has been constrained due to perceived lack of assurance of timely payment for power supplied or as contracted. Security in collection of tariffs along with appropriate tariffs and measures to reduce theft of power would also facilitate greater investment in the power sector. The gas-based power plants, which account for about 11 per cent of the installed generating capacity, are operating below their capacity in view of inadequate supply of gas and constraints in using alternate, high-cost fuels such as naphtha and high speed diesel. Transmission and distribution losses remain unacceptably high, ranging from 30-45 per cent in many States. Upgradation of the transmission and distribution system in a time-bound manner along with steps to reduce thefts could increase availability of power supply in the country, reduce the cost of power for the users and improve the financial position of the State Electricity Boards.

II.51 In this context, it is important to note that significant investment activity is taking place in the industry as indicated by trends in investment intentions. According to the National Accounts Statistics, real gross capital formation in industry (at 1999-2000 prices) increased by around 29 per cent, on an average, during 2003-04 to 2005-06. Such significant investment activity is expected to further increase the demand for electricity in the country. At the same time, it needs to be recognised that the higher electricity generation has emanated, in part, from the rise in the thermal plant load factor (PLF), which increased from 64.6 per cent during 1998-99 to 74.0 per cent during 2005-06 and further to 76.8 per cent during 2006-07. In view of the substantial rise in the PLF, the scope of a further increase in the PLF is limited. Thus, higher electricity generation in future will have to increasingly come from new capacity addition. Therefore, there is need for fresh investment in the power sector. Higher capacity addition in electricity will improve the competitiveness of the Indian industry and help sustain the current growth momentum.

II.52 Growth of the mining sector during the last five years (an average of 4.4 per cent per annum during 2002-03 to 2006-07) lagged significantly behind manufacturing growth over the same period (8.8 per cent). Despite having significant reserves of coal – the third largest in the world, after the United States and China – the country continues to suffer from inadequate domestic supplies and problems of coal shortages. Further reforms in the mining sector may be necessary to increase the mining growth and ease constraints on industrial growth. Higher electricity generation will need assured fuel supplies. The demand for coal, thus, is expected to be significantly higher than that in the recent past.

II.53 The progress in the road sector at national level has been satisfactory. While the Golden Quadrilateral project is nearing completion, the North-South and East-West corridor projects are expected to be completed by 2009. The various phases of the National Highway Development Programme (NHDP) for upgradation of the existing roads/construction of expressways are at advanced stages of planning or implementation. As noted earlier, the Government is also undertaking steps to improve rural roads under the *Bharat Nirman*. Progress on the roads and highways front will depend, *inter alia*, on the success in dealing with constraints such as delays in land acquisitions, removal of structures and shifting of utilities, law and order problem in some States, and poor performance of some contractors.

II.54 Urban infrastructure is a vital element in the growth process. Studies show that increase in the size of urban agglomerations is associated with large productivity gains. These gains emanate from the proximity to product as well as labour markets, which provide savings in trade and transport costs on the one hand, and the availability of skilled labour on the other. Strengthening the management of cities will enable improvement in urban infrastructure facilities across the country. Efficient functioning of cities of all sizes is essential for improving overall efficiency. Improvements in the provision of water, transport, sanitation, health and education facilities in urban areas are also essential for the welfare of the poor. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is a significant move to address the weaknesses in urban infrastructure, but comprehensive planning and effective monitoring are essential to take this scheme successfully to its logical conclusion.

II.55 Given the large infrastructure requirements of the country, the public sector will always have to play a large role in providing infrastructure funding. This will require greater focus on improvement in the delivery of public services. The High Level Committee on Infrastructure headed by the Prime Minister has estimated that an investment of Rs.14,50,000 crore during the Eleventh Plan would be required to develop world class infrastructure. This would require a substantial increase in spending on infrastructure by both the public and private sectors from the current levels of 4.6 per cent of GDP to almost 8 per cent of GDP every year. These investments are to be achieved through a combination of public investment, public private partnerships (PPPs) and exclusive private investments, wherever feasible. The Government is actively pursuing PPPs to bridge the infrastructure deficit in the country and several initiatives have been taken in the last couple of years to promote PPPs in the infrastructure development. The appraisal mechanism for the PPP projects has been streamlined to ensure speedy clearance of the projects, removal of red tape, adoption of international best practices and bringing uniformity in guidelines. The awareness of concerns and issues relating to PPPs, however, is still lacking and not evenly spread across different States.

II.56 Domestic savings rose sharply to 32.4 per cent of GDP in 2005-06 from 23.5 per cent in 2001-02. In view of the increasing domestic savings, higher investment in infrastructure, both in the public and private sectors, is clearly possible. However, commensurate progress on project design, project implementation, appropriate user charges and appropriate policies would be necessary for such investments to be profitable and self-financing.

Services

II.57 The services sector has grown at double-digit rates in the last three years and emerged as the key driver of economic activity in the country. The sustained strength of manufacturing activity, strong growth in tourism, improvements in the telecommunications, buoyancy in IT and BPO sectors, robust growth of the construction sector, acceleration in deposit and credit growth and opening up of the insurance sector have buoyed the services sector in recent years. The impressive performance of the services sector was attributable largely to the availability of skilled and cheap labour. However, the sustained acceleration in services and the manufacturing activities is leading to incipient pressures on the supply of good quality skilled labour. While its demographic profile places the country favourably in terms of manpower availability, there are reports of emerging talent supply shortages. Only 10 per cent of the relevant age group is getting enrolled into institutions of higher learning in the country as compared with 40-50 per cent in most developed countries. Less than a half of secondary school students only join college education. Moreover, the quality of education imparted in several colleges and universities in the country remains less than adequate to meet the emerging demands for skilled professionals.

II.58 In order to reap the benefits of the demographic dividend, substantial expansion and reforms in the education sector would be needed on an urgent basis. The Government is focusing on vocational education in order to equip the labour force with the requisite skills. With the implementation of the *Sarva Shiksha Abhiyan,* which aims to provide universal elementary education and bridge all social, gender and regional gaps with the active participation of the community in the management of schools, enrolment of students in the secondary schools is expected to increase. In view of this, there would be a need for major expansion of infrastructure at secondary school level as well in the near future. Given the focus on skills in the increasingly knowledge intensive economic activities, special emphasis would need to be placed on imparting tertiary education and developing institutes of higher learning also. Education facilities would, thus, need to be extended at all levels, *viz*., primary, secondary and at a tertiary level. In this context, the Central Government has decided to establish 30 new Central Universities in the country with the objective of expanding the access to high quality education. The setting up of the proposed universities would need to be supplemented with upgradation of facilities in nationally well spread out existing colleges/universities to bridge the emerging demand-supply mismatches in the availability of skilled manpower and to reap the demographic dividend. Concerted efforts in the direction of improving the physical, urban and social infrastructure in the country would further entrench the growth of the services sector.

FISCAL POLICY

II.59 The process of fiscal consolidation in Central Government finances under the rule-based framework of the FRBM has been characterised by front-loaded reduction in deficit indicators in 2004-05, pause in 2005-06 and resumption of the process in 2006-07. The fiscal correction process is budgeted to continue during 2007-08. With gross fiscal deficit budgeted at 3.3 per cent of GDP in 2007-08, the FRBM target of 3.0 per cent by 2008-09 appears feasible. The revenue deficit is budgeted at 1.5 per cent of GDP for 2007-08; the FRBM path envisages elimination of revenue deficit in 2008-09. It is, thus, useful to note that the adherence to the FRBM target would require a reduction of 1.5 per cent in the revenue deficit/GDP ratio during 2008-09.

II.60 The revenue augmentation of the Government has been supported by a steady increase in the tax-GDP ratio, led by direct tax revenues. The share of direct taxes in total tax revenues increased to about 49 per cent in 2006-07 (RE) from 36 per cent in 2000-01. Within direct tax, the share of corporate income tax moved up significantly to about 64 per cent in 2006-07 from 52 per cent in 2000-01, with the corresponding decline in the share of individual income tax. As a proportion to GDP, both corporate and individual income taxes have exhibited an increase since 2000-01. While the ratio of corporate income tax increased from 1.7 per cent during 2000-01 to 3.6 per cent during 2006-07 (RE), that of individual income tax increased from 1.5 per cent to 1.8 per cent. Maintaining the current buoyancy in tax revenues over a higher base needs to be continued with sustained effort in the light of high income growth. The scope for deepening fiscal empowerment further through improved tax revenues lies in maintaining a moderate structure of tax rates and broadening the base without affecting the growth momentum of the economy. In order to broaden the tax base, it is imperative to rationalise/eliminate major tax concessions and bring the key segments of the services sector within the ambit of tax net in tandem with the growing share of this sector in GDP. The service tax constituted eight per cent of gross tax revenues and about 16 per cent of indirect taxes of the Central Government in 2006-07. With the successful implementation of value added tax (VAT) system by the State Governments and the move towards phasing out of central sales tax (CST), appropriate conditions are in place for the introduction of goods and services tax (GST) with effect from April 1, 2010. This is expected to have a positive impact on the efficiency of the indirect tax system. Furthermore, improvement in the efficiency and effectiveness of tax administration would enable reduction of tax arrears. The stock of tax revenues raised but not realised declined by about 19 per cent during 2005-06 to Rs.90,256 crore at end-March 2006.

II.61 Expenditure management of the Central Government in recent years has focused increasingly on improving the quality of implementation and on enhancing the efficiency and accountability of the delivery mechanism for translating budgetary outlays into the intended outcomes. The Government's policy of reprioritising expenditure has led to higher outlays for the social sector. The shares of public expenditure on education and health in India are, however, still low by international standards. In 2004, the share of public expenditure on health in India at 0.9 per cent of GDP was lower than Brazil (4.8 per cent), China (1.8 per cent) and least developed countries (1.8 per cent). Reprioritisation of expenditures towards social sectors along with higher capital outlays would promote fiscal discipline without restricting operational efficiency of the Government. Higher public spending on social services would improve the social infrastructure and provide productivity gains.

II.62 The finances of the State Governments have also exhibited significant improvement since 2003-04 guided by the Fiscal Responsibility Legislations (FRLs). As the State Governments come closer to meeting the objective of reduction in deficit indicators, they would have the challenge of containing non-developmental expenditures, while undertaking higher developmental expenditures in line with the priorities laid down in the Eleventh Five Year Plan. The improved macroeconomic performance is expected to have positive impact on tax mobilisation of the State Governments (both own tax revenue and shareable Central taxes). At the same time, it needs to be noted that it is the States who are primarily responsible for the provision of health and education. Apart from higher allocations towards social and economic services, the States would also need to focus on improving the quality of delivery of services, which would, in turn, enable them to adequately price these services. The States would also need to undertake enabling reforms to reap the full benefits of centrally sponsored schemes such as Jawaharlal Nehru National Urban Renewal Mission.

II.63 A salient feature of the fiscal consolidation process in recent years has been significant reduction in the key deficit indicators. However, deficit indicators as well as public debt in India still remain higher than many emerging and developed countries. Furthermore, there are certain risks to the fiscal consolidation process such as expected increase in expenditure from the revision of pay scales on implementation of the Sixth Pay Commission's recommendations, subsidies and the rising average cost of borrowings.

II.64 Adhering to the FRBM/FRL targets by the Centre as well as States would enable a further rise in public savings and overall domestic savings, apart from moderating the public debt burden. The reduction in the debt burden would contribute to overall macroeconomic stability and also ensure the sustenance of the growth momentum. For the current growth momentum to be entrenched on a durable basis, there is a need for a significant enhancement in capacity building and in the availability of public services that cannot be adequately provided by the private sector. Fiscal empowerment would allow higher capital outlays and boost infrastructure and social sector spending with beneficial impact on domestic productivity, growth and employment. It is, thus, necessary to emphasise the criticality of quality of fiscal adjustment.

EXTERNAL SECTOR

II.65 The external sector has imparted significant resilience to the Indian economy in the post-reform period. India's linkages with the global economy are getting stronger, underpinned by the growing openness of the economy and the two-way movement in financial flows. The ratio of merchandise exports to GDP has been rising since the early 1990s, reflecting growing international competitiveness. During 2002-2006, export growth of India was much higher than its key competitors in the Asian region, except China. At the same time, import intensity has been rising steadily as domestic entities have expanded access to internationally available raw materials and intermediate goods as well as quality inputs for providing the cutting edge to domestic production and export capabilities. Structural shifts in services exports, led by software and other business services, and remittances have imparted stability and strength to India's balance of payments. The net invisibles surplus has offset a significant part of the expanding trade deficit and helped in containing the current account deficit to an average of one per cent of GDP since the early 1990s. Gross current receipts (merchandise exports and invisible receipts) and gross current payments (merchandise imports and invisible payments) taken together, at present, constitute more than one half of GDP, highlighting the significant degree of integration of the Indian economy with the global economy.

II.66 The liberalised external payments regime is facilitating the process of acquisition of foreign companies by Indian corporates, both in the manufacturing and services sectors, with the objectives of reaping economies of scale and capturing of offshore markets to better face the global competition. Notwithstanding higher outflows, there has been a significant increase in capital flows (net) to almost five per cent of GDP in 2006-07 from an average of two per cent during 2000-01 to 2002-03. Capital flows (net) have remained substantially above the current account deficit and have implications for the conduct of monetary policy and macroeconomic and financial stability.

II.67 The overall approach to the management of India's foreign exchange reserves takes into account the changing composition of the balance of payments and endeavours to reflect the 'liquidity risks' associated with different types of flows and other requirements. 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. In India, foreign exchange reserves have been accumulated on account of capital inflows unlike other Asian economies which have built up a significant part of the reserves through current account surpluses. Nevertheless, these countries continue to intervene in the foreign exchange market as reflected in the high level of foreign exchange reserves in countries across Asia. Furthermore, ample global liquidity, relatively low interest rates in major advanced economies and the search for yield have led to large capital inflows into emerging market economies.

II.68 In India, interventions have been by and large successful in reducing volatility in the foreign exchange market, and have contributed to the overall financial stability. This, among other factors, makes India a preferred investment destination by overseas investors. While large corporates may be in a position to manage increased volatility, a large section of the population in countries like India does not have the wherewithal to withstand volatility in the financial markets. Interests of such sections of the population against volatility also need to be considered. Excessive volatility can also threaten financial stability and impinge on the real sector. The extent of volatility, thus, has to be consistent with the objectives of growth, and price and financial stability. As the Asian crisis demonstrated, even large corporates may not be in a position to withstand sudden volatility in exchange rates and interest rates as weaknesses in corporate balance sheets can spread to other participants in the economy, including the banking sector.

II.69 Like India, several other countries are facing a similar situation of excess foreign exchange inflows, which is affecting monetary management in these countries as well. However, monetary management at the current juncture in India is more complex than in other EMEs for several reasons. First, domestic interest rates are higher than the return on foreign exchange reserves, which leads to quasi-fiscal costs. Second, although the fiscal deficit and public debt have declined in recent years in India, by international standards, they still remain high. This restricts the flexibility available to fiscal policy to keep inflation relatively low. Third, in India, the real sector has been liberalised over the years which constrains the ability to take administrative measures with regard to supply management. At the same time, several policy rigidities persist, inhibiting the rapid and flexible adjustments that are needed by the demands of a well-functioning market economy. Further, in India, the banking system has been gradually deregulated and the conduct of monetary policy is largely through the use of market-based instruments. This restricts the ability to use administrative instruments such as prescribing deposit and lending rates, which some other countries may be able to use. Moreover, some countries are managing capital account more actively than before. Finally, it is also necessary to recognise that India is one of the few emerging market economies (EMEs) to record current account deficits, along with a significantly high trade deficit.

II.70 Though there has been a significant liberalisation of the policy framework with regard to capital outflows over the past few years, further possible liberalisation measures in this regard will continue to receive attention. However, each country has to design its policy regime for capital outflows keeping in view specific country context especially the characteristics of the real sector, and not merely the contextual level of inflows and extant absorptive capacity of the economy. First, the current regime of outflows in India is characterised by liberal but not incentivised framework for corporates to invest in the real economy outside India, including through the acquisition route. The regime has served the country well since Indian corporates are increasingly able to establish synergies with overseas units, to make up for lack of scale that has been a legacy problem in India, and to quickly acquire domain knowledge through acquisition. Second, significant liberalisation of outflows by individual households has been implemented following recommendations of the Committee on Fuller Capital Account Convertibility (Chairman: Shri S. S. Tarapore, 2006). Further liberalisation here would be done in the light of some international experience which shows that resident individuals often precede overseas investors in initiating outflows when the perceptions in regard to domestic economy's performance or stability appear to turn adverse. Third, as regards the regime for outflows through financial intermediaries, the approach is characterised by caution and quantitative stipulations whereby both prudential considerations and compulsions of management of capital account are relevant.

II.71 Trade integration is undeniably beneficial but financial integration has both, benefits and risks, at the current stage of India's development. It is useful to narrate some noteworthy features of capital inflows to India. Foreign Direct Investment (FDI) is generally perceived to be an investment that creates physical assets and is associated with a degree of stability, in particular due to managerial skills. However, new types of FDI flows through private equity funds and venture capital funds may not necessarily have a direct link with investment in physical assets and could contain a volatile component at the margin. Similarly, inflows to acquire existing stakes or expanding foreign stakes in Indian companies are classified as FDI, but they do not contribute to the further creation of physical assets. However, these inflows do add to the foreign resources available for investment in the economy, which would be most productive when there is corresponding absorptive capacity at the macro level. Similarly, FIIs in their own account are generally long term investors with little or no interest in managerial control. However, investments under the category of FIIs in India have a significant part of portfolio flows through participatory notes and sub-accounts. Capital flows, particularly the portfolio flows, being volatile can easily reverse their direction and it is difficult to invoke the "rules of origin" with regard to such capital flows. Against this backdrop, the gradual process of fuller capital account liberalisation will be pursued over the medium-term, while recognising the growing ineffectiveness of micro controls in a world of growing trade and financial integration. Thus, in India, the trade, financial and capital account liberalisation do go together, but in a harmonious and well-sequenced manner, while closely aligning with the progress in the real sector, fiscal sector and institutional developments, including governance.

II.72 Given the flux associated with both financial markets and monetary policy settings, India cannot be immune to these developments. Accordingly, banks, financial institutions and corporates need to be vigilant and well-prepared with appropriate risk mitigation strategies to deal with significantly higher volatility than before. It is in this context that they are urged to monitor various types of exposures and hedge them to protect their balance sheets. The Reserve Bank has expanded the range of hedging tools available to market participants over the years and facilitated dynamic hedging.

FINANCIAL SECTOR

II.73 A strong and robust financial sector plays a critical role in the efficient allocation of resources among savers and investors, thereby contributing to the growth process. It also facilitates the transmission of monetary policy impulses to the rest of the economy. Accordingly, the various policy initiatives by the Reserve Bank since the early 1990s have aimed at developing a robust, efficient and diversified financial system[2]. During 2006-07, the Reserve Bank continued to fine tune the regulatory and supervisory initiatives. In order to ensure asset quality, prudential measures were further tightened through increases in the provisioning requirements and risk weights in respect of specific sectors. The focus of the various prudential and supervisory measures was on anchoring financial stability while providing flexibility to the financial system. In order to further strengthen the domestic banking sector and to conform the banking sector with international best practices, commercial banks will migrate to Basel II norms in a phased manner beginning March 2008. Although implementation of Basel II poses significant challenge to both banks and the regulators, it also offers two major opportunities to banks, *viz*., refinement of risk management systems and improvement in capital efficiency.

II.74 The Reserve Bank will persevere with its efforts towards deepening the financial system and widening its reach, given the present stage of development of the country. The burst of entrepreneurship across the country has to be nurtured and financed. Interest rates charged by banks in India on various types of loans and advances vary significantly. Banks need to tone up their risk assessment and risk management capacities to

[2] On the role of financial markets in economic development, see the *Report on Currency and Finance, 2005-06* of the Reserve Bank of India. The Report with the theme "Development of Financial Markets and Role of the Central Bank" considered approaches for making financial markets in India more developed, efficient and integrated in the light of India's own experience gained so far and keeping in view the international best practices, while recognising that India is an emerging market economy. The pace of financial market development will necessarily have to be guided by the predominant imperative of maintaining macroeconomic and financial stability, while enabling growth inclusive.

appropriately price their loans. In this context, the setting up of credit information bureaus should help in reducing the transaction and information costs for banks by making available the credit histories of both individuals and small businesses. Although banks' investments in SLR securities registered an increase during 2006-07 in contrast to a decline in the preceding year, such investments, as a proportion of NDTL, declined further during 2006-07. As a result, banks' portfolio of Government securities is now very close to the prescribed norm. To meet the growing credit demand, therefore, banks need to widen their deposit base. In particular, banks need to bring more and more financially excluded people within their fold. Apart from helping the low income households, this would help strengthen the financial deepening and provide necessary resources to the banks to expand credit and sustain high economic growth.

MONETARY POLICY

II.75 The conduct of monetary policy in India has been guided by 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, however, depends on the underlying macroeconomic conditions. In view of incipient inflationary pressures, the stance of monetary policy progressively shifted from an equal emphasis on price stability along with growth (October 2004/April 2005) to one of reinforcing price stability with immediate monetary measures and to take recourse to all possible measures promptly in response to evolving circumstances (January 2007). Concomitantly, the Reserve Bank has taken pre-emptive monetary measures beginning mid-2004 to contain inflation and inflationary expectations. The major policy challenge for monetary policy during the recent period has been to manage the transition to a higher growth path while containing inflationary pressures so that potential output and productivity are firmly entrenched to sustain growth. Monetary measures, supported by supply side and fiscal measures, have helped in containing inflation and anchoring inflation expectations while supporting the growth momentum.

II.76 The Reserve Bank's self-imposed medium-term ceiling on inflation at 5.0 per cent has had a salutary effect on inflation expectations and the socially tolerable rate of inflation has come down. In recognition of India's evolving integration with the global economy and societal preferences in this regard, the resolve, going forward, would be to condition policy and expectations for inflation in the range of 4.0-4.5 per cent. This would help in maintaining self-accelerating growth over the medium-term, keeping in view the desirability of inflation at around 3 per cent to ensure India's smooth global integration.

II.77 The conduct of monetary policy has become more challenging in recent years for a variety of reasons. Globalisation has brought in its train considerable fuzziness in reading underlying macroeconomic and financial developments, obscuring signals from financial prices and clouding the monetary authority's gauge of the performance of the real economy. Consequently, dealing with the impossible trinity of fixed exchange rates, open capital accounts and discretion in monetary policy has become more complex than before. Moreover, there is considerable difficulty faced by monetary authorities across the world in detecting and measuring inflation, especially inflation expectations. The operation of monetary policy in India is also constrained by some uncertainties in the transmission of policy signals to the economy. First, some categories of interest rates continue to be administered, thereby muting the impact of monetary policy on the structure of interest rates. Second, external sector management is complicated by the incentives for some elements of capital flows provided by the public policy setting. Thus, the magnitudes and direction of capital flows to select sectors in the domestic economy are beset with uncertainties with regard to the global and domestic environment not necessarily related to economic fundamentals or the monetary policy setting. Third, the operation of monetary policy has to be oriented around the predominantly public sector ownership of the banking system which plays a critical role not only in the transmission of monetary policy signals but also in other public policy considerations.

II.78 Monetary policy in India has also to contend with the burden of challenges emanating from other sectors. First, fiscal imbalances remain large by international standards and have to be managed in a non-disruptive manner. However, the recent salutary improvement in the fiscal position of States and significant consolidation in the finances of the Centre have alleviated the extent of the burden that monetary policy has to bear on this account. Second, the enduring strength of foreign exchange inflows complicates the conduct of monetary policy. In the event of demand pressures building up, increases in interest rates may be advocated to preserve and sustain growth in a non-inflationary manner. Higher interest rates, however, increase the possibility of further capital inflows and potentially reduce the efficacy of monetary policy tightening. Third, in India, levels of livelihood of a large section of the population are inadequate to withstand sharp financial fluctuations which impact real activity. Accordingly, monetary policy has also to take into account the effect on these segments of the economy from volatility in financial markets, often related to sudden shifts in capital flows.

II.79 Fourth, limitations on the elasticity of aggregate supply domestically impose an additional burden on monetary policy, particularly in the short term. While open trade has expanded the supply potential of several economies, it does not seem to have had any significant short-term salutary effect on supply elasticities. Persisting supply shocks to prices of commodities and services to which headline inflation is sensitive can exert a lasting impact on inflation expectations. Faced with longer term structural bottlenecks also in supply, with less than adequate assurance of timely, convincing and demonstrated resolution, monetary policy has to respond appropriately. The burden and the dilemmas, in fact, are greater in the event of a structural supply problem on account of its persistent effects on inflation. Managing structural change while keeping inflation low and stable without dampening the growth momentum is the quintessential challenge to monetary policy in the period ahead.

II.80 To sum up, there is evidence of some cyclical elements in the current growth process, although significant structural changes have also taken place in the Indian economy. There is a growing evidence that the economy is possibly poised on the threshold of a step-up in the growth trajectory, provided the vigil on price stability, including financial stability is intensified in a convincing manner.

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

III MONETARY AND CREDIT POLICY OPERATIONS

III.1 The conduct of monetary policy during 2006-07 faced various challenges due to persistent inflationary pressures and continuing large capital inflows. The major policy challenge was to manage the transition to a higher growth path while containing inflationary pressures so that potential output and productivity were firmly entrenched to sustain growth. During the year, inflationary pressures emanating from rising capacity utilisation, sustained growth in monetary and credit aggregates and elevated asset prices were exacerbated by supply shocks emerging from primary articles. The Reserve Bank stressed the need to be watchful for early signs of overheating, even though there was no conclusive evidence of potential overheating in the Indian economy. Against this backdrop, the Reserve Bank continued to take pre-emptive measures during the year to contain inflation and inflationary expectations. Monetary measures were supported by prudential measures to contend with sustained high growth in bank credit, particularly in certain sectors. Legislative amendments to the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949, which took place during the year, would provide greater flexibility to the Reserve Bank in the conduct of monetary policy in future.

III.2 The Reserve Bank persevered with its policy objective of ensuring adequate flow of credit to the various productive sectors of the economy, particularly agriculture and small scale industries (SSI). These initiatives were aimed at facilitating a conducive environment for banks to provide adequate and timely finance to small borrowers at reasonable rates without procedural hassles so as to bring about maximum financial inclusion of the poorer sections of the society.

III.3 In this backdrop, this Chapter delineates the monetary and credit policy operations of the Reserve Bank during 2006-07. Inflationary pressures, large capital inflows and government cash balances posed a major challenge in the conduct of monetary policy and liquidity management. Both wholesale and consumer price inflation rose during 2006-07; the increase in consumer price inflation was, however, much higher than the wholesale price inflation, reflecting mainly the impact of higher food prices and the higher weight of such items in consumer price inflation measures. The enduring nature of capital flows complicated the conduct of monetary policy and liquidity management as higher interest rates to contain inflation could potentially attract greater capital flows, thus, reducing the efficacy of monetary tightening. Policy rates and the cash reserve ratio were raised while interest rates on non-resident deposits were reduced. Prudential measures in the form of tightening of provisioning requirements in respect of sectors witnessing relatively higher order of credit growth were also undertaken to maintain asset quality and financial stability.

III.4 Alongside monetary and prudential measures, efforts were also made to improve credit delivery and promote financial inclusion. The Reserve Bank continued to take steps to improve the credit delivery mechanism for small borrowers in order to bring the poorer sections of the society within the fold of formal channels of credit delivery. Guidelines relating to the priority sector lending were revised in order to enlarge its base. Banks were advised to scale up information technology (IT) initiatives for speedy promotion of financial inclusion. As a part of a pilot project on greater financial inclusion, 100 per cent financial inclusion was achieved in the Union Territory of Puducherry and in 24 districts in Haryana, Himachal Pradesh, Karnataka, Kerala and Punjab. Reflecting the impact of various policy initiatives, banks achieved the targets fixed under the special agricultural credit plans and under the scheme of doubling the agricultural credit in three years.

III.5 As a part of the ongoing changes in the institutional framework of monetary policy in India and with a view to strengthening the consultative process, the Reserve Bank had constituted a Technical Advisory Committee (TAC) on Monetary Policy in July 2005 with external experts in the areas of monetary economics, central banking, financial markets and public finance. In its quarterly meetings, the TAC reviewed macroeconomic and monetary developments, provided useful policy inputs, contributed to enriching the processes of policy setting and advised on the stance of monetary policy. After its tenure ended in January 2007, the Reserve Bank reconstituted the TAC with a view to benefiting from the advice of the external experts with tenure up to January 31, 2009. The membership of the TAC was also expanded. The reconstituted TAC has five external members and two members of the Central Board of the Reserve Bank. The Committee is headed by the Governor, with the Deputy Governor in charge of monetary policy as vice-chairman. Three other Deputy Governors are also members of the Committee. It would meet at least once in a quarter to review macroeconomic and monetary developments and advise on the stance of monetary policy. It may be noted that the role of TAC is advisory in nature and it provides guidance in the process of formulating monetary policy from time to time. As such, the responsibility, accountability and time paths for decision making remain with the Reserve Bank.

MONETARY POLICY OPERATIONS: 2006-07

Annual Policy Statement for 2006-07

III.6 The Annual Policy Statement for 2006-07 (April 18, 2006) noted that the stance of monetary policy during 2006-07 would depend on macroeconomic developments including the global scenario. In an environment fraught with pressures from aggregate demand embodied in rising bank credit, high asset prices and above-trend growth in monetary aggregates as well as global risks from larger macroeconomic imbalances and higher oil prices than before, containing inflation in the medium-term was going to test the conduct of stabilisation policies. In this context, the Statement stressed that while there were compelling reasons to maintain the momentum in growth of output, low and stable inflation would enable higher growth on a sustained basis in an environment of overall stability. Furthermore, in the absence of firm and timely responses by all concerned, the rate of high credit growth and increase in asset prices seemed to pose a downside risk to overall financial stability.

III.7 While domestic macroeconomic and financial conditions supported prospects of sustained growth momentum with stability in India, there were risks to both growth and stability from domestic as well as global factors, with the balance of risks tilted towards the global factors. The adverse consequences of further escalation of international crude prices and/or of disruptive unwinding of global imbalances were likely to be pervasive across economies, including India. In a situation of generalised tightening of monetary policy, India could not afford to stay out of step. It was necessary to keep in view the dominance of domestic factors as in the past but to assign more weight to global factors than before while formulating the policy stance.

III.8 Under the assumption of a normal monsoon, positive industrial outlook and sustained momentum in services sector growth, the real GDP growth, for policy purposes, was placed in a range of 7.5-8.0 per cent during 2006-07 barring domestic or external shocks. Taking into account the real, monetary and global factors having a bearing on domestic prices, it was noted that containing inflationary expectations would continue to pose a challenge to monetary management. The policy endeavour was to contain the year-on-year (y-o-y) inflation rate for 2006-07 in the range of 5.0-5.5 per cent. For the purpose of monetary policy formulation, the expansion in M_3 was projected at around 15.0 per cent for 2006-07, consistent with the projected GDP growth and inflation. However, in view of the overhang of above-trend growth in money supply in the preceding year, the Statement observed that, in normal circumstances, the policy preference would be for maintaining a lower order of money supply growth in 2006-07. The growth in aggregate deposits was projected at around Rs.3,30,000 crore in 2006-07. Non-food bank credit including investments in bonds/debentures/shares of public sector undertakings and private corporate sector and commercial paper (CP) was expected to increase by around 20 per cent, implying a calibrated deceleration from a growth of above 30 per cent ruling at end-March 2006.

III.9 While leaving the repo rate and the reverse repo rate unchanged in the Annual Policy Statement, the Reserve Bank took certain prudential measures in the context of continued strong credit growth and in order to maintain asset quality. These included increases in (a) risk weight on exposures to commercial real estate and banks' total exposure to venture capital funds to 150 per cent; and (b) general provisioning requirement from 0.40 per cent to 1.0 per cent on standard advances in specific sectors (personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans) (Box III.1).

III.10 There was widespread and simultaneous monetary policy tightening in several countries in early June 2006 against the backdrop of marked and heightened volatility in the international financial markets. Though not entirely unanticipated, the virtual

Box III.1
Counter-cyclical Prudential Measures and Monetary Policy

Economic activity generally oscillates between phases of expansion and contraction. The expansionary phase of the economy is generally accompanied by high growth in bank credit – often concentrated in several specific sectors – which, in turn, poses risks to loan quality of the banking system and financial stability as well as inflation through exacerbation of demand pressures in the economy. An imbalanced growth poses risk of overheating in certain sectors. Counter-cyclical monetary policy tries to achieve price stability to sustain the growth momentum through pre-emptive withdrawal of monetary accommodation by modulation of interest rates/cash reserve ratios. While monetary measures affect the growth of all sectors in the economy, prudential policies are useful for ensuring the soundness of the banking system, avoiding the risks associated with high credit growth and credit concentration and limiting the distress to the entire financial system. The prudential measures can include higher/differentiated capital requirements, tighter/differentiated loan classification, tighter eligibility criteria for loans, dynamic provisioning, tighter collateral rules, rules on credit concentration, tightening net open foreign exchange position limits and maturity mismatch regulations and guidelines. Prudential measures when applied in sector-specific manner can be useful in curbing sector-specific credit growth, which could otherwise have an adverse spillover effect through emergence of non-performing assets (NPAs) in the period ahead.

It has been argued in an orthodox perspective that prudential regulations, originally designed for financial stability, are not very effective in addressing asset price cycles due to the time lag in transmission and the relatively blunt impact with unintended secondary consequences. Moreover, the use of such tools for macroeconomic purposes is seen as conflicting with their original objective of financial stability. However, the more contemporary, pragmatic view advocates the use of prudential regulations to dampen excessive credit growth in pursuit of financial stability as the 'first instance' policy response, followed at a later stage, if required, by tightening monetary policy (White, 2004).

In order to cope with rapid credit growth, a number of countries have opted for different prudential measures depending on the country-specific needs. Hong Kong, Romania and Singapore tightened eligibility requirements for certain types of loans including limits on loan-to-value ratio (for instance, mortgages) and limited foreign denominated loans to those with foreign exchange income or adequate hedge. It helped these countries to avoid very high levels of mortgage leverage and risks in market behaviour or asset prices. Higher and/or differentiated capital requirements or risk weights based on loan type, maturity and currency composition of credit and incorporation of market and other risks in capital adequacy ratios helped Bulgaria, Bosnia, Croatia, Norway and Poland to reduce total lending capacity of banks and enhance resilience of banks' capital base against adverse shocks to the system. The Bank of Spain used dynamic provisioning in response to lesser loan loss provisioning compared to potential credit losses, which helped in improving banks' asset quality. To stabilise property prices, Korea has recently announced a number of prudential measures like curtailing bank lending to the property sector, reduction in loan-to-value ratio, restricting mortgage loan issuance to one contract per person in addition to other measures such as introduction of price ceilings on new houses and disclosure of construction cost of new homes.

In India, rising economic activity in the upturn of the economic cycle propelled non-food credit growth to an average of around 30 per cent per annum during 2004-07. While growth in bank credit has been largely broad-based, substantially high credit growth has been observed in certain sectors such as commercial real estate, housing loan and consumer credit (including credit card), associated with sharp escalation in asset prices. Since 2004, the Reserve Bank has repeatedly drawn the attention of banks towards increasing credit concentration in some specific sectors and the associated risks, through its various Policy Statements and Reviews. Despite the articulation of these concerns, credit growth remained high raising concerns about financial stability and the sustainability of future growth, prompting a policy response. Accordingly, the Reserve Bank started tightening prudential regulations from October 2004. These policy measures have been broad-based comprising enhancing of risk weights in specific sectors while increasing provisioning requirements for standard advances across the board (see Chapter V). The measures taken by the Reserve Bank have helped in containing growth in credit to sectors witnessing high growth and maintaining financial stability.

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global coverage, nature and timing of these developments posed a serious threat to the domestic economy which, till then, had been spared of turbulence in the debt and foreign exchange markets. These developments, viewed in the light of the then prevailing monetary and credit environment underscored the compulsions of swift action, as indicated in the Annual Policy Statement. Accordingly, on June 8, 2006, the LAF reverse repo and repo rates were increased by 25 basis points each to 5.75 per cent and 6.75 per cent, respectively.

First Quarter Review

III.11 In its First Quarter Review of the Annual Statement on Monetary Policy (July 25, 2006), the Reserve Bank observed that the domestic economy was exhibiting strong fundamentals and displaying considerable resilience. At the same time, the Review pointed out that disturbing signs of demand pressures, especially continuing high credit growth, could exert upward pressure on prices when associated with supply shocks such as from oil. These pressures had the potential for impacting stability and inflationary expectations. Although domestic developments continued to dominate the Indian economy, global factors tended to gain more attention than before. The global outlook for growth was positive but downside risks in regard to inflation and re-pricing of risks in financial markets needed to be recognised. Both domestic and global factors were viewed as delicately balanced in terms of growth *vis-à-vis* price stability with a tilt towards the possibility of identified downside risks materialising in the near-term being more likely than before. While reaffirming its forecast for GDP growth of 7.5-8.0 per cent as set out in the April 2006 Statement, the Reserve Bank observed that containing the y-o-y inflation rate for 2006-07 in the range of 5.0-5.5 per cent warranted appropriate priority in policy responses. On balance, a modest pre-emptive action in monetary policy was considered appropriate. Accordingly, the Reserve Bank increased the reverse repo rate and the repo rate further by 25 basis points each to 6.00 per cent and 7.00 per cent, respectively, with effect from July 25, 2006 (Table 3.1).

Table 3.1: Movement in Key Policy Rates and Reserve Requirements

(Per cent)

Effective since	Reverse Repo Rate	Repo Rate	Cash Reserve Ratio
1	2	3	4
March 31, 2004	4.50	6.00	4.50
September 18, 2004	4.50	6.00	4.75 (+0.25)
October 2, 2004	4.50	6.00	5.00 (+0.25)
October 27, 2004	4.75 (+0.25)	6.00	5.00
April 29, 2005	5.00 (+0.25)	6.00	5.00
October 26, 2005	5.25 (+0.25)	6.25 (+0.25)	5.00
January 24, 2006	5.50 (+0.25)	6.50 (+0.25)	5.00
June 9, 2006	5.75 (+0.25)	6.75 (+0.25)	5.00
July 25, 2006	6.00 (+0.25)	7.00 (+0.25)	5.00
October 31, 2006	6.00	7.25 (+0.25)	5.00
December 23, 2006	6.00	7.25	5.25 (+0.25)
January 6, 2007	6.00	7.25	5.50 (+0.25)
January 31, 2007	6.00	7.50 (+0.25)	5.50
February 17, 2007	6.00	7.50	5.75 (+0.25)
March 3, 2007	6.00	7.50	6.00 (+0.25)
March 31, 2007	6.00	7.75 (+0.25)	6.00
April 14, 2007	6.00	7.75	6.25 (+0.25)
April 28, 2007	6.00	7.75	6.50 (+0.25)
August 4, 2007	6.00	7.75	7.00 (+0.50)

Note: 1. With effect from October 29, 2004, the nomenclature of repo and reverse repo was changed in keeping with international usage. Now, reverse repo indicates absorption of liquidity and repo signifies injection of liquidity. Prior to October 29, 2004, repo indicated absorption of liquidity while reverse repo meant injection of liquidity. The nomenclature in this Report is based on the new usage of terms even for the period prior to October 29, 2004.

2. Figures in parentheses indicate change in policy rates.

Mid-term Review

III.12 In the Mid-Term Review of the Annual Policy Statement for 2006-07 (October 31, 2006), the Reserve Bank observed that there seemed to be some evidence of demand pressures firming up in the form of high growth in capital goods output, an upturn in investment in infrastructure and a quickening of the capital expenditure cycle. Demand pressures were also visible in the expansion of money supply and reserve money. The demand for bank credit was growing at above 30 per cent for the third year in succession. Against this background, it was critical to be watchful for early signs of overheating, even though, for a developing economy like India, the concept of overheating was less of a guide for monetary policy than in advanced economies on account of (a) the existence of large unemployment/ underemployment of resources and the absence of a clear assessment of potential output; and (b) the difficulty in obtaining a clear judgement of potential output in an economy undergoing structural transformation (Box III.2). Nevertheless, the combination of high growth and consumer inflation coupled with escalating asset prices and tightening infrastructural bottlenecks underscored the need to reckon with dangers of overheating and the implications for the timing and direction of monetary policy setting. The Review emphasised that although there was no conclusive evidence of potential overheating in the Indian economy, the criticality of monitoring all available indications that could point to excess aggregate demand was perhaps more relevant and that it would be risky to ignore the prevalence and relevance of these factors. At the same time, as the Review added, credit penetration

Box III.2
Overheating and Monetary Policy

Movements in inflation depend upon demand-supply mismatches. In this context, the concept of overheating in the economy plays a critical role in the conduct of monetary policy. An overheating economy is one which is growing rapidly and its productive capacity cannot keep up with the resulting demand pressures. The emergence of inflationary pressures is usually seen as the first indication of overheating. In this context, policy makers keenly analyse the behaviour of the output gap, *i.e.*, the excess of current output over potential or full capacity output. If the monetary authority senses that there is unutilised capacity, the increase in demand generated by growth can be accommodated without inflationary pressures and, therefore, the need to act against overheating may not arise. On the other hand, if demand runs ahead of full capacity, there will be a case for tightening of monetary policy with a view to slowing down the economy and heading off overheating.

Although the concept of overheating is analytically straightforward, its implementation is beset with a number of problems. Globally, there is some evidence of a blurring of the relationship between output gaps and inflation. Moreover, the size and direction of an economy's potential output is becoming increasingly difficult to diagnose. In particular, globalisation has expanded the supply potential of various economies, especially emerging economies. In the recent period, it appears that the current positive supply shock has made the concept of potential output fuzzier than in the past. In view of the growing globalisation, there is some evidence that domestic inflation is now increasingly influenced by global demand-supply imbalances in addition to domestic demand-supply imbalances.

These concepts and issues are further complicated for a developing economy like India on account of the existence of large unemployment/underemployment of resources and the absence of a clear assessment of potential output. The concept of overheating is, therefore, less of a guide for monetary policy in countries such as India than in advanced economies. Furthermore, it is difficult to pass a clear judgement of potential output in an economy that is undergoing structural transformation. Notwithstanding these uncertainties, monetary policy decisions have to be made and policy authorities are required to make an assessment of potential growth associated with non-accelerating inflation. This requires disentangling structural and cyclical components underlying the growth process.

Monetary management has to also look at imbalances that could be transitional. The challenge before the central bank is to manage the transition to a higher growth path, in the presence of some structural rigidities, in such a way that actual inflation and inflation expectations are contained and do not become mutually reinforcing. If supply responses are less than elastic, they could show up as excess demand, causing inflationary pressures and raising inflation expectations. Against this backdrop, managing structural change while keeping inflation low without dampening the growth momentum would be the quintessential challenge to monetary policy in India in the period ahead.

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in India remained low, even by emerging economy standards, and the growing financial intermediation was possibly being reflected in monetary and credit aggregates in a manner that standard approaches failed to capture. These factors complicated the assessment of the extent of excess demand pressures.

III.13 Taking into account the trends in the real economy, the forecast for GDP growth for 2006-07 was revised upwards to around 8.0 per cent from the range of 7.5-8.0 per cent projected in the Annual Policy Statement and the First Quarter Review. On the demand side, the Mid-term Review observed that there were some indications of pressures and possible spillover into inflation expectations. Accordingly, containing the y-o-y inflation rate for 2006-07 in the range of 5.0-5.5 per cent assumed priority in terms of watchful monitoring and appropriate policy responses. The repo rate was, therefore, increased by 25 basis points to 7.25 per cent; the reverse repo rate was left unchanged at 6.00 per cent.

III.14 In the period subsequent to the Mid-term Review, macroeconomic performance turned out to be somewhat better than anticipated on the back of strong growth in manufacturing and services. Taking into account, *inter alia*, high growth in monetary aggregates, sustained growth in credit offtake, trends in liquidity absorbed under the LAF/MSS, challenges emanating from capital flows on liquidity, acceleration in inflation, growth in real GDP, expectations of the private corporate sector of higher increase in prices of both inputs and outputs, reports of growing strains on domestic capacity utilisation, global developments in monetary management and the paramount need to contain inflationary expectations, the Reserve Bank announced (on December 8, 2006) an increase of 50 basis points in the cash reserve ratio (CRR) in two phases – 25 basis points each effective the fortnights beginning December 23, 2006 and January 6, 2007. The increase in the CRR was consistent with the stance of the Mid-term Review of October 2006 of containing inflation expectations and consolidating gains achieved in regard to stability in order to sustain the momentum of growth on an enduring basis.

Third Quarter Review

III.15 In the Third Quarter Review of the Annual Statement on Monetary Policy (January 31, 2007), the Reserve Bank observed that there were continuing signs of aggregate demand firming up as reflected in the pick-up in investment intentions, synchronous high growth of capital goods production and capital goods imports, the buoyancy of consumer demand, the demand for bank credit remaining high, the widening trade deficit, reports that expansion of capacity may be constrained in terms of pending import orders, increasing evidence of the infrastructural bottlenecks becoming tighter and more binding, some indications of wage cost pressures, and elevated asset prices. Growth in bank credit was viewed as excessive, warranting measures to moderate growth even after accounting for the relatively low level of credit penetration in the country and the ongoing structural transformation of the economy. The relevant signs of overheating, especially in terms of aggregate demand, had firmed up in the period subsequent to the Mid-term Review. It was stressed that the addition to productive capacity occurred with a lag and the first sign of a step up in investment could be reflected in an expansion of aggregate demand.

III.16 Furthermore, as the Review pointed out, the enduring strength of capital inflows posed a challenge to monetary and liquidity management. In the event of demand pressures building up, increases in interest rates might be advocated to sustain growth in a non-inflationary manner but such action, apart from associated costs for growth and potential risks to financial stability, increased the possibility of further capital inflows so long as a significant part of these flows was interest sensitive and explicit policies to moderate flows were not undertaken. These flows could potentially reduce the efficacy of monetary policy tightening by enhancing liquidity.

III.17 In view of stronger than anticipated growth in manufacturing and services, forecast of real GDP growth for 2006-07 was revised upwards to a range of 8.5-9.0 per cent from around 8.0 per cent projected in the Mid-term Review and 7.5-8.0 per cent in the Annual Policy Statement and the First Quarter Review. Against the backdrop of the prevailing conditions of growth, price and financial stability, the Third Quarter Review stressed that unequivocal relative emphasis on stability was warranted. A determined and co-ordinated effort by all to contain inflation without unduly impacting the growth momentum was viewed as not only an economic necessity but also a moral compulsion. It was emphasised that effective containment of inflation was best served by a combination of fiscal, external and supply management policies supplemented and complemented by ongoing monetary measures.

III.18 The Review observed that evolving conditions underscored the importance of persevering with further withdrawal of policy accommodation in a timely manner to ensure both price and financial stability. A judicious balancing of weights assigned to monetary policy objectives would accord priority to stability in order to support growth on a sustained basis. Accordingly, an appropriate response in terms of policy stance and monetary measures was warranted to bring inflation as close as possible to the stated range of 5.0 to 5.5 per cent at the earliest, while continuing to pursue the medium-term goal of a ceiling on inflation at 5.0 per cent. The repo rate was, therefore, increased by 25 basis points to 7.50 per cent; the reverse repo rate was kept unchanged at 6.0 per cent. In order to modulate capital flows in the form of non-resident deposits so as to ensure effective liquidity management, the interest rate ceilings on NR(E)RA and FCNR(B) deposits were reduced by 50 basis points and 25 basis points, respectively (Table 3.2).

III.19 The provisioning requirement in respect of standard assets in the case of a few categories and risk weights were also increased in the Third Quarter Review (see Chapter V). The Review also stressed that, over the remaining part of the year, management of liquidity would receive priority in the policy hierarchy. Consequent to the tightening of market liquidity, the impact of monetary policy was expected to be stronger than before. The stance of monetary policy has progressively shifted from an equal emphasis on price stability along with growth (October 2004/April 2005) to one of reinforcing price stability with immediate monetary measures and to take recourse to all possible measures promptly in response to evolving circumstances (Box III.3).

III.20 In the period following the Third Quarter Review, some notable developments prompted a swift reinforcement of the monetary policy stance. With the pace of growth accelerating further as reflected in the buoyancy in industrial output and non-food bank credit, concerns about the accentuation of excess demand pressures seemed to be considerably heightened, particularly with the tightening of the supply constraints. Headline inflation surged to a two-year peak by end-January 2007, with potential upside risks to inflation expectations and, therefore, warranted an immediate policy response. Concomitantly, the LAF, which had been in an injection mode persistently during January 7–February 7, 2007 shifted to absorption mode in the following week (February 8-13) with additional liquidity absorbed under the MSS. Reflecting the large reversal of liquidity, the call money rate which was ruling 25-85 basis points above the repo rate, eased below the middle of the LAF corridor, indicating easing of liquidity conditions. It was considered necessary on February 13, 2007 to increase the CRR in two stages of 25 basis points each effective from the fortnights beginning February 17 and March 3, 2007. The increase in the CRR was intended to drain excess liquidity, pre-empt the stoking of demand pressures and contain inflation expectations. It was also consistent with the stance set out in the Third Quarter Review of responding swiftly to developments impinging on inflation expectations and the growth momentum.

Table 3.2: Interest Rate Structure for Non-Resident Deposits

(Basis points)

Effective since	FCNR(B) Deposits (Ceiling Rate)	Effective since	NRE (Rupee) Deposits (Ceiling Rate for 1-3 year maturity)
1	2	3	4
April 19, 2001	LIBOR	July 17, 2003	LIBOR + 250
April 29, 2002	LIBOR - 25	September 15, 2003	LIBOR + 100
March 28, 2006	LIBOR	October 18, 2003	LIBOR + 25
January 31, 2007	LIBOR - 25	April 17, 2004	LIBOR
April 24, 2007	LIBOR - 75	November 1, 2004	LIBOR + 50
		November 17, 2005	LIBOR + 75
		April 18, 2006	LIBOR + 100
		January 31, 2007	LIBOR + 50
		April 24, 2007	LIBOR

Note : LIBOR/swap rates for the respective currency/maturities in case of FCNR(B) deposits and LIBOR/swap rates for US dollar of corresponding maturity in case of NRE deposits.

Box III.3
Stance of Monetary Policy in India

2005-06

Annual Policy Statement (April 2005)

- 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.

First Quarter Review (July 2005)

- The overall stance of monetary policy 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 the risks.

Mid-term Review (October 2005)

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

Third Quarter Review (January 2006)

- To maintain the emphasis on price stability with a view to anchoring inflationary expectations.
- To continue to support export and investment demand in the economy for maintaining the growth momentum by ensuring a conducive interest rate environment for macroeconomic, price and financial stability.
- To provide appropriate liquidity to meet genuine credit needs of the economy with due emphasis on quality.
- To consider responses as appropriate to evolving circumstances.

2006-07 and 2007-08

Annual Policy Statement (April 2006)

- To ensure a monetary and interest rate environment that enables continuation of the growth momentum consistent with price stability while being in readiness to act in a timely and prompt manner on any signs of evolving circumstances impinging on inflation expectations.
- To focus on credit quality and financial market conditions to support export and investment demand in the economy for maintaining macroeconomic, in particular, financial stability.
- To respond swiftly to evolving global developments.

First Quarter Review (July 2006)

- To ensure a monetary and interest rate environment that enables continuation of the growth momentum while emphasising price stability with a view to anchoring inflation expectations.
- To reinforce the focus on credit quality and financial market conditions to support export and investment demand in the economy for maintaining macroeconomic and, in particular, financial stability.
- To consider measures as appropriate to the evolving global and domestic circumstances impinging on inflation expectations and the growth momentum.

Mid-term Review (October 2006)

- To ensure a monetary and interest rate environment that supports export and investment demand in the economy so as to enable continuation of the growth momentum while reinforcing price stability with a view to anchoring inflation expectations.
- To maintain the emphasis on macroeconomic and, in particular, financial stability.
- To consider promptly all possible measures as appropriate to the evolving global and domestic situation.

Third Quarter Review for 2006-07 (January 2007)/ Annual Policy Statement for 2007-08 (April 2007)/First Quarter Review for 2007-08 (July 2007)

- To reinforce the emphasis on price stability and well-anchored inflation expectations while ensuring a monetary and interest rate environment that supports export and investment demand in the economy so as to enable continuation of the growth momentum.
- To re-emphasise credit quality and orderly conditions in financial markets for securing macroeconomic and, in particular, financial stability while simultaneously pursuing greater credit penetration and financial inclusion.
- To respond swiftly with all possible measures as appropriate to the evolving global and domestic situation impinging on inflation expectations, [financial stability (in July 2007 Statement)] and the growth momentum.

III.21 While indications of the sustained momentum of growth continued to firm up, the wholesale price index (WPI) inflation ruled stubbornly around 6.5 per cent up to March 23, 2007 threatening to impact inflation expectations. In terms of consumer prices, inflation was even higher in the range of 7.6-9.8 per cent. Other indicators of demand pressures were also emitting warning signals – money supply at around 22.0 per cent; non-food credit growth at 29.5 per cent; capacity constraints; pending import orders; pricing power of corporates as exemplified in the cement and steel sectors; wage pressures in some sectors; and rising input costs. Alongside these developments, there were large swings in liquidity and associated heightened volatility in the financial markets inconsistent with the prevailing monetary policy stance of tightening aggregate demand conditions to contain inflationary pressures and stabilise expectations. There was also a large build-up of the cash balances of the Government with the Reserve Bank and the unwinding of these balances thereafter portended a large reversal of liquidity in April 2007 and a return to sizeable surplus conditions. Furthermore, the mobilisation of deposits and expansion of non-food credit that typically occurs in the last fortnight of March unwinds in April resulting in a return flow of liquidity. An additional source of autonomous liquidity injection into the system was from the increase in net foreign assets of the Reserve Bank and corresponding release of rupee liquidity into the system. In the context of this scenario, it was considered necessary to reinforce the measures already taken for maintaining price stability and anchoring inflation expectations in order to sustain the growth momentum. Accordingly, the Reserve Bank announced monetary measures on March 30, 2007 with the objective of draining out liquidity and improving the efficacy of interest rate signals in the period ahead. The fixed repo rate under the LAF was increased by 25 basis points to 7.75 per cent with immediate effect. The CRR was increased by 50 basis points in two stages of 25 basis points each, effective from the fortnights beginning April 14 and April 28, 2007. It was also indicated that the policy of withdrawal of semi-durable and durable elements of liquidity through the MSS would continue along with other arrangements relating to the operation of the LAF. The objective of the measures undertaken was to continue to demonstrate that inflation beyond the tolerance threshold of the Reserve Bank was unacceptable and that the resolve to ensure price stability was always backed by timely and appropriate policy responses.

Bank Rate

III.22 The Bank Rate signals the medium-term stance of monetary policy. Keeping in view the assessment of the economy including the outlook for inflation, the Bank Rate was retained at the existing level of 6.0 per cent; the rate was last revised in April 2003.

Cash Reserve Ratio

III.23 As noted earlier, the CRR was hiked by a cumulative of 100 basis points during 2006-07 in four equal phases of 25 basis points each during December 2006-February 2007. During 2007-08, the CRR has been raised further by another 100 basis so far (25 basis points each effective the fortnights beginning April 14 and April 28, 2007 and 50 basis points effective the fortnight beginning August 4, 2007) to 7.0 per cent of the banks' net demand and time liabilities (NDTL) (Chart III.1).

III.24 The Reserve Bank of India Act, 1934 was amended in June 2006 with a view to enhancing the Reserve Bank's operational flexibility and providing it with greater manoeuvrability in monetary management. The Reserve Bank of India (Amendment) Act, 2006 gives discretion to the Reserve Bank to decide the percentage of scheduled banks' demand and time liabilities to be maintained as CRR without any ceiling or floor. Consequent to the amendment, the Reserve Bank was also not required to make interest payment on CRR balances. The payment of interest on CRR balances attenuates

Chart III.1: Cash Reserve Ratio

* : August 4, 2007.

the effectiveness of the CRR as an instrument of monetary policy. Consequent to the amendment in June 2006, the Reserve Bank announced the removal of the floor of 3 per cent and ceiling of 20 per cent in respect of CRR. Furthermore, it was announced that no interest shall be payable on CRR balances with effect from the fortnight beginning June 24, 2006. The Extraordinary Gazette notification dated January 9, 2007 of the Government of India, however, notified January 9, 2007 as the date on which all the provisions, except Section 3, of the Reserve Bank of India (Amendment) Act, 2006 shall come into force. Section 3 of the Reserve Bank of India (Amendment) Act, 2006 provided for the removal of the ceiling and floor on the CRR to be prescribed by the Reserve Bank as also the provisions for interest payment on eligible CRR balances. Pending the notifications of the relevant provisions, the floor and ceiling on CRR were restored and the Reserve Bank decided to pay interest on eligible CRR balances but consistent with the monetary policy stance and measures at relevant periods of time. The Reserve Bank also exempted those banks from payment of penal interest which had breached the statutory minimum CRR level of 3.0 per cent during June 22, 2006 to March 2, 2007.

III.25 The Government of India in the Extraordinary Gazette notification dated March 9, 2007 notified Section 3 of the Reserve Bank of India (Amendment) Act, 2006 and appointed April 1, 2007 as the date on which the related provisions shall come into force. As such, the floor and ceiling on the CRR to be prescribed by the Reserve Bank now no longer exist. The Reserve Bank decided, in view of the then prevailing monetary conditions, to maintain *status quo* on the existing provisions of the CRR maintenance, including the CRR rate and extant exemptions. The Reserve Bank also indicated that no interest will be payable on CRR balances of banks with effect from the fortnight beginning March 31, 2007.

Statutory Liquidity Ratio

III.26 The statutory liquidity ratio (SLR) was kept unchanged at 25 per cent of banks' NDTL during 2006-07; the ratio was last revised in November 1997. Commercial banks' holdings of Government securities, as a proportion to their NDTL, continued to decline during the year, reaching 28.0 per cent of their NDTL at end-March 2007 from 31.3 per cent at end-March 2006 – closer to the prescribed requirement of 25 per cent. During 2007-08 so far (up to August 3, 2007), banks' holding of SLR securities as a percentage of NDTL increased marginally to 28.6 per cent.

III.27 Consequent upon the promulgation of the Banking Regulation (Amendment) Ordinance, 2007 dated January 23, 2007, Section 24 of the Banking Regulation Act, 1949 was amended, which, *inter alia*, removed the floor rate of 25 per cent for SLR to be prescribed by the Reserve Bank and empowered it to determine the SLR-eligible assets, thereby giving it more flexibility in its monetary management operations. The Ordinance was subsequently repealed and replaced by the Banking Regulation (Amendment) Act, 2007 which received the assent of the President on March 26, 2007 and is deemed to have come into force on January 23, 2007.

III.28 In order to strengthen the analytical framework for the conduct of monetary policy, the Reserve Bank has initiated a number of surveys in the recent period to capture timely information on the evolving economic conditions (Box III.4).

Liquidity Management

III.29 During 2006-07 the Reserve Bank continued with its policy of active management of liquidity through LAF, MSS and CRR, using all the policy instruments at its disposal flexibly. The aim was maintenance of appropriate liquidity in the system so that all legitimate requirements of credit, particularly for productive purposes, are met consistent with the objective of price and financial stability. Liquidity management assumed priority in the policy hierarchy in the quarter ended March 2007.

III.30 Liquidity conditions during 2006-07 continued to be influenced by sustained credit offtake, seasonal variations in currency demand, capital inflows and quarterly tax collections. Financial markets shifted from conditions of easy liquidity during the most part of the first half of the year to occasional spells of tightness in the second half, especially the last fortnight of March 2007. The task of liquidity management turned out to be more complex during 2006-07 on account of greater variations in cash balances of the Governments and capital flows (Tables 3.3 and 3.4).

III.31 During the first quarter of 2006-07, unwinding of the Centre's surplus balances with the Reserve Bank and the Reserve Bank's purchase of foreign exchange from authorised dealers led to ample liquidity into the banking system. This was reflected in an increase in the LAF reverse repo balances from Rs.7,250 crore at end-March 2006 to Rs.57,245 crore as on last Friday of May 2006 (Chart III.2). The balances under the LAF, however, fell in the subsequent months

Box III.4
Surveys as Analytical Inputs for Monetary Policy

Given the forward looking nature of monetary operations, the central banks' actions are critically dependent upon the evolving economic outlook. In this context, timely surveys can provide useful information on the likely course of economic activity in the near term. Like other major central banks, the Reserve Bank has initiated a number of surveys to capture such information.

A 'Survey of Inventories, Order Books and Capacity Utilisation', was launched recently by the Reserve Bank, for the manufacturing corporate sector to capture the most recent available information (yearly and quarterly) at the industry level on various important business cycle indicators, *viz.*, product-wise installed capacity (in terms of quantity), quantity and value of production, value of order books, export orders, backlog orders and value of inventories and various important short-term economic indicators, *i.e.*, inventory to sales ratio, capacity utilisation rate at various levels (overall, product-wise and industry-wise) and growth of order books.

The 'Quarterly Industrial Outlook Survey' provides insights into the performance and prospects of the private corporate sector engaged in manufacturing activities. This survey presents an advance assessment of the likely economic and industrial environment based on the qualitative data collected from the public limited manufacturing companies in the private sector.

Cross-country experience suggests that actual inflation movements are heavily influenced by inflation expectations. Major central banks make extensive use of inflation expectations surveys in the conduct of monetary policy. The Bank of England undertakes quarterly surveys of public opinion and awareness about inflation and interest rates. The results of these surveys constitute an important input for the Monetary Policy Committee (MPC). The US Federal Reserve analyses a number of survey measures of inflation expectations. According to Bernanke (2007), "measures of longer-term inflation expectations, such as the five-to-ten-year expected inflation measures from the Michigan/Reuters survey of households and from the Survey of Professional Forecasters, seem to be better gauges of the expectations that influence wage- and price-setting behaviour". The experience of the European Central Bank indicates that consumer expectations from the European Commission's survey provide important information on future inflation in the euro area. The experience of the Reserve Bank of New Zealand shows that while survey data may be inaccurate predictors of the level of inflation, they still provide useful directional information regarding near-term inflationary pressures, which can be used to supplement other economic indicators, giving a better indication of future inflation. Therefore, timely information, on the public expectations of inflation is important input for the conduct of monetary policy. Whether or not there is an explicit numerical objective, anchoring inflation expectations requires a central bank to keep inflation low and stable, to reinforce its commitment to price stability, and to clearly communicate its policies in pursuit of that commitment. 'Inflation Expectations Survey' being conducted by the Reserve Bank from September 2005 solicits inflation expectations from households through quarterly surveys. The scope of the questionnaire has been progressively fine-tuned to make it more useful for policy. The questionnaire initially elicited the respondents' views on directional movement in prices on four parameters (general price level, prices of food products, house rent and cost of services) for the next 3 months and for next one year. Two additional parameters (*i.e.*, prices of non-food products and prices of household durables) were included in Second round of the survey in addition to the above four parameters. An additional question, seeking quantitative measures on the expected rate of inflation for next 3 months and for next one year, was also included in the survey conducted in the month of December 2005. The views of respondents on current rate of inflation were also collected from the Fifth round (*i.e.*, quarter ended September 2006) onwards.

A Technical Advisory Committee for Surveys (TACS) under the Chairmanship of Dr. Rakesh Mohan, Deputy Governor, Reserve Bank of India has been constituted to review the methodology and results of the surveys.

Reference:

Mohan, Rakesh (2007), Statistical System of India: Some Reflections, *Reserve Bank of India Bulletin*, July.

Bernanke, Ben S. (2007): "Inflation Expectations and Inflation Forecasting", Remarks at the Monetary Economics Workshop of the National Bureau of Economic Research Summer Institute, Cambridge, Massachusetts, July 10.

(June-September 2006), partly reflecting switch towards the MSS as well as increase in the Centre's cash surplus. Balances under the MSS rose from Rs.24,276 crore at end-April 2006 to Rs.42,364 crore by end-August 2006, following the reintroduction of issuances under the MSS in May 2006. Beginning mid-September 2006, liquidity conditions became tighter on account of advance tax outflows and festive season currency demand. Liquidity pressures eased by end-October 2006, initially on account of decline in the Centre's surplus cash balances and subsequently, in November 2006, on the back of

Table 3.3: Liquidity Management

(Rupees crore)

Outstanding as on last Friday	LAF	MSS	Centre's Surplus with the RBI@	Total (2 to 4)
1	2	3	4	5
2006				
January	-20,555	37,280	39,080	55,805
February	-12,715	31,958	37,013	56,256
March*	7,250	29,062	48,828	85,140
April	47,805	24,276	5,611	77,692
May	57,245	27,817	-1,203	83,859
June	42,565	33,295	8,621	84,481
July	44,155	38,995	8,770	91,920
August	23,985	42,364	26,791	93,140
September	1,915	42,064	34,821	78,800
October	12,270	40,091	25,868	78,229
November	15,995	37,917	31,305	85,217
December	-31,685	37,314	65,582	71,211
2007				
January	-11,445	39,375	42,494	70,424
February	6,940	42,807	53,115	1,02,862
March*	-29,185	62,974	49,992	83,781
April	-9,996	75,924	-980	64,948
May	-4,690	87,319	-7,753	74,876
June	-8,895	81,137	-15,159	57,083
July	2,992	88,010	-20,199	70,803
August (as on Aug. 17)	30,650	1,00,960	27,771	1,59,381

@ : Excludes minimum cash balances with the Reserve Bank in case of surplus.

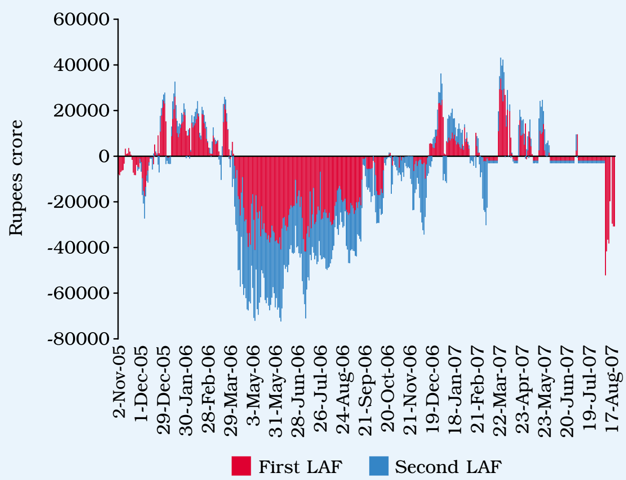
* : Data pertain to March 31.

Note: 1. Negative sign in column 2 indicates injection of liquidity through LAF repo.

2. Between March 5 and August 5, 2007, daily reverse repo absorptions were restricted to a maximum of Rs.3,000 crore comprising Rs.2,000 crore in the First LAF and Rs.1,000 crore in the Second LAF.

3. Negative sign in column 4 indicates WMA/overdraft.

Chart III.2: Repo (+)/ Reverse Repo (-) under LAF



Note : 1. Additional LAF on March 31, 2006 and March 31, 2007 are shown under the second LAF.

2. (+) indicates injection of funds into the banking system, while (-) indicates absorption of funds from the banking system.

market purchases of foreign exchange by the Reserve Bank (Table 3.5). This was mirrored in balances under the LAF reverse repos increasing from Rs.1,915 crore at end-September 2006 to Rs.15,995 crore by end-November 2006.

III.32 Liquidity conditions tightened from the second week of December 2006, mainly on account of increase in the Centre's cash balances and announcement of increase in the CRR by 50 basis points in two phases.

Table 3.4: Monthly Primary Liquidity Flows and Open Market Operations

(Rupees crore)

Month	RBI's Net Foreign Currency Assets #			Net Repos under the LAF			RBI's Initial Subscription@	Net Open Market Operations			Market Stabilisation Scheme		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Apr	1,432	20,832	11,935	-8,320	-40,555	-19,189	0	-263	-112	-313	-2,876	4,786	-12,951
May	1,970	4,781	8,138	-5,470	-9,440	-5,306	0	-325	-1,303	-680	-1,929	-3,541	-11,395
Jun	1,632	2,494	27,655	23,450	26,935	-7,687	0	-954	-121	-252	-2,665	-5,307	4,702
Jul	1,378	2,556	25,219	-815	-15,760	-3	0	-526	-968	-664	-47	-4,603	-2,410
Aug	20,069	2,993		-15,450	16,080		0	-66	5		1,765	-2,205	
Sep	2,218	5,399		1,430	28,075		0	-348	-214		2,635	-2,133	
Oct	2,254	4,031		3,665	-10,355		0	-124	-233		-2,424	1,973	
Nov	2,811	17,066		17,155	-3,725		0	-79	-131		5,420	2,174	
Dec	6,933	10,536		-2,185	36,275		0	-59	-24		16,717	-832	
Jan	-29,512	9,478		19,640	-8,470		0	-660	-555		7,911	-1,742	
Feb	12,292	47,268		-4,850	-6,650		0	-401	-60		6,772	74	
Mar	45,357	37,167		-16,170	24,025		10,000	-107	-1,409		3,869	-22,557	
	68,835	**1,64,601**	**72,947**	**12,080**	**36,435**	**-32,185**	**10,000**	**-3912**	**-5,125**	**-1909**	**35,148**	**-33,913**	**-22,054**

\# : Adjusted for revaluation.

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

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

@ : From April 2006 onwards, the Reserve Bank has stopped participating in the primary market for Government securities in line with the stipulations of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003.

Note : Data based on March 31 for March and last reporting Friday for all other months.

Table 3.5: Reserve Bank's Liquidity Management Operations

(Rupees crore)

Item	2003-04	2004-05	2005-06	2006-07	2006-07 Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9
A. Drivers of Liquidity (1+2+3+4+5)	**93,552**	**59,268**	**-31,696**	**61,739**	**36,247**	**-16,896**	**-25,641**	**68,028**
1. RBI's net purchases from Authorised Dealers	1,40,650	91,105	32,884	1,18,994	21,545	0	22,461	74,988
2. Currency with the Public	-43,390	-40,892	-57,256	-70,352	-19,648	-1,270	-27,033	-22,400
3. Surplus cash balances of the Centre with the Reserve Bank	-17,764	467	-22,726	-1,164	40,207	-26,199	-30,761	15,590
4. WMA/Overdraft to the Centre	0	0	0	0	0	0	0	0
5. Others (residual)	10,456	8,589	15,403	14,260	-5,856	10,574	9,693	-150
B. Management of Liquidity (6+7+8+9)	**-67,868**	**-57,896**	**57,969**	**-24,257**	**-39,003**	**32,026**	**31,625**	**-48,905**
6. Liquidity impact of LAF Repos	-32,230	15,315	12,080	36,435	-35,315	40,650	33,600	-2,500
7 Liquidity impact of OMO (Net) *	-39,138	0	10,740	720	545	145	25	5
8. Liquidity impact of MSS	0	-64,211	35,149	-33,912	-4,233	-8,769	4,750	-25,660
9. First round liquidity impact due to CRR change	3,500	-9,000	0	-27,500	0	0	-6,750	-20,750
C. Bank Reserves (A+B) #	**25,684**	**1,372**	**26,273**	**37,482**	**-2,756**	**15,130**	**5,984**	**19,123**

(+) : Indicates injection of liquidity into the banking system.
(-) : Indicates absorption of liquidity from the banking system.
: Includes vault cash with banks and adjusted for first round liquidity impact due to CRR change.
* : Adjusted for Consolidated Sinking Funds (CSF) and including private placement.
Note : Data pertain to March 31 and last Friday for all other months.

The Centre's surplus with the Reserve Bank rose to Rs.73,534 crore on December 22, 2006 from Rs.31,305 crore at end-November 2006 on account of receipts from auctioned Central Government securities as well as advance tax flows. Consequently, the LAF shifted from an absorption mode to injection mode from December 13, 2006 and remained so for the most of January 2007. Daily net injection of liquidity by the Reserve Bank averaged Rs.16,768 crore during December 13-31, 2006 and Rs.10,738 crore during January 2007. Amidst tightening of liquidity conditions, under-subscription in the MSS auctions and rejection of bids at market distorting yields resulted in the balances under the MSS declining to Rs.37,314 crore by end-December 2006 from Rs.42,364 crore at end-August 2006.

III.33 The LAF window switched back to the absorption mode from the second week of February 2007 till early March 2007 as liquidity conditions eased, partly reflecting the purchases of foreign exchange through market operations. The LAF window witnessed net absorption during February 8-March 4, 2007 except during February 15-20, 2007. Despite the cumulative increase in the CRR of one percentage point between December 23, 2006 and March 3, 2007, absorbing close to Rs.30,000 crore of banks' resources, the LAF continued to remain in sizeable absorption mode, indicating the continued prevalence of surplus liquidity in financial markets. On review, a two-pronged approach was, therefore, adopted on March 2, 2007 to deal with the large swings in liquidity. First, an enhanced MSS programme was put in place to restore LAF as a facility for equilibrating very short-term liquidity mismatches. Towards this objective, it was decided to use a mix of Treasury Bills and dated securities for MSS issuances in a more flexible manner keeping in view the capital flows, the assessment of volatility and durability of capital flows, and the paramount importance attached to liquidity management in containing inflation. Second, beginning March 5, 2007, daily reverse repo absorptions were restricted to a maximum of Rs.3,000 crore comprising Rs.2,000 crore in the First LAF and Rs.1,000 crore in the Second LAF.

III.34 Reflecting the modified arrangements, the balances under the LAF remained at around Rs.3,000 crore during March 5-15, 2007, while those under the MSS increased from Rs.42,807 crore at end-February 2007 to Rs.62,974 crore by March 31, 2007. Liquidity conditions, however, tightened from March 16, 2007 reflecting the increase in the Centre's cash balances (on the back of quarter-end advance tax outflows) as well as the effect of the CRR hike. Accordingly, the

Reserve Bank injected liquidity through repo operations, averaging Rs.32,091 crore during the second fortnight of March 2007. In view of inability of some banks to access the LAF repo window of the Reserve Bank due to the lack of surplus SLR securities in their portfolio, the overnight rates in the call money market exhibited significant upward pressure in the second half of March 2007. On March 21, 2007, the Reserve Bank clarified that banks could utilise the funds borrowed under the LAF repo facility for inter-bank lending, as such lending is part of normal money market functioning to enable day-to-day liquidity management by market participants with temporary mismatches. It was also stressed that the recourse to LAF by market participants should not be persistent in order to fund balance sheets for credit needs of customers. At the request of the market participants, the Reserve Bank conducted an additional LAF auction between 3.30 PM and 4.00 PM on March 31, 2007. The outstanding LAF repo amount was Rs.29,185 crore at end-March 2007 (Table 3.6).

III.35 During 2006-07, the Reserve Bank injected liquidity through repo operations on 64 days (78 days in 2005-06), while it absorbed liquidity through reverse repo operations on 244 days (same as a year ago) (Table 3.7). There was net injection of liquidity on 48 days and net absorption on 197 days during 2006-07 (67 days and 177 days, respectively, during 2005-06).

III.36 During the first quarter of 2007-08, financial markets experienced sizeable fluctuations in liquidity. The system shifted into a phase of large surplus liquidity from May 28, 2007 necessitating absorption through reverse repos on a daily basis. In view of the prevailing macroeconomic and overall monetary and liquidity conditions, the First Quarter Review of the Annual Statement on Monetary Policy for 2007-08 announced the withdrawal of the ceiling of Rs.3,000 crore on daily reverse repo under the LAF and the withdrawal of Second LAF with effect from August 6, 2007. The LAF reverse repo amount stood at Rs.13,885 crore on August 22, 2007.

Interest Rate Policy

III.37 Progressive deregulation of interest rates in those segments that have remained regulated for reasons relevant at different times has been engaging the attention of the Reserve Bank. Wide consultations have also been held with various stakeholders on the issue. While some interest rates continue to be regulated by the Reserve Bank, it has been the endeavour of the Reserve Bank to modify them in line with the changing scenario. The interest rate on savings bank deposits is regulated by the Reserve Bank and is currently prescribed at 3.5 per cent per annum; the rate was last revised on March 1, 2003. During 2006-07, the interest rate ceiling on NRE deposits was increased by 25 basis points in April 2006 but was reduced by 50 basis points in January 2007. Interest rate ceiling on FCNR(B) deposits was reduced by 25 basis points in January 2007. The

Table 3.6: 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)	Open Market Sales by Reserve Bank	Net Addition to Stock (6-7)	Outstanding Holding by Reserve Bank (end period) *	Memo: Net Repo (+)/Reverse Repos (-) Out-standing #
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
2005-06	–	10,000	740	–	10,740	4,653	6,087	83,205	-7,250
2006-07	–	–	720	–	720	5,845	-5,125	75,537	29,185

* : Inclusive of transactions under the LAF. # : Data pertain to end-March.

Table 3.7: Reverse Repo/Repo Bids under LAF

Year/Month	Reverse Repo					Repo				
	No. of days bids were received	No. of days all bids were rejected	No. of days of full acceptance of bids	No. of days with less than full acceptance of bids	No. of days of partial acceptance of bids	No. of days bids were received	No. of days all bids were rejected	No. of days of full acceptance of bids	No. of days with less than full acceptance of bids	No. of days of partial acceptance of bids
1	2	3	4	5	6	7	8	9	10	11
2004-05	**242**	**0**	**242**	**0**	**0**	**23**	**0**	**23**	**0**	**0**
2005-06	**244**	**0**	**244**	**0**	**0**	**78**	**0**	**76 @**	**2**	**0**
2006-07	**244**	**0**	**234**	**0**	**10**	**64**	**0**	**63 @**	**1**	**0**
April	17	0	17	0	0	3	0	2 @	1	0
May	22	0	22	0	0	0	0	0	0	0
June	22	0	22	0	0	0	0	0	0	0
July	21	0	21	0	0	0	0	0	0	0
August	22	0	22	0	0	0	0	0	0	0
September	21	0	21	0	0	2	0	2	0	0
October	19	0	19	0	0	6	0	6	0	0
November	22	0	22	0	0	0	0	0	0	0
December	20	0	20	0	0	13	0	13	0	0
January	20	0	20	0	0	20	0	20	0	0
February	18	0	18	0	0	9	0	9	0	0
March	20	0	10	0	10	11	0	11	0	0
2007-08										
April	19	0	11	0	8	15	0	15	0	0
May	21	0	12	0	9	14	0	14	0	0
June	21	0	2	0	19	2	0	2	0	0
July	21	0	0	0	21	0	0	0	0	0

@ : Number of days of full acceptance of bid was less than the number of days bids were received on account of non-acceptance of one bid each on technical grounds on January 24, 2006, March 23, 2006 and April 4, 2006.

Note : 1. With effect from October 29, 2004, the nomenclature of repo and reverse repo was changed in keeping with international usage. Now, reverse repo indicates absorption of liquidity and repo signifies injection of liquidity. Prior to October 29, 2004, repo indicated absorption of liquidity while reverse repo meant injection.

2. With effect from November 2005, the data are inclusive of the Second LAF.

3. Between March 5 and August 5, 2007, daily reverse repo absorptions were restricted to a maximum of Rs.3,000 crore comprising Rs.2,000 crore in the First LAF and Rs.1,000 crore in the Second LAF.

ceiling interest rates on NRE deposits and FCNR(B) deposits were reduced by 50 basis points in April 2007 (see Table 3.2).

III.38 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 credit up to 180 days and post-shipment rupee export credit up to 90 days, announced on September 24, 2001, has been extended up to October 31, 2007. On the basis of the recommendations of the Working Group to Review Export Credit, the ceiling interest rate on export credit in foreign currency was increased by 25 basis points to LIBOR *plus* 100 basis points with effect from April 18, 2006 (Appendix Table 57).

III.39 On July 12, 2007, the Government announced a package of measures to provide relief for a temporary period in terms of interest rate subvention of 2 percentage points per annum on rupee export credit availed of by exporters in nine categories of exports, *viz.,* textiles (including handlooms), readymade garments, leather products, handicrafts, engineering products, processed agricultural products, marine products, sports goods and toys and to all exporters from the SME sector defined as micro enterprises, small enterprises and medium enterprises. Accordingly, the Reserve Bank indicated that banks would charge interest rate not exceeding BPLR *minus* 4.5 per cent on pre-shipment credit up to 180 days and post-shipment credit up to 90 days on the outstanding amount for the period Apirl 1, 2007 to December 31, 2007 to all SME sectors and the nine sectors as mentioned above.

MONETARY POLICY OPERATIONS: 2007-08

Annual Policy Statement for 2007-08

III.40 At the time of announcement of the Annual Policy Statement for 2007-08 (April 24, 2007), global growth was strong, although it was expected to moderate in 2007 relative to 2006. Inflationary pressures were evident globally along with elevated levels of commodity and asset prices. In the global financial markets, the risks, including geopolitical risks, remained under-priced and diffused. On the domestic front, there was evidence of some cyclical elements though a significant structural change was taking place in the Indian economy. There was a gathering confidence that the economy was possibly poised on the threshold of a step-up in the growth trajectory. However, demand pressures appeared to have intensified alongside robust growth and there were increased supply side pressures in evidence. The Annual Policy Statement observed that international trade could not, by its nature, fully mitigate all supply side issues among all sectors and it was prudent to recognise that the first effects of the expansion in demand would be reflected in inflationary pressures and risks to macroeconomic and financial stability. The Annual Policy Statement also observed that these factors had been in evidence in the form of sustained demand for capital goods and consumer durables, high rates of money and credit, indications of wage pressures in some sectors, rising input costs and the emergence of pricing power. Against this backdrop, the Annual Policy Statement noted that the overarching policy challenge was to manage the transition to a higher growth path while containing inflationary pressures.

III.41 For policy purposes, real GDP growth for 2007-08 in the Annual Policy Statement was placed at around 8.5 per cent, assuming no further escalation in international crude prices and barring domestic or external shocks. In view of the lagged and cumulative effects of monetary policy on aggregate demand and assuming that supply management would be conducive, capital flows would be managed actively and in the absence of shocks emanating in the domestic or global economy, the policy endeavour would be to contain inflation close to 5.0 per cent in 2007-08. The Statement noted that there were indications that the Reserve Bank's self-imposed medium-term ceiling on inflation at 5.0 per cent had had a salutary effect on inflation expectations and the socially tolerable rate of inflation had come down. In recognition of India's evolving integration with the global economy and societal preferences in this regard, the Statement added that resolve, going forward, would be to condition policy and perceptions for inflation in the range of 4.0–4.5 per cent. This objective would be conducive for maintaining self-accelerating growth over the medium-term.

III.42 In view of money supply growth remaining well above indicative projections in 2005-06 and 2006-07, the need to contain monetary expansion in 2007-08 at around 17.0-17.5 per cent in consonance with the outlook on growth and inflation was emphasised. Consistent with the projections of money supply, the growth in aggregate deposits in 2007-08 was placed at around Rs.4,90,000 crore. Based on an overall assessment of the sources of funding, a graduated deceleration of non-food credit including investments in bonds/debentures/shares of public sector undertakings and private corporate sector and commercial paper (CP) to 24.0-25.0 per cent in 2007-08 from the average of 29.8 per cent over 2004-07 was consistent with the monetary projections.

III.43 The Annual Policy Statement observed that the stance of monetary policy in 2007-08 would be conditioned by the patterns in which the global and, more particularly, the domestic environment unfold. The likely evolution of macroeconomic and financial conditions indicated an environment supportive of sustaining the current growth momentum in India. The Statement reiterated that monetary policy, while contributing to growth, had to ensure and maintain conditions of price and financial stability. Accordingly, the policy preference for the period ahead was articulated strongly in favour of reinforcing the emphasis on price stability and anchoring inflation expectations (see Box III.2).

First Quarter Review

III.44 In the First Quarter Review of the Annual Statement on Monetary Policy (July 31, 2007), the Reserve Bank observed that the prospects for growth in 2007-08 appeared positive. In the backdrop of IMD's forecast of normal rainfall for the country as a whole, a return to trend growth in agriculture was expected. Growth in industrial and service sector activity was expected to be sustained. Overall, for policy purposes, the projection of real GDP growth for 2007-08 was retained at around 8.5 per cent, barring domestic or external shocks.

III.45 The Review noted that there were indications that the combination of lagged and cumulative effects of monetary policy actions and fiscal and administrative measures for supply management had had a salutary effect on inflation expectations. However, monetary management would need to be watchful of movements in commodity prices, particularly oil prices, the elevated levels of asset prices and the re-emergence of pricing power among producers as potential threats to inflation expectations. Assuming that aggregate supply management would continue to receive public policy attention and that a more active management of the capital account would be demonstrated, the outlook for inflation in 2007-08 remained unchanged in the Review. While non-food credit growth had decelerated, the acceleration in money supply and reserve money warranted an appropriate response.

III.46 The Review observed that the global outlook was positive with continuing prospects for strong and stable growth but there were concerns about inflationary pressures worldwide. Monetary authorities were inclined to regard the current levels of real interest rates as warranting further withdrawal of monetary accommodation and were indicating a preparedness to respond to the manner in which the inflation scenario evolves. The Review added that financial markets had been aggressively re-pricing risks; however, the wide diffusion of risks and the abundance of liquidity had imparted considerable uncertainty. Visitations of volatility in equity and currency markets with worldwide ramifications had imparted an additional dimension of uncertainty to the evolution of the international economic environment.

III.47 These developments were necessitating intensified policy monitoring with a policy preference for insulating domestic real activity from these shocks. Looking ahead, the Review noted that monetary policy in India would continue to be vigilant and pro-active in the context of any accentuation of global uncertainties that posed threats to growth and stability in the domestic economy. The domestic outlook continued to be favourable and would dominate the dynamic setting of monetary policy in the period ahead. It was important to design monetary policy such that it protects growth by contributing to the maintenance of stability. Accordingly, while the stance of monetary policy would continue to reinforce the emphasis on price stability and well-anchored inflation expectations and thereby sustain the growth momentum, contextually, financial stability may assume greater importance in the months to come. Keeping the above in view, recent developments in financial markets in India and potential uncertainties in global markets warranted a higher priority for managing appropriate liquidity conditions in the policy hierarchy. Accordingly, the Review stated that the Reserve Bank would continue with its policy of active demand management of liquidity through appropriate use of the CRR stipulations and open market operations (OMO) including the MSS and LAF, using all the policy instruments at its disposal flexibly, as and when the situation warrants.

CREDIT DELIVERY

III.48 For ensuring effective credit delivery, the thrust of the Reserve Bank's efforts in recent years has been on strengthening and empowering regional rural banks (RRBs), reforming cooperatives, expanding the purview of the priority sector, modifying the prudential norms and simplifying the procedures in the case of agricultural loans. During 2006-07, the Reserve Bank continued to take steps to improve credit delivery mechanism for small borrowers in order to bring about maximum financial inclusion of the poorer sections of the society. The guidelines on lending to the priority sector were revised based on the draft Technical Paper submitted by the Internal Working Group on Priority Sector Lending (Chairman: Shri C.S. Murthy) and the feedback received thereon (Box III.5). Employment-intensive sectors such as agriculture, and micro and small enterprises – which impact large and weaker sections of the population – have been retained as priority sector in the revised guidelines which became effective from April 30, 2007. The broad categories of advances included in the priority sector are agriculture, small enterprises, micro credit, retail trade, education loans and housing loans up to Rs 20 lakh.

Financial Inclusion

III.49 The Reserve Bank has taken several initiatives to provide smooth and efficient banking services to the general public at large. Efforts towards 'financial inclusion' include sensitising the banks to the banking and financial needs of the common person and ensuring access to basic banking facilities (Box III.6).

Financial Literacy

III.50 With a view to educating the general public as also the existing customers of banks about the various financial products and services that are available in the market/offered by the banks, the Reserve Bank has initiated the process of financial education. A Steering Group on Reaching Out to the

Box III.5
Revised Guidelines on Priority Sector Lending

The revised guidelines on lending to the priority sector, effective April 30, 2007 seek to enlarge the base of the priority sector lending. The targets and sub-targets for the priority sector lending would henceforth be linked to adjusted net bank credit (ANBC) (net bank credit *plus* investments made by banks in non-SLR bonds held in HTM category) or credit equivalent amount of off-balance sheet exposures (OBE), whichever is higher, as on March 31 of the previous accounting year. The outstanding FCNR (B) and NRNR deposits balances will no longer be deducted for computation of ANBC for priority sector lending purposes. The broad categories of the priority sector for all scheduled commercial banks will be as under:

(i) **Agriculture (Direct and Indirect Finance):** Direct finance to agriculture shall include short, medium and long-term loans given for agriculture and allied activities (such as dairy, fishery, piggery, poultry, beekeeping) directly to individual farmers, self-help groups (SHGs) or joint liability groups (JLGs) of individual farmers without limit and to others (such as corporates, partnership firms and institutions) up to the specified limits for taking up agriculture/allied activities. Indirect finance to agriculture shall include loans given for specified entities in the areas of agriculture and allied activities.

(ii) **Small Enterprises (Direct and Indirect Finance):** Direct finance to small enterprises shall include all loans given to micro and small enterprises, engaged in both manufacturing (production, processing or preservation of goods) and services activities, and whose investment in plant and machinery and equipment does not exceed the specified amounts. The micro and small (service) enterprises will include small road and water transport operators, small business, professional and self-employed persons, and certain other service enterprises. Indirect finance to small enterprises shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and to cooperatives of producers in this sector.

(iii) **Retail Trade** shall include retail traders/private retail traders dealing in essential commodities (fair price shops), and consumer co-operative stores.

(iv) **Micro Credit** shall include provision of credit and other financial services and products of very small amounts not exceeding Rs.50,000 per borrower, either directly or indirectly through a SHG/JLG mechanism or to NBFC/MFI for on-lending up to Rs.50,000 per borrower.

(v) **Education Loans** shall include loans and advances granted to individuals (but not to institutions) up to Rs.10 lakh for studies in India and Rs.20 lakh for studies abroad.

(vi) **Housing Loans** shall include loans up to Rs.20 lakh to individuals for purchase/construction of one dwelling unit per family (excluding loans granted by banks to their own employees) and loans given for repairs to the damaged dwelling units of families up to Rs.1 lakh in rural and semi-urban areas and up to Rs.2 lakh in urban and metropolitan areas.

Common Man was constituted in the Reserve Bank for initiating the financial education programme. A multilingual website in 13 languages on all matters concerning banking and the common person was launched by the Reserve Bank on June 18, 2007 (Box III.7). Furthermore, financial literacy programmes are also being launched in each State with the active involvement of the State Governments and the State Level Bankers' Committees (SLBC).

Pilot Project for 100 per cent Financial Inclusion

III.51 Convenor banks of State Level/Union Territory Level Bankers' Committees (SLBC/UTLBC) in all States/Union Territories were advised in April 2006 to identify suitable districts and allocate villages to banks operating in their respective States/Union Territories for ensuring 100 per cent financial inclusion, with the progress thereof to be monitored in the SLBC/UTLBC meetings. So far 104 districts have been identified and 100 per cent financial inclusion has been achieved in the Union Territory of Puducherry and in 24 districts in Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala and Punjab. Notably, all districts of Himachal Pradesh have achieved financial inclusion. An evaluation of the progress made in achieving financial inclusion in these districts is being undertaken to draw lessons for further action in this regard. As a result of the measures taken for financial inclusion, there was an increase of 6 million new 'no frills' bank accounts between March 2006 and March 2007.

Services to Depositors and Small Borrowers in Rural and Semi-Urban Areas

III.52 The Annual Policy Statement for the year 2005-06 proposed a survey for assessing customer satisfaction on credit delivery in rural areas by banks. Accordingly, the National Council of Applied Economic

Box III.6
Financial Inclusion

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. As banking services are in the nature of a public utility service, it is essential that banking and payment services are provided to the entire population without discrimination.

The Reserve Bank's broad approach to financial inclusion has been aimed at "connecting" people with the banking system and enabling them to access the payments system and not just higher credit dispensation. The Reserve Bank has adopted a decentralised approach in this regard with close involvement of the State Governments and banks and used multiple channels, *inter alia*, civil service organisations, NGOs, post offices, farmers' clubs, panchayats and MFIs as business facilitators to expand the outreach of banks.

A simple benchmark employed to assess the degree of reach of financial services is the number of deposit accounts (current and savings) held as a ratio to adult population. In the Indian context, the ratio of deposit accounts as on March 31, 2004 to total adult population as per 2001 census was only 59 per cent. The ratio varied across States, ranging from 89 per cent in Kerala to 21 per cent in Nagaland. The spread of banking facilities is, thus, uneven in the country, with a substantial proportion of the households, especially in rural areas, still outside the coverage of the formal banking system. Almost 40 per cent of the adult population of the country, comprising mainly those living on low incomes and those without pre-owned collaterals, is unable to access mainstream financial products such as bank accounts and low cost loans. Such households are likely to use the informal credit markets, often at high interest rates, contributing to spiralling debt.

The Reserve Bank has, therefore, taken a number of measures in recent years to tackle financial exclusion by enhancing access to banking services including the following:

- Banks have been urged to make available a basic banking 'no frills' account either with 'nil' or very low minimum balances as well as charges that would make such accounts accessible to vast sections of the population. Regional Rural Banks have also been advised to allow limited overdraft facilities in 'no frills' accounts, without any collateral.
- Banks are required to make available all printed material used by retail customers in the concerned regional language.
- All State Level Bankers' Committee (SLBC) convener banks have been advised to initiate action for identifying at least one district in their State/Union Territory for, 100 per cent financial inclusion.
- The 'know your customer' (KYC) procedure for opening 'no frills' accounts has been simplified so that people from low-income groups do not face problems in opening new accounts.
- Banks have been asked to consider introducing a General Purpose Credit Card (GCC) facility in the nature of revolving credit up to Rs.25,000 without insisting on security or purpose at deregulated interest rates at their rural and semi-urban branches. Fifty per cent of the GCC loans are treated as part of the banks' priority sector lending (indirect finance to agriculture).
- Guidelines have been issued to banks to enhance their outreach by utilising the 'business facilitators' and 'business correspondents' models. Banks are also entering into agreements with Indian postal authority for using the wide network of post offices as business correspondents.
- Banks are encouraged to make use of information and communication technology (ICT) using bio-metric smart cards and mobile hand held electronic devices for receipts and disbursement of cash by their agents such as business facilitators/correspondents.

The recommendations of the Working Groups constituted by the Reserve Bank to suggest measures for enhancing provision of banking services, strengthening financial institutions and improving currency and payments systems in under-banked regions of the country such as the North-Eastern Region, Chattisgarh, Uttarakhand and Bihar are also under implementation.

Research (NCAER) was entrusted to carry out a study on the quality of services rendered by branches of commercial banks to their customers (both depositors and small borrowers) in rural and semi-urban areas. The NCAER, which initiated a study in January 2006, submitted a draft report in January 2007. The study covered 930 bank branches across the country from 30 States/Union Territories, and included 9,300 depositors and 13,950 borrowers. Prompt service delivery at the counter and professional attitude of the bank staff in reaching out to the customers emerged as key determinants for customer satisfaction in rural and semi-urban areas.

Credit Counselling: Setting up of Centres on a Pilot Basis

III.53 In the light of the recommendations made by two Working Groups set up by the Reserve Bank, convenor banks of the State/Union Territory Level Bankers' Committees (SLBCs/UTLBCs) were advised

Box III.7
Financial Education

Financial education is the process by which financial consumers/investors improve their understanding of financial products and concepts, and develop the skills and confidence to make informed choices to improve their financial well-being. With increasing globalisation, the difference in the pace of growth of the financial sector and financial education can be minimised through three approaches, *viz.*, institutional mechanisms, delivery mechanisms and decentralisation of efforts (Reddy, 2006).

Financial education has assumed importance in recent years, as financial markets have become increasingly complex. Moreover, with information asymmetry, it is increasingly difficult for the common person to make informed choices. Therefore, central banks the world over have undertaken various initiatives towards financial education. The initiatives range from comic books and animation films to arranging exhibitions and competitions for school children as also giving them tours of the central bank so that they understand its role in the well-being of the country's economy as also appreciate concepts such as savings, investment and financial planning.

In India, the need for financial education is even greater considering the low levels of literacy and a large section of the population being still out of the formal financial set up. Furthermore, economic and financial sector reforms have placed higher disposable incomes in the hands of the public. Availability of a variety of new financial products on both, credit and investment sides which are provided by a host of financial intermediaries, has necessitated that the investing public understand the nuances of each product and product supplier and take an informed decision about investments. At the same time, those who are not a part of the formal financial system need to be educated about what banking is and why they should have a relationship with banks so that they also participate in and benefit from the growth process. Financial education, in other words, is considered an important element for promoting financial inclusion as also financial stability.

The Reserve Bank has undertaken a project titled "Project Financial Literacy". The objective of this project is to disseminate information regarding the central bank and general banking concepts to various target groups, including school and college going children, women, rural and urban poor, defence personnel and senior citizens. The project, which envisages a multi-pronged approach, has been designed to be implemented in two modules – one module focusing on the economy, the Reserve Bank and its activities, and the other module on general banking. The material will be created in English and Hindi, and will be adapted in regional languages. It would be disseminated to the target audience with the help, among others, of banks, local government machinery, schools and colleges through presentations, pamphlets, brochures, films, as also through the Reserve Bank's website. The Reserve Bank has also created a sub-site for the common person to give him the ease of access to information for use in dealings with banks. The sub-site is in 13 regional languages. The Reserve Bank has also been endeavouring to reach out the common person through several other channels. For instance, the Hyderabad office of the Reserve Bank has formulated a multi-modal (informative display through posters, brochures, multi-media presentations, video films, demonstrations, computer games), multi-lingual (English, Hindi, Telugu and Urdu) and customised interactive strategies (like stalls in exhibitions, visits to schools, colleges, villages, meeting with bankers, traders, farmers, SHGs, tour of the Reserve Bank) for spreading financial literacy among the common persons in general and school children, college students, farmers, women and villagers in particular.

References

1. OECD (2005), Improving Financial Literacy, Analysis of Issues and Policies.
2. Reddy, Y.V.(2006), "The Role of Financial Education: The Indian Case", *Reserve Bank of India Bulletin*, March.

in May 2007 to set up, on a pilot basis, a financial literacy-cum-counselling centre in any one district in the State/ Union Territory coming under their jurisdiction (Box III.8).

IT-enabled Financial Inclusion

III.54 As announced in the Annual Policy Statement for the year 2007-08, banks have been urged to scale up information technology (IT) initiatives for financial inclusion speedily while ensuring that solutions are highly secure, amenable to audit, and follow widely-accepted open standards to ensure eventual inter-operability among the different systems.

Special Drive for Financial Inclusion in Scheduled Caste/ Scheduled Tribe and Minorities Concentrated Districts

III.55 With a view to according priority to the most needy, a special drive has been initiated by the Regional Offices of the Reserve Bank for 100 per cent financial inclusion in the districts with maximum concentration of Scheduled Castes (SCs)/ Scheduled Tribes (STs) and minorities. For this purpose, the Regional Offices have been advised to use a list of 121 minority concentrated districts forwarded by the Ministry of Finance, Government

Box III.8
Credit Counselling Centres

Access to quality financial services has a decisive influence on the economic well-being of all. The absence of proper credit counselling coupled with inadequate financial literacy levels have often resulted in the consumers being forced towards costlier options and eventual debt traps. Given the growing indebtedness, there is an increasing need to develop follow-up services to enable distressed borrowers to overcome credit delinquencies. It will, therefore, be in the interest of banks themselves to help individual borrowers through appropriate credit counselling (Reddy, 2006).

A few banks have taken initiatives to set up some centres in rural/semi-urban areas to offer financial education and credit counselling services. The objective of these centres is to advise people on gaining access to the financial system including banks, creating awareness among the public about financial management, counselling people struggling to meet the repayment obligations and helping in rehabilitation of borrowers in distress. Some of these credit counselling centres (also known as Knowledge Centres) also train farmers/women groups to enable them to start their own income generating activities to earn a reasonable livelihood.

The Working Group to Suggest Measures for Assisting Distressed Farmers (Chairman: Prof.S.S.Johl) had recommended that financial and livelihood counselling are important for increasing the viability of credit. Furthermore, the Working Group to Examine Procedures and Processes for Agricultural Loans (Chairman: Shri C.P.Swarnkar) also recommended that banks should actively consider opening counselling centres, either individually or with pooled resources, for credit and technical counselling with a view to giving special thrust in the relatively under-developed regions. In the light of the recommendations of these two groups, the convenor banks of the State/Union Territory Level Bankers' Committees were advised in May 2007 to set up, on a pilot basis, a financial literacy-cum-counselling centre in any one district in the State/Union Territory, coming under their jurisdiction. On the basis of the experience gained, the concerned lead banks were advised to set up such centres in other districts.

Reference:

Reddy,Y.V. (2006), 'Credit Counselling: An Indian Perspective', *Reserve Bank of India Bulletin*, March.

of India together with Census/other data on SCs/STs and minorities. The Reserve Bank has so far identified eight such districts (four in Maharashtra, three in Tamil Nadu and one in Haryana) for 100 per cent financial inclusion.

Working Groups on Improvement of Banking Services in Different States

III.56 The Reserve Bank had in the recent period constituted Working Groups to suggest measures for improving the outreach of banks and their services, and promoting financial inclusion in certain States (North-Eastern Regions, Uttarakhand, Bihar and Chattisgarh) and for supporting the development plans of the State Governments. The reports submitted by these Groups have been found very useful from several points of view. First, they have examined the adequacy of banking services in the context of the respective State's development plan and tried to plug the gaps. Second, they have thrown up a host of constructive suggestions towards enhancing the outreach of banks and promoting financial inclusion, keeping in view the regional requirements, resources and opportunities. Third, the studies undertaken have also made useful suggestions for revitalisation of the regional rural banks and urban cooperative banks in the respective regions. Finally, the studies, which have been jointly done by the Reserve Bank, the concerned State Governments, NABARD, banks and financial institutions, have provided a renewed impetus to the initiatives to bring about improvements in the economies of the respective States.

III.57 A Working Group to undertake a study of the banking services in the Union Territory of Lakshadweep has been constituted. The Group, chaired by the Regional Director of the State of Kerala and the Union Territory of Lakshadweep, will have representatives of the Union Territory's Government, NABARD, SIDBI and the SLBC convenor bank.

III.58 A Working Group has also been constituted, under the chairmanship of the Regional Director (of the Reserve Bank) of the States of Punjab and Himachal Pradesh and Union Territory of Chandigarh, to review the role of banks and financial institutions in supporting the initiatives taken by the State Government of Himachal Pradesh for promoting economic development of the State and also to recommend measures for enhancing greater outreach/penetration of the banking system in the State. The Group will have representatives from State Government of Himachal Pradesh, NABARD, SIDBI and the SLBC convenor bank.

Committee on Financial Sector Plan for North Eastern Region (NER)

III.59 In order to achieve greater financial inclusion and provision of financial services in the North Eastern Region (NER) and also to prepare an appropriate as well as monitorable action plan for the region, the Reserve Bank had set up a Committee on Financial Sector Plan (CFSP) for North Eastern Region (Chairperson: Smt. Usha Thorat). The Committee submitted its report in July 2006. A High Level Monitoring Group has been constituted to oversee the implementation of the recommendations of the CFSP in the North Eastern Region.

III.60 On request from the Government of India to include the State of Sikkim while reviewing the credit flow from banks in the North Eastern region, a Task Force for the State of Sikkim was constituted under the chairmanship of the Regional Director (of the Reserve Bank) of West Bengal and Sikkim, to recommend Action Plan for the State of Sikkim to the CFSP. The Task force forwarded its report on June 22, 2007 to all the stakeholders for implementation of the recommendations.

Relief Measures for Distressed Farmers

III.61 As announced in the Annual Policy Statement for the year 2006-07 (April 2006), a Working Group was constituted under the Chairmanship of Prof. S.S. Johl to suggest measures for assisting distressed farmers, including provision of financial counselling services and introduction of a specific Credit Guarantee Scheme by the Deposit Insurance and Credit Guarantee Corporation (DICGC) for such farmers. The Group submitted its report in November 2006. In the light of the recommendations of the Working Group and in order to assist distressed farmers whose accounts had earlier been rescheduled/converted on account of natural calamities as also farmers defaulting on their loans due to circumstances beyond their control, banks were advised to frame transparent one time settlement (OTS) policies for such farmers, with the approval of their boards. The remaining recommendations of the Group are under examination.

Guidelines for Relief to Farmers

III.62 Pursuant to the announcement made by the Union Finance Minister in the budget speech for the year 2006-07, commercial banks were advised to grant interest relief of two percentage points in the interest rate on the principal amount up to Rs 1 lakh on each crop loan granted by them during *kharif* and *rabi* of 2005-06, and credit the relief to the borrower's account before March 31, 2006. Furthermore, the Government decided to ensure that the farmers receive short-term credit at 7 per cent rate of interest on loans up to Rs.3,00,000 on the principal amount with effect from *kharif* 2006-07. The public sector banks and the regional rural banks were advised that the Government would provide interest rate subvention of 2 per cent per annum to them in respect of short-term production credit up to Rs.3,00,000 provided to farmers. The Union Finance Minister in his budget speech for the year 2007-08 announced that the two per cent subvention scheme for short-term crop loans would continue for the year 2007-08 also.

Internal Working Group on Special Relief Measures by Banks in Areas Affected by Natural Calamities

III.63 In view of certain practical problems relating to functioning of ATMs, opening of accounts of small customers, operations of accounts in the absence of documents and failure of computer networks, being faced by the banking community during calamities such as tsunami, heavy rains, floods and earthquakes in some parts of the country, the Reserve Bank had constituted an Internal Working Group to suggest suitable revisions and additions to the existing guidelines. The Working Group submitted its final report on June 12, 2006. Based on the recommendations of the Group, the Reserve Bank issued certain additional guidelines to banks on August 9, 2006.

Package of Relief Measures to the Vidarbha Region in Maharashtra

III.64 In order to mitigate distress of farmers in the six debt-ridden districts in the Vidarbha region of Maharashtra, the Prime Minister had announced a rehabilitation package. Under the package, the entire interest on overdue loans as on July 1, 2006 was waived in the six debt-ridden districts (Amravati, Wardha, Yavatmal, Akola, Washim and Buldhana) so that they will be immediately eligible for fresh loans from the banking system. The overdue loans of the farmers as on July 1, 2006 were rescheduled over a period of 3-5 years with one year moratorium. The package also envisaged that an additional credit flow of Rs.1,275 crore would be ensured in these six districts. Under this package, the burden of waiver of overdue interest would be shared equally by the State and Central Governments. While apportioning the overdue interest as above, due care is required to be taken to offset releases, if any, already made by the State Government in this regard. The total amount of credit of Rs.1,275 crore envisaged to be released by banks has been allocated by Bank of Maharashtra (as the SLBC Convenor) among the banks functioning in the districts. The Government of India has sanctioned Rs 356 crore for reimbursing the banks towards waiver of interest in the above districts of Vidarbha.

Package for 25 Debt Stressed Districts of Andhra Pradesh, Karnataka and Kerala

III.65 The Government of India has approved a package for mitigating the distress of farmers in 25 debt stressed districts of Andhra Pradesh, Karnataka and Kerala[1]. The package has the following elements relating to agricultural credit: First, the entire interest on overdue loans as on July 1, 2006 will be waived off in the 25 affected districts and all farmers will have no past interest burden as on that date, so that they will immediately be eligible for fresh loan from the banking system. Second, the overdue loans of the farmers as on July 1, 2006 will be rescheduled over a period of 3-5 years with one-year moratorium. Finally, credit flow of Rs.13,818 crore, Rs.3,076 crore and Rs.1,945 crore will be ensured in the affected districts of Andhra Pradesh, Karnataka and Kerala, respectively, in 2006-07. Instructions in this regard have been issued to banks. The Government of India has sanctioned Rs.718 crore, Rs.105 crore and Rs.180 crore for reimbursing the banks towards waiver of interest in the above States.

Working Group on Simplification of the Procedures and Processes for Obtaining Agricultural Loans

III.66 The Reserve Bank had constituted a Working Group to suggest measures to further simplify the procedures so as to reduce the cost and time for obtaining agricultural loans, especially by small and marginal farmers. Three recommendations of the Group, *viz.*, dispensing with no dues certificate (NDC) for small loans up to Rs.50,000; considering opening of counselling centres; and extending credit to the landless labourers, share-croppers and oral lessees based on the certificates provided by local administration/Panchayati Raj institutions were accepted and banks were advised accordingly.

Technical Group for Review of Legislations on Money Lending

III.67 As announced in the Annual Policy Statement for the year 2006-07, a Technical Group was set up to review the efficacy of the existing legislative framework governing money lending and its enforcement machinery in different States and make recommendations to the State Governments for improving the legal and enforcement framework in the interest of rural households. The Group has since submitted its report which has been placed in the public domain. A model legislation on money lending has been prepared by the Group for consideration and adoption by the State Governments that do not presently have a comprehensive legislation in place for governing money lending. The model legislation provides for a hassle free procedure for compulsory registration and periodical renewal by money lenders; a simplified dispute resolution mechanism to ensure better enforcement; periodic fixing of the maximum interest rate in line with market rates; and adoption of rule of *Damdupat* restricting maximum amount of interest chargeable by the money lender. The Group has also explored establishment of a link between the formal and informal credit providers whereby a money lender who is an 'Accredited Loan Provider' may serve as an additional credit delivery channel for the formal sector, provided there are safeguard measures.

Priority Sector Lending

III.68 Domestic banks and foreign banks are required to provide 40 per cent and 32 per cent, respectively, of their net bank credit to the priority sector. All bank groups achieved the overall target for priority sector lending as on the last reporting Friday of March 2006. As on the last reporting Friday of March 2007, public sector banks fell short of the target of 40 per cent by 0.4 percentage point, while private sector banks and foreign banks, as groups, achieved the overall lending target (Table 3.8). Six out of 28 public sector banks, four out of 26 private sector banks and five out of 29 foreign banks could not achieve their priority sector lending target as on the same date.

Credit to Agricultural Sector

III.69 In order to improve the flow of credit to the agricultural sector, the Reserve Bank had advised

[1] The districts covered under this scheme are Prakasam, Guntur, Nellore, Chittoor, Kadapa, Anantapur, Kurnool, Adilabad, Karimnagar, Khammam, Mahaboobnagar, Medak, Nalgonda, Nizamabad, Rangareddy and Warangal in Andhra Pradesh; Belgaum, Hassan, Chitradurga, Chikmaglur, Kodagu and Shimoga in Karnataka; and Wayanad, Palakkad, and Kasaragod in Kerala.

Table 3.8: Priority Sector Advances

(Amount in Rupees crore)

As on Last Reporting Friday	Public Sector Banks	Private Sector Banks	Foreign Banks
1	2	3	4
March 2003	1,99,786	36,648	14,555
	(41.2)	(44.1)	(33.1)
March 2004	2,44,456	48,920	17,960
	(43.6)	(47.3)	(34.1)
March 2005	3,07,046	69,886	23,843
	(42.8)	(43.6)	(35.3)
March 2006	4,09,748	1,06,586	30,439
	(40.3)	(42.8)	(34.4)
March 2007*	5,21,180	1,43,768	37,835
	(39.6)	(42.7)	(33.4)

* : Provisional.

Note: 1. Figures in parentheses are percentages to the net bank credit in the respective groups.

2. The target for aggregate advances to the priority sector is 40 per cent and 32 per cent of the net bank credit for domestic banks and foreign banks, respectively.

Table 3.9: Disbursements by Banks under Special Agricultural Credit Plans

(Amount in Rupees crore)

Year	Target	Disbursements	Achievement of Target (Per cent)	Annual Growth in Disbursements (Per cent)
1	2	3	4	5
Public Sector Banks				
2000-01	25,893	25,654	95.2	12.5
2001-02	30,883	29,332	95.0	19.0
2002-03	36,838	33,921	92.1	15.6
2003-04	42,576	42,211	99.1	24.4
2004-05	55,616	65,218	117.3	54.5
2005-06	85,024	94,278	110.9	44.6
2006-07	1,18,160	1,22,215 *	103.4 *	29.6 *
Private Sector Banks				
2005-06	24,222	31,199	128.8	
2006-07	40,656	18,819 *	46.3 *	

* : Provisional.

public sector banks to prepare Special Agricultural Credit Plans (SACP) in 1994-95. The SACP mechanism was also made applicable to private sector banks in 2005-06. The disbursements by public sector banks to agriculture under the SACP rose by 44.6 per cent during 2005-06, exceeding the target by almost 11 per cent. The disbursements by private sector banks also exceeded the target by almost 29 per cent during 2005-06. During 2006-07, the disbursements to agriculture under the plan by public sector banks aggregated Rs.1,22,215 crore (provisional) against a target of Rs.1,18,160 crore (Table 3.9).

III.70 The Union Finance Minister in his budget speech for the year 2006-07 had asked the banks (including co-operative banks and RRBs) to disburse Rs.1,75,000 crore as credit to the agricultural sector during 2006-07 as compared with the targets of Rs.1,41,000 crore for 2005-06 and Rs.1,05,000 crore for 2004-05. The actual disbursements by banks exceeded the targets in each of the three years, amounting to Rs 2,03,296 crore during 2006-07, Rs.1,80,486 crore during 2005-06 and Rs.1,25,309 crore during 2004-05. During 2006-07, 8.35 million new farmers were brought under the institutional credit system as against the target of 5 million. For 2007-08, the Union Finance Minister has fixed a target of Rs.2,25,000 crore for disbursement by banks while adding another five million farmers to their portfolio.

III.71 Reflecting the various policy initiatives, the share of outstanding agricultural advances of public sector banks in net bank credit has shown a steady increase over the past few years (Table 3.10).

III.72 The recovery of direct agricultural advances of public sector banks has also exhibited an improvement in recent years (Table 3.11).

Micro-finance

III.73 Of the different models for delivery of micro-finance, the SHG-Bank Linkage Programme has emerged as the major micro-finance programme in

Table 3.10: Outstanding Agricultural Advances

(Amount in Rupees crore)

As at end-March	Public Sector Banks		Private Sector Banks	
	Amount Outstanding	Per cent of Net Bank Credit	Amount Outstanding	Per cent of Net Bank Credit
1	2	3	4	5
2003	70,501	14.5	9,924	10.9
2004	84,435	15.1	14,730	12.7
2005	1,09,917	15.3	21,636	12.3
2006	1,55,220	15.3	36,712	13.6
2007*	2,05,091	15.6	52,056	12.8

* : Provisional.

Table 3.11: Public Sector Banks – Recovery of Direct Agricultural Advances

(Rupees crore)

Year ended June	Demand	Recovery	Overdue	Percentage of Recovery to demand
1	2	3	4	5
2003	28,940	21,011	7,930	72.6
2004	33,544	25,002	8,542	74.5
2005	45,454	35,733	9,721	78.6
2006	46,567	37,298	9,269	80.1

the country (Table 3.12). As at end-March 2007, 2.9 million SHGs were linked to banks covering a total flow of credit of Rs.18,040 crore. Based on the findings of a joint study conducted by the Reserve Bank along with a few major banks, the banks were advised in November 2006 to encourage micro-finance institutions (MFIs) assisted by them to (i) focus on unbanked and underbanked areas; (ii) desist from multiple lending; (iii) engage in capacity building and empowerment of the groups; and (iv) follow practices that maintain the cohesiveness of the groups. In order to ascertain the degree of transparency in maintaining the accounts by the SHGs and their adherence to well-accepted best practices, the Reserve Bank will conduct an evaluation of the Bank-SHG Linkage Programme through its regional offices.

Kisan Credit Cards

III.74 The Kisan Credit Card (KCC) scheme was introduced in 1998-99 to provide adequate and timely credit support to the farmers from the banking system in a flexible, hassle-free and cost-effective manner. During 2006-2007, the public sector banks issued 4.8 million KCCs covering limits aggregating Rs.26,215 crore. Since the inception of the scheme, 26.6 million KCCs have been issued by the public sector banks, with limits amounting to Rs.94,712 crore.

Table 3.12: Progress of SHG-Bank Linkage Programme

Year	Total SHGs financed by Banks (Nos. '000)		Bank Loans (Rupees crore)	
	During the year	Cumulative	During the year	Cumulative
1	2	3	4	5
1992-99	33	33	57	57
1999-00	82	115	136	193
2000-01	149	264	288	481
2001-02	198	461	545	1,026
2002-03	256	717	1,022	2,049
2003-04	362	1079	1,856	3,904
2004-05	539	1618	2,994	6,898
2005-06	620	2239	4,499	11,398
2006-07	686	2924	6,643	18,040

Source : NABARD.

Rural Infrastructure Development Fund (RIDF)

III.75 Domestic scheduled commercial banks, both in the public and private sectors, which are unable to meet their targets for priority sector/agricultural lending, are required to deposit the shortfall amount into the Rural Infrastructure Development Fund (RIDF) with NABARD such amounts as may be allocated to them by the Reserve Bank, depending upon the extent of their shortfall. The rates of interest on these deposits are inversely proportional to the extent of deficit in achieving the agricultural lending target. The Fund has completed 12 years of operation. In terms of the announcement made by the Union Finance Minister in his budget speech for the year 2007-08, RIDF XIII has been set up with NABARD with a corpus of Rs.12,000 crore during 2007-08. The separate window opened under the RIDF XII for financing of rural roads under *Bharat Nirman* with a corpus of Rs.4,000 crore during 2006-07 has been continued, as announced in the Union Finance Minister's budget speech for the year 2007-08, with an additional corpus of Rs.4,000 crore. Out of the total corpus of the RIDF (RIDF I to RIDF XII) of Rs.60,000 crore, cumulative sanctions and disbursements under various tranches amounted to Rs.61,312 crore and Rs.38,934 crore, respectively, as on July 31, 2007.

Deposits by Foreign Banks with Small Industries Bank of India (SIDBI)

III.76 Foreign banks operating in India, which do not meet the target/sub-targets under the priority sector lending, are required to deposit amounts equivalent to the shortfall with the Small Industries Development Bank of India (SIDBI) for a period of three years. The interest rates on such deposits have been linked inversely to the extent of shortfall in the overall target (32 per cent of net bank credit) or aggregate shortfall in sub-targets for SSI (10 per cent) and export credit (12 per cent), whichever is higher. Aggregate amounts of Rs.1,058 crore and Rs.1,031 crore were deposited by the foreign banks with SIDBI on the basis of shortfall in their priority sector lending as on the last reporting Fridays of March 2006 and March 2007, respectively.

III.77 In terms of revised priority sector guidelines, the foreign banks not meeting the priority sector target/sub-targets will be required to contribute the shortfall to the Small Enterprises Development Fund (SEDF) to be set up with the SIDBI, or for such other purpose as may be stipulated by the Reserve Bank from time to time. For the purpose of such allocation, the achievement level of the priority sector lending as on the last reporting Friday of March of the immediately preceding financial year would be taken into account. The corpus of the SEDF would be decided by the Reserve Bank on a year-to-year basis. The tenor of the deposits shall be for a period of three years or as decided by the Reserve Bank from time to time. Fifty per cent of the corpus shall be contributed by the foreign banks having shortfall in lending to the priority sector target of 32 per cent of the adjusted net bank credit (ANBC) or credit equivalent amount of the off-balance sheet exposure, whichever is higher, on a *pro rata* basis. The balance 50 per cent of the corpus shall be contributed by the foreign banks having aggregate shortfall in lending to the small enterprises and export sectors of 10 per cent and 12 per cent, respectively, of ANBC or credit equivalent amount of off-balance sheet exposure, whichever is higher, on a *pro rata* basis.

Credit to Women

III.78 Public sector banks (PSBs) are required to lend at least 5 per cent of their net bank credit to women. The credit extended to women by all PSBs was 4.95 per cent of the overall net bank credit at end-March 2007, with 21 PSBs reaching the target. Eight PSBs have opened 15 specialised women branches.

Credit to Small and Medium Enterprises

III.79 The total credit provided by the PSBs to the SSI sector as on the last reporting Friday of March 2007 was Rs.1,04,703 crore, constituting 8.0 per cent of their net bank credit and 20.1 per cent of their total priority sector advances. Advances to cottage industries, artisans and tiny industries amounted to Rs.44,311 crore, constituting 42.3 per cent of the advances to the SSI sector. PSBs are required to operationalise at least one specialised SSI branch in every district and centre having cluster of SSI units. At end-March 2007, the PSBs had operationalised 636 specialised SSI bank branches.

III.80 The credit flow from the PSBs to medium enterprises is being monitored by the Reserve Bank on a quarterly basis with effect from March 2006. Outstanding credit from PSBs to medium enterprises increased from Rs 61,462 crore at end-March 2006 to Rs.74,238 crore at end-March 2007.

Sick SSI units

III.81 Based on the recommendations of the Kohli Working Group, the Reserve Bank had issued detailed revised guidelines to banks in January 2002 for detection of sickness at an early stage and taking remedial measures for rehabilitation of sick SSI units identified as potentially viable. As per the revised guidelines, the rehabilitation package needs to be fully implemented within six months from the date the unit is declared as viable/potentially viable. The total number of sick SSI units and the amount of credit outstanding against them in the books of scheduled commercial banks at end-March 2006 declined in comparison with end-March 2005 (Table 3.13).

Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

III.82 The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 came into effect from October 2, 2006. The Act classifies enterprises broadly into (i) manufacture/production of goods and (ii) providing/rendering of services. These are further classified into micro enterprises, small enterprises

Table 3.13 : Credit to Sick SSI Units

(Amount in Rupees crore)

End-March	Total Number of Sick Units		Potentially Viable		Non-Viable		Viability yet to be Decided		Units put under Nursing	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount
1	2	3	4	5	6	7	8	9	10	11
2004	143366	5773	2406	551	138081	4937	2938	266	729	281
2005	138041	5380	3922	435	132153	4884	1966	61	2080	260
2006	126824	4981	4594	498	117148	4141	5082	342	915	234

and medium enterprises, depending upon the level of investment in plant and machinery and equipment, respectively. The definition of small and medium enterprises as defined in the Act has been incorporated into the revised priority sector guidelines issued on April 30, 2007.

Government Sponsored Schemes

III.83 Under the *Swarnjayanti Gram Swarozgar Yojana* (SGSY), during the year 2006-07, a total number of 12,36,511 *swarozgaris (*self-employed*)* received bank credit amounting to Rs.1141.2 crore (and Government subsidy amounting to Rs.367 crore). Of the *Swarozgaris* assisted, 27.7 per cent belonged to the scheduled castes and scheduled tribes (SC/ST), 48.8 per cent were women and 1.3 per cent were physically handicapped. Under the *Swarna Jayanti Shahari Rozgar Yojana* (SJSRY), Rs.198.5 crore was disbursed in 58,389 cases (out of 1,23,211 applications sanctioned) during 2006-07; the beneficiaries included 14,324 SC/STs, 12,842 women and 643 disabled persons with amounts disbursed aggregating Rs.44.8 crore, Rs.41.4 crore and Rs.2.5 crore, respectively. Under the Scheme for Liberation and Rehabilitation of Scavengers (SLRS), disbursements to 6,805 beneficiaries aggregated Rs.16.4 crore; category-wise, loans disbursed to 6,229 SC/STs, 2,168 women and 316 OBCs, amounted to Rs.15 crore, Rs.4.7 crore and Rs.0.6 crore, respectively during the year 2006-07. Assistance under the Prime Minister's *Rozgar Yojana* (PMRY) scheme as on March 2007 amounted to Rs.1,405 crore for 2,31,524 beneficiaries during 2006-07.

Differential Rate of Interest (DRI) Scheme

III.84 The outstanding advances of PSBs under the DRI Scheme as on the last reporting Friday of March 2007 at Rs.634 crore (around 0.3 million accounts), constituted 0.1 per cent of the total outstanding advances at the end of the previous year (as against the target of 1.0 per cent). As announced by the Union Finance Minister in his budget speech for the year 2007-08, the limit of the loans under the DRI Scheme has been raised from Rs.6,500 to Rs.15,000 and that of the housing loans under the Scheme from Rs.5,000 to Rs.20,000 per beneficiary.

IV DEVELOPMENT AND REGULATION OF FINANCIAL MARKETS

IV.1 During 2006-07, the institutional framework for financial markets was further strengthened in terms of instruments and processes to improve price discovery, while allowing greater flexibility to market participants to carry out their transactions. The broad policy objectives in the money market continued to be ensuring stability, minimising default risk and achieving a balanced development of its various segments. Policy initiatives in the Government securities market segment were guided by the need to ensure a smooth transition to a regime in which the Reserve Bank is prohibited from participating in the primary market for Central Government securities, (effective April 1, 2006). The Government Securities Act, 2006 was also passed by the Parliament during the year. The focus in the foreign exchange market was on further liberalising and simplifying the external payments regime for resident entities in pursuance of the recommendations of the Committee on Fuller Capital Account Convertibility (FCAC).

IV.2 This Chapter sets out the various regulatory and development measures initiated by the Reserve Bank during 2006-07 towards further widening and deepening of various segments of financial market under its jurisdiction, *viz.*, the money market, the Government securities market and the foreign exchange market. In the money market, a screen-based negotiated quote-driven system for dealings in the call/notice and term money markets was operationalised. Recognising the need for a robust interest rate futures market as an effective instrument for management of interest rate risk, a Working Group has been set up to go into all the relevant issues and to suggest measures to facilitate the development of the interest rate futures market. In the Government securities market, the membership of the NDS-Order Matching (NDS-OM) platform was expanded to include insurance companies, mutual funds and provident funds. The 'when issued' market, which was initially introduced for 'reissued' Central Government dated securities, was later extended to newly issued securities. Short-selling in Central Government securities, which was initially allowed on an intra-day basis, was later extended to five days. In the foreign exchange market, the limit for remittances for individuals was increased from US $ 25,000 to US $ 1,00,000. For corporates, limits on remittances for overseas investments were further raised to facilitate overseas acquisitions. The guidelines for external commercial borrowings were liberalised by raising the prepayment limits. In view of the experience gained by market participants in using various hedging instruments such as forward foreign exchange contracts and options, and improvements in liquidity and accounting systems relating to these instruments, a Working Group on Currency Futures has been set up to study the international experience and suggest a suitable framework to operationalise the proposal.

IV.3 The Technical Advisory Committee (TAC) on Money, Foreign Exchange and Government Securities Markets, which was reconstituted in June 2006, continued to provide valuable guidance to the Reserve Bank on issues relating to the development and regulation of financial markets. Three meetings of the TAC have been held since its reconstitution.

MONEY MARKET

IV.4 The money market is the key link in the transmission of monetary policy impulses. Accordingly, a number of measures have been undertaken in recent years with a view to improving the functioning of various segments of the money market and enhancing the smooth flow of funds across instruments and participants. The broad policy objectives being pursued for the development of the money market are to ensure stability, minimise default risk and achieve a balanced development of various segments through introduction of new instruments, broadening of participants' base and strengthening of institutional infrastructure. The policy thrust given to the growth of the collateralised segment has improved options for liquidity management while reducing risks. Developments in institutional and technological infrastructure have also helped in improving transparency, facilitating price discovery process and providing avenues for better liquidity and risk management.

IV.5 In pursuance of the announcement made in the Annual Policy Statement (April 2006), a screen-based negotiated quote-driven system for dealings in the call/notice and term money markets (NDS-CALL) was operationalised with effect from September 18, 2006. Developed by the Clearing Corporation of India Ltd. (CCIL), the system has helped in improving the ease of transactions, while also bringing about greater transparency and efficient price discovery. Though banks are free to contract deals outside the NDS-CALL system, there is a growing preference for the NDS-CALL screen, which currently accounts for around 75 per cent of the total call money volumes.

Reporting Platform for Interest Rate Swaps

IV.6 The Reserve Bank issued comprehensive guidelines in respect of interest rate derivatives in April 2007, incorporating the broad regulatory framework for undertaking derivative transactions. In respect of over-the-counter (OTC) derivative transactions, it has become necessary to have a mechanism for transparent capturing and dissemination of trade information as well as an efficient post-trade processing infrastructure to address some of the attendant risks. To begin with, the CCIL is being advised to start a trade reporting platform for Rupee Interest Rate Swaps (IRS). This reporting module would be functional by August 31, 2007 and will thereafter be available to all market participants.

Interest Rate Derivatives

IV.7 An anonymous order driven system for trading in Interest Rate Derivatives (IRDs) was introduced on exchanges in 2003. Banks were allowed to hedge the risk in their underlying investment portfolio while primary dealers were also permitted as market-makers. Since then, the Government securities market has undergone numerous developmental measures, including the introduction of short selling and when issued markets. Recognising the need for a robust interest rate futures market as an effective instrument for management of interest rate risk and, in pursuance of the recommendation of the Reserve Bank's Technical Advisory Committee on Money, Foreign Exchange and Government Securities Markets, a Working Group on Interest Rate Futures (Chairman: Shri. V. K. Sharma) has been set up in August 2007 to go into all the relevant issues and to suggest measures to facilitate further development of interest rate futures market.

GOVERNMENT SECURITIES MARKET

IV.8 The provision of the Fiscal Responsibility and Budget Management Act, 2003 prohibiting the Reserve Bank from participating in the primary issuances of Government securities came into effect on April 1, 2006. Building upon the measures already put in place in 2005-06 to meet the requirements of the new environment, a number of initiatives were taken during 2006-07 with the objective of further deepening and widening the Government securities market. These measures included extending short selling in the Central Government securities to five-day basis, introduction of 'when issued' market, permitting diversification of primary dealer (PD) business and extension of the NDS-OM module to new participants such as qualified mutual funds, provident funds and pension funds.

NDS-Order Matching System

IV.9 In order to provide market participants of the Government securities with an advanced and efficient trading platform, and as recommended by the Working Group on Screen Based Trading in Government Securities (Chairman: Dr. R. H. Patil), the Negotiated Dealing System - Order Matching (NDS-OM) platform was operationalised on August 1, 2005. Initially, the system accommodated trading only in Central and State Government dated securities. The system was later upgraded to handle trading of Treasury Bills from July 31, 2006. Membership of the NDS-OM, which was initially only for the Reserve Bank regulated NDS members (banks and PDs), has been expanded to include insurance companies, mutual funds and select large provident funds. Apart from the direct access of NDS-OM members, indirect access to NDS-OM through the Constituents' Subsidiary General Ledger (CSGL) route has been extended to qualified entities maintaining gilt accounts with the NDS-OM members. 'Qualified' entities cover all entities that are required by law or by regulation to invest in Government securities such as deposit taking NBFCs, provident funds, pension funds, mutual funds, insurance companies, cooperative banks, regional rural banks and trusts. Furthermore, to encourage retail trading, a separate module on NDS-OM was operationalised to enable trading in odd lots (of sizes less than standard lot of Rs.5 crore).

When Issued Market

IV.10 The Internal Technical Group on Central Government Securities market recommended introduction of 'when issued' (WI) trading in Government securities in a phased manner. It was suggested that in the first phase, WI trading may be permitted in the reissued securities and, after about a year, the same could be extended to new securities as well. The guidelines on 'WI' trading in 'reissued' Central Government dated securities were prescribed

Table 4.1: When Issued Market – Open Position Limits

Category	Reissued Security	Newly Issued Security
1	2	3
Non-PDs	Long position, not exceeding five per cent of the notified amount	Long position, not exceeding five per cent of the notified amount.
PDs	Long or short position, not exceeding 10 per cent of the notified amount	Short position not exceeding six per cent and long position not exceeding 10 per cent of the notified amount.

in May 2006. The actual trading started from August 2006 after the necessary software modifications were carried out in the system. On a review, it was decided to permit 'WI' trading in newly issued securities and the guidelines to this effect were issued in November 2006. At present, the 'WI' trading can be undertaken in Central Government dated securities, both reissued and newly issued securities, on a selective basis. The 'WI' trading is permitted only on the NDS-OM to banks and PDs, subject to the open position limits (Table 4.1). The total traded volumes in 'WI' during the year 2006-07 aggregated Rs.1,320 crore (0.1 per cent of total trading in Government securities during 2006-07). During April-July 2007, total traded volume in 'WI' segment was Rs.270 crore.

Short Selling in Central Government Securities

IV.11 With a view to enabling the market participants to take a two-way view on interest rate expectations and to better manage their interest rate risk, the Internal Technical Group on Central Government Securities recommended the introduction of short selling in Central Government securities in a phased manner. In the first phase, banks/PDs were permitted intra-day short selling from February 28, 2006. Subsequently, on January 31, 2007, the participants were permitted to keep their short positions open up to five trading days including the day of trading. With a view to enabling participants to run short positions across settlement cycles, banks/PDs have been permitted to use the securities acquired under a reverse repo (other than LAF) to meet the delivery obligation of the short sale transaction. The total reported short sale volume was about Rs.7,900 crore (0.4 per cent of total volume in Government securities) during 2006-07 and Rs.1,119 crore during April-July 2007.

Active Consolidation of Central Government Securities

IV.12 The Internal Technical Group on Central Government Securities recommended the active consolidation of Central Government securities to impart liquidity to the Government securities market. This would involve buying back of a large number of small sized illiquid Central Government securities from existing holders and issuing a smaller number of liquid securities in exchange. The resultant availability of more number of large sized securities, held across a wider base of market participants, is expected to improve the availability of floating stock and trading interest. A scheme of active consolidation was finalised and approved by the Central Government. Under this scheme, securities to be bought back were identified by the liaison group formed for the purpose. In the Union Budget 2007-08, the Central Government provided Rs.2,500 crore towards the premium payment under the scheme. The actual exercise of buying back of securities is expected to be conducted during 2007-08.

Primary Dealers

IV.13 During 2006-07, 17 primary dealers (PDs) were in operation. HDFC Bank Limited was granted approval to take up the PD business and it commenced operations with effect from April 2, 2007. Pursuant to issuance of guidelines for banks undertaking the PD business, nine banks took up PD business departmentally, hitherto carried on by their group entities. With the inclusion of HDFC Bank, the total number of PDs as on July 31, 2007 stood at 18, of which 10 are bank PDs and eight are stand-alone PDs. The following instructions/guidelines having a bearing on the operations of the PDs were issued during the year:

- The system of underwriting in primary auctions was restructured to entrust the PDs with the responsibility to underwrite the entire issue. Under the revised scheme, the PDs are required to meet underwriting commitment instead of the earlier requirements of bidding commitment and voluntary underwriting. The underwriting commitment is divided into two parts: (i) Minimum Underwriting Commitment (MUC); and (ii) Additional Competitive Underwriting (ACU). The PDs are paid underwriting commission which is determined by the success achieved in the ACU auction. During 2006-07, out of 33 primary auctions of dated Government securities, partial devolvement took place on three occasions.

- In order to broad-base the PD activity, the structure of the PD business was expanded to include scheduled commercial banks (excluding RRBs) fulfilling certain minimum eligibility criteria.
- In order to enable the PDs to withstand the vicissitudes of interest rate fluctuations, they were allowed to diversify into other businesses such as investment/trading in equity/equity derivatives/ equity-oriented mutual funds and certain fee-based activities, subject to prudential exposure limits. PD entities were prohibited from setting up subsidiaries. Existing PDs were required to restructure their operations accordingly.

Government Securities Act, 2006

IV.14 The Government Securities Act was passed by the Parliament on August 31, 2006 (see Box I.4). After notification of its effective date, the Act will replace the existing Public Debt Act, 1944. The Government Securities Act, 2006, among other things, recognises pledge and lien on Government securities and also allows stripping of Government securities. An internal Group has been formed to examine various aspects of implementation of the Separate Trading of Registered Interest and Principal of Securities (STRIPS). The software modifications required on the NDS are being worked out.

FOREIGN EXCHANGE MARKET

IV.15 During 2006-07, the Reserve Bank continued to pursue the objective of creating a more conducive environment for external transactions while according high priority to customer service. India's cautious approach towards opening of the capital account and viewing capital account liberalisation as a process contingent upon certain preconditions has held it in good stead. Given the changes that have taken place over the last two decades, the need was felt to revisit the subject and suggest a roadmap towards fuller capital account convertibility (FCAC) based on current realities. In consultation with the Government of India, the Reserve Bank appointed a Committee on Fuller Capital Account Convertibility (Chairman: Shri S. S. Tarapore). The Committee made several recommendations for the development of financial markets in addition to addressing issues related to interaction of monetary policy and exchange rate management, regulation/supervision of banks and the timing and sequencing of capital account liberalisation measures (Box IV.1). The Committee, *inter alia*, noted that countries intending to move towards FCAC need to ensure that different financial market segments, besides being well-developed, in terms of physical infrastructure, skill and competency levels, are also well integrated. If different markets remain segmented, any policy shock to influence market behaviour would not get transmitted to the various segments, thus, leading to inefficiency of policy outcome. Moreover, segmentation impedes the development of a term structure of interest rates, which in turn, impedes the transmission of monetary policy.

IV.16 The Committee on FCAC also recommended that an Internal Task Force should be constituted to re-examine the extant regulations under the Foreign Exchange Management Act (FEMA) and make recommendations to remove the operational impediments in the path of liberalisation already in place. Accordingly, an Internal Task Force was constituted and it completed the assigned task in January 2007. The Task Force made recommendations on 169 issues encompassing all areas under foreign exchange management. Certain recommendations of the Task Force were implemented in the Annual Policy Statement for the year 2007-08 announced on April 24, 2007.

Facilities for Resident Individuals

IV.17 With a view to simplifying the procedures and providing greater flexibility in foreign exchange transactions, the ceiling for remittances for resident individual under the Liberalised Remittance Scheme for Resident Individuals was enhanced in two stages: from US $ 25,000 (per calendar year) to US $ 50,000 in December 2006 (per financial year) and further to US $ 1,00,000 (per financial year) in May 2007. Remittances towards gift and donation by a resident individual as well as investment in overseas companies has been subsumed under the scheme of US $ 1,00,000. The requirement of 10 per cent reciprocal shareholding in the listed Indian companies by such overseas companies has been dispensed with. Banks are not allowed to extend any credit facilities for remittances under the Scheme. Furthermore, remittances towards margins or margin calls to overseas exchanges/overseas counterparty are not allowed under the Scheme. The existing facility of release of exchange by authorised persons up to US $ 10,000 or its equivalent in one calendar year on a declaration basis for one or more private visits to any country (except Nepal and Bhutan) will continue to be available on a self-declaration basis, but on a

Box IV.1
Committee on Fuller Capital Account Convertibility

The Committee on Fuller Capital Account convertibility (Chairman: Shri S. S. Tarapore) submitted its Report in July 2006. The major recommendations were as follows:

Money Market

- Prudential regulations should be strengthened to encourage capital inflows.
- More players should be allowed to access the repo market.
- The CBLO and the repo markets should be allowed to cover corporate debt instruments.
- Skills should be upgraded to develop the inter-bank term money market.
- Prudential limits for commercial paper (CP) and certificates of deposit (CD) may be fixed.
- The market in interest rate futures should be activated and interest rate options should be allowed. Provision for netting of derivative transactions should be made, before opening up the swap market.
- Fixed Income Money Market and Derivatives Association (FIMMDA) be suitably empowered to act as a self-regulatory organisation to develop market ethics, trading standards and also undertake regulation of participants, besides disseminating information.

Government Securities Market

- The share of mark-to-market category should be progressively increased.
- Short-selling across settlement cycles with adequate safeguards should be permitted.
- Gilt funds should be exempted from the dividend distribution tax and income up to a limit from direct investment in gilts could be exempted from tax to stimulate retail investments in gilts.
- STRIPS in Government securities should be expeditiously introduced.
- Non-resident investors, especially longer term investors, could be permitted entry to expand investor base.
- Repo facility in Government securities should be widened by allowing all market players without any restrictions.
- The limit for FII investment in Government securities could be gradually raised to 10 per cent of gross issuance by the Centre and States by 2009-10. The allocation by SEBI of the limits between 100 per cent debt funds and other FIIs should be discontinued.

Foreign Exchange Market

- The spot and forward markets should be liberalised and extended to all participants, removing the constraint on past performance/underlying exposures.
- Bank margins on foreign exchange transactions of smaller customers need to be reduced by separating foreign exchange business from lending transactions and introducing an electronic trading platform.
- The Reserve Bank's intervention in the foreign exchange market should be through the anonymous order matching system.
- To nurture interest rate parity in forward markets, more flexibility may be provided to banks to borrow and lend overseas both on short-term and long-term, depending upon the strength of their balance sheet.
- Currency futures may be introduced subject to risks being contained through proper trading mechanism, structure of contracts and regulatory environment.
- The existing guaranteed settlement platform of CCIL needs to be extended to the forwards market.
- The banking sector should be allowed to hedge currency swaps by buying and selling without any monetary limits.

Fiscal Consolidation

- The Central and the State Governments should graduate from the present system of computing the fiscal deficit to a measure of the public sector borrowing requirement (PSBR).
- The Office of Public Debt should be set up to function independently outside the Reserve Bank.

Strengthening of the Banking System

- All commercial banks should be subject to a single banking legislation.
- The minimum share of the Central Government/ Reserve Bank in the capital of the public sector banks should be reduced from 51 per cent (55 per cent for the State Bank of India) to 33 per cent. The proposed transfer of ownership of the State Bank of India from the Reserve Bank to the Central Government should be put on hold.
- Setting up of new private sector banks and conversion of non-banking finance companies into banks should be encouraged.
- Issues of corporate governance in banks needed early attention.

Monetary Policy

- The Reserve Bank should activate variable rate repo/reverse repo auctions/operations on a real time basis and also consider somewhat longer-term LAF facilities.
- To the extent the Reserve Bank assesses the excess liquidity to be more than transient, it should also use the Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR).
- The authorities may consider the imposition of an unremunerated reserve requirement on fresh FII inflows in extreme situations.
- The Reserve Bank and the Central Government should jointly set out the objectives of monetary policy for a specific period and this should be put in the public domain. A formal Monetary Policy Committee should be set up for strengthening the institutional framework.

External Sector

- A monitoring exchange rate band of +/- 5.0 per cent around the neutral real effective exchange rate (REER) may be considered and the REER should incorporate services to the extent possible.
- As an operative rule, if the current account deficit persists beyond three per cent of GDP, the exchange rate policy should be reviewed.

financial year (April-March) basis. Total outflows under the Scheme were US $ 42 million for the quarter ended March 2007, led by investments in equity and debt (Table 4.2).

IV.18 A uniform period of six months has been stipulated for surrender of received/unspent/unused foreign exchange from the date of receipt/purchase/ acquisition/date of return of the traveller, as the case may be.

IV.19 In April 2007, resident individuals were permitted to manage/hedge their foreign exchange exposures, including anticipated exposures by booking forward contracts without production of underlying documents up to an annual limit of US $ 1,00,000 which can be freely cancelled and rebooked.

IV. 20 In view of the experience gained by market participants in using various hedging instruments such as foreign exchange contracts and options and improvements in liquidity and accounting systems relating to such instruments, a Working Group on Currency Futures has been constituted to study the international experience and suggest a suitable framework to operationalise the proposal, in line with the current legal and regulatory framework

Facilities for Non-resident Indians and Persons of Indian Origin

IV.21 The requirement of issue of encashment certificate on security paper if the amount of foreign currency encashed exceeds Rs.15,000 in value has been dispensed with. Accordingly, AD category-I banks[1], when requested by the customer, can now issue encashment certificate, duly signed by authorised officials, on their letter head (with their logo printed on it), irrespective of the amount. In cases where the encashment certificate is not issued, unspent local currency held by non-resident visitors will not be allowed to be converted into foreign currency.

Table 4.2 : Remittances under the Liberalised Remittance Scheme for Resident Individuals

(US $ million)

Purpose	Dec-2006	End-Mar-2007
1	2	3
Deposit	1.0	3.2
Purchase of Immovable Property	1.8	4.6
Investment in Equity/ Debt	6.7	14.0
Gift	1.2	6.3
Donations	0.0	0.1
Others	2.7	13.7
Total	**13.3**	**41.9**

IV.22 Non-Resident Indians (NRIs) and Persons of Indian Origin (PIO) are permitted to remit up to US $ 1 million per financial year for any bonafide purpose out of the balances in their Non-Resident Ordinary (NRO) accounts. The balance in the NRO accounts could also include the sale proceeds of immovable property acquired by the non-resident out of her/his resources in India, or sale proceeds of property received by way of inheritance or gift. With a view to providing greater flexibility, the lock-in period of 10 years for remittance of sale proceeds of immovable property was dispensed with, effective November 2006.

IV.23 Taking into account the sizeable increase in non resident deposits in 2006-07 and reports of large growth in advances being granted against such deposits, and in order to avoid upward pressure on asset prices in sensitive sectors, banks were prohibited from granting fresh loans in excess of Rs.20 lakh against the NR(E)RA and FCNR(B) deposits, either to depositors or to third parties, effective January 31, 2007. The banks have also been advised not to undertake artificial slicing of the loan amount to circumvent the ceiling.

Facilities for Corporates

IV.24 In order to provide corporates with greater flexibility in their external transactions, following measures were taken:

(i) Effective May 2007, actual users of aviation turbine fuel (ATF) and domestic producers/users of aluminium, copper, lead, nickel and zinc have been permitted to hedge their price risk in international commodity exchanges, based on their domestic purchases/underlying economic exposures. In other cases, the authorised dealer banks could approach the Reserve Bank for necessary permissions.

(ii) AD category-I banks were permitted to allow re-imbursement of pre-incorporation expenses incurred in India up to five per cent of the

[1] Banks currently authorised to deal in foreign exchange (namely, scheduled commercial banks, State cooperative banks, and urban cooperative banks) are categorised as AD category-I banks. They are authorised to deal in all current and capital account transactions, according to the Reserve Bank's directions issued from time to time.

investment brought into India or US $ 1,00,000 whichever was higher, on the basis of certification from statutory auditors.

(iii) AD category-I banks were permitted (April 2007) to make remittances on account of donations by corporates for specified purposes subject to a limit of one per cent of the foreign exchange earnings of the corporate during the previous three financial years or US $ 5 million, whichever is less.

(iv) The limit for remittance for consultancy service procured from outside by Indian companies executing infrastructure projects was raised (April 2007) from US $ 1 million per project to US $ 10 million per project.

Facilities for Exporters and Importers

IV.25 The following liberalisation/simplification procedures were undertaken with regard to the facilities available to exporters/importers:

(i) All categories of foreign exchange earners were allowed to credit up to 100 per cent (50 per cent earlier) of their foreign exchange earnings to their Exchange Earner's Foreign Currency (EEFC) account, effective November 2006.

(ii) AD category-I banks were allowed (February 2007) to grant extension of time to realise export proceeds beyond the prescribed period of six months, irrespective of the invoice value of exports.

(iii) AD category-I banks were permitted (November 2006) to issue guarantee on behalf of their customers importing services up to US $ 1,00,000, subject to guidelines.

(iv) AD category-I banks were allowed (November 2006) to provide forward cover to hedge the economic (currency indexed) exposure of importers in respect of customs duty payable on imports.

(v) AD category-I banks were permitted to allow importers and exporters to book forward contracts on the basis of a declaration of an exposure and based on the past performance up to the average of the previous three financial years (April to March) actual import/export turnover or the previous year's actual import/export turnover, whichever is higher, subject to the specified conditions. Until December 2006, forward contracts booked in excess of 25 per cent of the eligible limit were to be on a deliverable basis and could not be cancelled. The limit of 25 per cent was increased to 50 per cent in December 2006 and to 75 per cent in April 2007.

(vi) AD category-I bank(s)/Exim Bank were allowed (January 2007) to permit exporters to open, maintain and operate one or more foreign currency account(s) in currency/currencies of their choice with inter-project transferability of funds in any currency or country. Earlier, project/service exporters were allowed to maintain a single foreign currency account for more than one project being executed in the same country; furthermore, the facility of temporary inter-project transfer of funds was available subject to approval from and reporting to the exporter's banker monitoring the project and with condition of re-transfer of the fund to the lending project as soon as possible.

(vii) In January 2007, project/service exporters were allowed to deploy their temporary cash surpluses, generated outside India, in specified instruments/ products such as short-term paper abroad including Treasury Bills and deposits with branches/subsidiaries outside India of an AD category-I bank in India. Project/service exporters were earlier required to approach the Reserve Bank for overseas deployment of their temporary cash surpluses.

(viii) In order to increase the competitiveness of the Indian IT sector, the requirement of repatriation of 30 per cent of the contract value in respect of on-site contracts by software exporter company/ firm was dispensed with, from February 2007. The company should, however, repatriate the profits of on-site contract after the completion of the said contract.

(ix) In February 2007, AD category-I banks were allowed to approve reduction in the invoice value up to 25 per cent of the invoice, subject to certain conditions, against the earlier limit of 10 per cent.

(x) AD category-I banks were permitted (March 2007) to allow advance remittance, without any limit (as against the earlier limit of US $ 1 million) and without bank guarantee or standby letter of credit, by an importer (other than a public sector company or a department/undertaking of the Government of India/State Government/s) for import of rough diamonds into India from the specified mining companies. The advance remittance would be subject to specified guidelines such as good track record of export, realisation, the bonafides of the transaction and adherence to the KYC norms.

Overseas Investment

IV.26 In order to provide greater flexibility to corporates in regard to their overseas investment, the following measures were taken:

(i) In June 2007, the overseas investment limit (total financial commitments) for Indian parties (companies incorporated in India or created under an Act of Parliament) was enhanced from 200 per cent of their net worth to 300 per cent of their net worth as per the last audited balance sheet. The amount of guarantee is reckoned at 100 per cent of the amount instead of the conversion factor of 50 per cent for determining the total financial commitments. A revised reporting framework on overseas investments was also put in place to capture data on costs and means of funding overseas acquisitions and performance indicators.

(ii) The limit of 25 per cent of net worth for portfolio investment abroad by listed Indian companies in listed overseas companies was enhanced to 35 per cent of net worth in June 2007.

(iii) The limits of remittances for initial/recurring expenses incurred abroad were liberalised in two stages during the year. In April 2006, the limit for remittances for initial expenses was raised to 10 per cent (from two per cent) of the corporate's average annual sales/income/turnover during the last two accounting years; for recurring expenses, the limit was raised to five per cent from one per cent, subject to certain terms and conditions. In December 2006, the limits were further revised to 15 per cent of the average annual sales/income/ turnover or up to 25 per cent of the net worth, whichever is higher, in the case of initial expenses and to 10 per cent of the average annual sales/ income/turnover in the case of recurring expenses. Furthermore, corporates were permitted to make remittances, within the above limits, to acquire immovable property outside India for their business/residential purposes of their staff.

(iv) The aggregate ceiling for overseas investment by mutual funds registered with the Securities and Exchange Board of India (SEBI) was increased from US $ 1 billion to US $ 2 billion in July 2006, to US $ 3 billion in November 2006 and further to US $ 4 billion in May 2007. Moreover, a limited number of qualified Indian mutual funds can now invest cumulatively up to US $ 1 billion in the overseas Exchange Traded Funds as may be permitted by the SEBI. To enable mutual funds to tap a larger investible stock overseas, the requirement of 10 per cent reciprocal shareholding in the listed Indian companies by such overseas companies was dispensed with in July 2006. Furthermore, mutual funds were permitted (June 2007) to invest in (i) overseas mutual funds that make nominal investments (say to the extent of 10 per cent of net asset value) in unlisted overseas securities; (ii) overseas exchange traded funds that invest in securities; and (iii) ADRs/GDRs of foreign companies.

(v) In order to provide operational flexibility to Indian parties for availing fund based and non-fund based facilities overseas, Indian parties were permitted to transfer by way of pledge, the shares held in overseas JV/WOS, to an overseas lender, subject to certain conditions.

(vi) Domestic venture capital funds registered with the SEBI were allowed to invest in equity and equity-linked instruments of off-shore venture capital undertakings, subject to certain terms and conditions.

(vii) Residents with overseas direct investments in equity and debt were permitted to cancel and rebook the forward contracts undertaken to hedge their exchange risk arising out of such investments; earlier, the forward contracts were required to be completed by delivery or rolled over on the due date and not cancelled.

Foreign Investment in India

IV.27 In consultation with the Government of India, foreign investment was allowed in stock exchanges, depositories and clearing corporations, in compliance with the SEBI regulations and subject to the following conditions: (i) foreign investment up to 49 per cent is allowed with a separate FDI cap of 26 per cent and FII cap of 23 per cent; (ii) FDI is allowed with specific prior approval of the Foreign Investment Promotion Board (FIPB); and (iii) FII investment will be allowed only through purchases in the secondary market.

IV.28 In consultation with the Government of India and the SEBI, FIIs were allowed to offer foreign sovereign securities, with AAA rating as collateral to the recognised stock exchanges in India, for their transactions in derivatives segment, subject to the SEBI guidelines. Recognised stock exchanges in India are required to approach the Reserve Bank for specific approvals as may be necessary under the Foreign Exchange Management Act, 1999.

IV.29 In order to facilitate dynamic hedging of foreign exchange exposures and keeping in view the size of the market in India and the large positions held by FIIs, it was decided to implement the flexibility for rebooking cancelled contracts in a gradual and phased manner. Accordingly, in February 2007, AD category–I banks were permitted to allow FIIs to cancel and rebook forward contracts up to a limit of two per cent of the market value of their entire investment in equity and/or debt in India. The limit for calculating the eligibility for rebookings is based upon market value of the portfolio at the beginning of the financial year (April-March). The outstanding contracts must be duly supported by underlying exposure at all times. The AD bank has to ensure that the total outstanding forward contracts do not exceed the market value of portfolio.

External Commercial Borrowings (ECB)

IV.30 In November 2006, corporates were permitted to avail ECBs of an additional amount of US $ 250 million with average maturity of more than 10 years under the approval route. This is over and above the existing limit of US $ 500 million under the automatic route, during a financial year, subject to the compliance with the other ECB criteria such as end-use, all-in-cost ceiling and recognised lender. Prepayment and call/put options, however, are not permissible for such ECB up to a period of 10 years. Furthermore, with a view to providing greater flexibility to the corporates in managing their liquidity and interest costs, the limit for prepayment of ECB was enhanced from US $ 200 million to US $ 300 million in December 2006 and further to US $ 400 million in April 2007, subject to the compliance with the minimum average maturity period as applicable to the loan.

IV.31 The ECB policy was further reviewed in May 2007. Hitherto, utilisation of ECB proceeds for development of integrated township was permissible. On a review, it was decided to withdraw the exemption accorded to the 'development of integrated township' as a permissible end-use of ECB. Accordingly, utilisation of ECB proceeds is not permissible in real estate, without any exemption. Furthermore, with the sovereign credit ratings of India enhanced to investment grade, the all-in-cost ceilings for ECB were brought down.

IV.32 Based on a review, the ECB policy has been modified (August 2007) as under:

(i) ECB more than US $ 20 million per borrower company per financial year was permitted only for foreign currency expenditure for permissible end-uses of ECB. Accordingly, borrowers raising ECB more than US $ 20 million shall park the ECB proceeds overseas for use as foreign currency expenditures for permissible end uses and shall not remit the funds to India both under the Automatic Route and the Approval Route.

(ii) ECB up to US $ 20 million per borrowing company per financial year would be permitted for foreign currency expenditures for permissible end-uses under the Automatic Route and these funds shall be parked overseas and not be remitted to India. Borrowers proposing to avail ECB up to US $ 20 million for Rupees expenditure for permissible end uses would require prior approval of the Reserve Bank under the Approval Route.

(iii) All other aspects of ECB policy such as eligible borrower, US $ 500 million limit per borrower company per financial year under the Automatic Route, recognised lender, average maturity period, all-in-cost-ceiling, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged.

Anti-Money Laundering (AML) Guidelines for Authorised Money Changers (AMCs)

IV.33 The AML guidelines were amended (June 2006) in view of the difficulties expressed by authorised money changers (AMCs) in implementing some of them. The amended guidelines prescribe that: (i) for purchase of foreign exchange less than US $ 200 or its equivalent, photocopies of the identification document need not be kept on record; however, full details of the identification document should be maintained; (ii) for encashment of foreign exchange between US $ 200 and US $ 2,000 or its equivalent, the photocopies of the identification document should be maintained for one year and completion of statutory audit; (iii) for encashment in excess of US $ 2,000 or its equivalent, the photocopies of the identification document should be maintained for a minimum period of five years; and (iv) requests for payment in cash by foreign visitors/NRIs may be acceded to the extent of US $ 2,000 or its equivalent.

Data Related Issues

IV.34 A 'Working Group on Data Related Issues' was set up to review the data collection/compilation system in pursuance of the recommendation made by the Committee on FCAC. The Group has since submitted the Report.

Outlook

IV.35 The Reserve Bank will continue with its efforts to deepen and widen the money market, the Government securities market and the foreign exchange market in order to enable efficient price discovery in interest rates and exchange rate. Deep and liquid financial markets would enable mobilisation of savings on a greater scale and help to channel these savings to meet the growing investment demands of the Indian economy so as to sustain the current growth momentum. Further development of the term money market, greater flexibility in the use of derivatives in the foreign exchange market, development of the corporate bond market and enhancing liquidity in secondary markets would help in imparting more depth to the domestic financial markets. Efforts will also be aimed at further integration of the various segments of the domestic market so as to strengthen the monetary transmission mechanism and ensure efficient dispersal of risks amongst various market participants, especially in the context of the envisaged move towards fuller capital account convertibility. The Reserve Bank would continue to take steps to maintain integrity and stability of the various segments of the financial market with a view to strengthening macroeconomic and financial stability.

V FINANCIAL REGULATION AND SUPERVISION

V.1 During 2006-07, the Reserve Bank continued to focus its regulatory and supervisory initiatives on promoting a stable and competitive financial sector in an environment characterised by rising globalisation, ongoing financial deregulation and rapid technological innovations. Prudential, accounting and disclosure norms were strengthened so as to promote financial stability. Consistent with the policy approach of conforming the domestic financial sector to the international best standards with emphasis on gradual harmonisation, final guidelines for implementation of the New Capital Adequacy Framework (Basel II) by banks were issued. Initiatives to strengthen the urban cooperative banks were pursued during the year, following the path set out in the draft Vision Document. In view of the important role played by the non-banking financial companies in broadening access to financial services, enhancing competition and diversification of the financial sector, the Reserve Bank continued with its efforts to strengthen these entities. The Reserve Bank also focused on the initiatives for protecting customers' rights, enhancing the quality of customer service and strengthening the grievance redressal mechanism in banks during 2006-07.

V.2 In the above backdrop, this Chapter details the various regulatory and supervisory measures initiated by the Reserve Bank relating to banks and other financial institutions during 2006-07. The supervisory review process (SRP) undertaken with respect to select banks having significant exposure to the sensitive sectors revealed that real estate exposure increased across banks, mainly on account of individual housing loans. The prudential norms were strengthened, especially in view of rapid credit growth in various sectors. The smooth migration to the Basel II framework continued to engage the attention of the Reserve Bank as commercial banks in India would start implementing Basel II norms from March 31, 2008. A 'Code of Banks' Commitment to Customers' was released to provide a framework for a minimum standard for banking services which individual customers can legitimately expect. As a part of the gradual process of financial liberalisation, it is considered appropriate to introduce credit derivatives in a calibrated manner. In the context of the recent amendment to the Reserve Bank of India Act, 1934 providing legality to OTC derivative instruments, including credit derivatives, it was proposed in the Annual Policy Statement for the Year 2007-08 to permit banks and PDs to begin transacting in single-entity credit default swaps. Given the significant role played by urban cooperative banks in providing banking services to the middle/lower middle income people, initiatives were also undertaken to strengthen these banks. Following the path set out in the draft Vision Document, Memoranda of Understanding (MoU) have been signed with the 12 States and the Task Force for Co-operative Urban Banks (TAFCUBs) have also been constituted in these States. UCBs in States, which have signed MoUs, have been enabled to expand their business by allowing them to set up currency chests, sell mutual fund products, provide foreign exchange services, open new ATMs and convert extension counters into branches. The MoUs have also been signed between the Reserve Bank and the Central Government in respect of Multi-State UCBs. Almost 83 per cent of the UCBs accounting for about 90 per cent of the total deposits are covered under the MoU arrangements. The regulatory framework with regard to systemically important non-banking financial companies was strengthened to reduce regulatory gaps. Systemically important non-deposit taking NBFCs were also defined and prudential norms were specified for these entities.

REGULATORY FRAMEWORK FOR THE INDIAN FINANCIAL SYSTEM

V.3 The Reserve Bank performs regulatory and supervisory role over commercial and urban co-operative banks (UCBs), financial institutions, non-banking financial companies (NBFCs) and primary dealers (PDs) through the Board for Financial Supervision (BFS). As at end-March 2007, there were 82 commercial banks [excluding regional rural banks (RRBs)] (of which nine were permitted to undertake PD business), 96 RRBs, 1,815 UCBs, 7 development finance institutions (DFIs), 13,020 NBFCs (of which 403 NBFCs are permitted to accept/hold public deposits) and 11 PDs. The BFS continued to exercise its supervisory role over the segments of the financial system that are under the purview of the Reserve Bank. The BFS 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 the State and district central co-operative banks, and RRBs, 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. A coordinated approach to supervision is ensured through a High-Level Coordination Committee on Financial and Capital Markets (HLCCFM) with the Governor of the Reserve Bank, as Chairman, and the chiefs of the SEBI, the IRDA and the Pension Fund Regulatory and Development Authority (PFRDA), and the Secretary, Economic Affairs, Ministry of Finance, Government of India as the members. During 2006-07, two meetings of the HLCCFM were held on July 28, 2006 and March 8, 2007. During 2007-08, so far one meeting of the HLCCFM was held on July 19, 2007.

V.4 During 2006-07, the BFS provided guidance on several regulatory and supervisory policy decisions, with particular attention to issues arising out of the increasing complexity of the financial system, the impending implementation of the New Capital Adequacy Framework (Basel II) in India, banks' exposure to sensitive sectors, risk management and corporate governance. The following are some of the major issues addressed under the guidance of the BFS during the year. First, the second round of supervisory review process (SRP) with regard to banks' exposures to sensitive sectors was initiated for select banks, based on off-site data (Box V.1).

V.5 Second, recognising the risk facing banks due to their exposures to the real estate sector, provisioning requirements and risk weights on real estate exposures were tightened.

V.6 Third, as some of the banks were found to be using floating provisions to set-off against provisions required to be made as per extant prudential guidelines which resulted in smoothening of profits, detailed guidelines were issued to banks. The guidelines stipulated, *inter alia*, that floating provisions can be used only for contingencies under extra-ordinary circumstances for making specific provisions in impaired accounts after obtaining Board's approval and with prior permission of the Reserve Bank. To enable banks' Boards to evolve suitable policies in this regard, it was clarified that the extra-ordinary circumstances refer to losses which do not arise in the normal course of business and which are exceptional and non-recurring in nature and could be broadly classified under three categories, *viz.*, general, market and credit.

V.7 Fourth, in order to capture the vast and significant changes taking place in the banking sector,

Box V.1
Supervisory Review Process

The Mid-term Review of the Annual Policy Statement 2005-06 had stated that supervisory review process (SRP) would be initiated in respect of select banks having significant exposure to real estate sector, highly leveraged NBFCs, venture capital funds and capital markets, in order to ensure that effective risk mitigants and sound internal control are in place.

In the first round, a framework was developed for monitoring systemically important individual banks. In the second round of the SRP, undertaken in January-March 2007, the exposure of select banks to sensitive sectors, particularly to the real estate sector was analysed. Ten banks with real estate exposure and capital market exposure in excess of 200 per cent and 25 per cent, respectively, of their net worth were identified. The second round of the SRP was split into two phases. Under Phase I, detailed information on exposure to sensitive sectors, including real estate sector as per the revised definition, was sourced from these banks, followed by discussions with their senior officials. Phase II of the SRP was based on onsite focused examination to assess the risk exposures of individual banks with reference to their actual control environment, procedures, and compliance with internal and regulatory norms. The onsite scrutiny focused on large lending towards real estate and other sensitive sectors, companies involved, branch-wise large individual exposures, and other related matters.

The initial analysis revealed that real estate exposure increased across all the banks, mainly on account of individual housing loans. Commercial real estate exposure had also risen in varying degrees across all the banks. Although exposure to the capital market showed an increasing trend, none of the banks breached the regulatory limits. Exposure to the highly leveraged NBFCs was found to be minimal in most of the identified banks and wherever banks had exposures, a majority of them were in the public sector. The analysis also revealed that, *prima facie*, all the banks under review had some risk management policies, systems and controls in place to tackle the risks posed by exposure to sensitive sectors. However, in the case of the real estate exposure, certain lapses were observed with regard to implementation of banks' own approved policies.

the supervisory rating model based on CAMELS/ CALCS used for the purpose of rating the commercial banks in India during the Annual Financial Inspection (AFI) was revised comprehensively to ensure greater objectivity in assessment by introducing benchmarks based on industry averages/frequency distributions. It was also decided that the rating model would be assessed for its viability and effectiveness on an ongoing basis and updated regularly to factor in the evolving dynamics and requirements to reflect the most objective scenario.

V.8 Finally, all the NBFCs were advised to submit a certificate from their statutory auditors every year to the effect that they continue to undertake the business of a non-banking financial institution (NBFI) requiring holding of the certificate of registration (CoR) under Section 45-IA of the Reserve Bank of India Act, 1934.

REGULATORY AND SUPERVISORY INITIATIVES

Commercial Banks

V.9 As part of the ongoing efforts to strengthen the banking system through the adoption of policies aimed at both improving the financial strength of banks as well as bringing about greater transparency in their operations, several policy measures were initiated during 2006-07.

Strengthening Prudential Norms

V.10 Bank credit has recorded sustained high growth since 2003-04, with non-food credit by scheduled commercial banks recording an annual average growth of about 30 per cent per annum during 2004-05 to 2006-07. Banks' loans and advances portfolios are pro-cyclical and concomitantly, there is a tendency to underestimate the level of inherent risk during times of accelerated credit growth. In order to ensure that asset quality is maintained in the light of high credit growth and taking into account the rise in default rates with regard to personal loans and credit card receivables, the general provisioning requirement for standard advances by banks in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh, commercial real estate loans and loans to non-deposit taking systemically important NBFCs were raised in May 2006/January 2007 (Table 5.1). As hitherto, these provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes to the permitted extent. The revised provisioning requirements are also applicable to the urban cooperative banks (UCBs).

V.11 Implementation of infrastructure projects can get delayed due to a variety of factors beyond the control of the promoters, requiring restructuring/ reschedulement by the banks. Accordingly, asset classification norms for infrastructure projects were modified with effect from March 31, 2007. Consequently, infrastructure projects would be treated as sub-standard if the date of commencement of commercial production extended beyond a period of one year after the originally envisaged date of completion of the project, as against the earlier stipulation of six months.

V.12 Banks (including UCBs) were advised (November 2006) to strictly comply with the directions of the Monitoring Committee constituted by the High Court of Delhi regarding unauthorised construction, misuse of properties and encroachment on public land, while extending housing loans for building construction as well as for purchase of constructed property/built up property.

Table 5.1: Standard Asset Provisioning Requirements

(Per cent)

Sr. No.	Category of Standard Asset	March 2005	November 2005	May 2006	January 2007
1	2	3	4	5	6
1.	Direct advances to the agricultural and SME sectors	0.25	0.25	0.25	0.25
2.	Residential housing loans beyond Rs.20 lakh	0.25	0.40	1.00	1.00
3.	Personal loans (including credit card receivables), loans and advances qualifying as capital market exposures and commercial real estate loans	0.25	0.40	1.00	2.00
4.	Loans and advances to non-deposit taking systemically important NBFCs	0.25	0.40	0.40	2.00
5.	All other loans and advances not included above	0.25	0.40	0.40	0.40

Risk Management

V.13 Keeping in view the market conditions, effective September 20, 2006, banks' exposure to entities for setting up the Special Economic Zones (SEZs) or for acquisition of units in the SEZs which included real estate are treated as exposure to the commercial real estate sector.

V.14 Banks are increasingly relying on outsourcing as a means of reducing costs as well as accessing external expertise. At the same time, outsourcing is associated with certain risks, *viz*., strategic risk, reputation risk, compliance risk, operational risk, exit strategy risk, counterparty risk, country risk, contractual risk, access risk, concentration risk and systemic risk. The failure to manage these risks could lead to financial losses/reputational risk for the bank and systemic risks within the banking system. Accordingly, based on suggestions received on the draft guidelines issued in December 2005, the final guidelines were issued in November 2006. These guidelines are concerned with managing risks in outsourcing of financial services and are not applicable to technology-related issues and activities not related to banking services like usage of courier, catering of staff, housekeeping and janitorial services, security of the premises, movement and archiving of records. Banks, which desire to outsource financial services, would not require prior approval from the Reserve Bank, whether the service provider is located in or outside India.

V.15 An Internal Group was constituted by the Reserve Bank to review the existing guidelines on derivatives and formulate comprehensive guidelines on derivatives. Based on the Group's report, comprehensive guidelines on derivatives were issued on April 20, 2007. These guidelines relate to rupee interest rate derivatives and cover broad generic principles for undertaking derivative transactions, management of risk and sound corporate governance requirements and detailed guidance on suitability and appropriateness policy to be adopted by market makers. Guidelines in respect of foreign exchange derivatives will be issued separately. As a part of the gradual process of financial liberalisation, it is considered appropriate to introduce credit derivatives in a calibrated manner. In the context of the recent amendment to the Reserve Bank of India Act, 1934 providing legality of OTC derivative instruments, including credit derivatives, it was proposed in the Annual Policy Statement of the Reserve Bank in April 2007 to permit banks and PDs to begin transacting in single-entity credit default swaps. In this context, draft guidelines on credit default swaps were issued in May 2007.

V.16 Venture capital funds (VCFs) play an important role in encouraging entrepreneurship; however, the absence of adequate public disclosures with regard to their performance/asset quality can raise risks inherent in banks' exposure to VCFs. The prudential framework governing banks' exposure to VCFs was revised in August 2006. Under the revised framework, banks' exposures to VCFs (both registered and unregistered) are deemed to be on par with equity and hence reckoned for compliance with the capital market exposure ceilings (ceiling for direct investment in equity and equity linked instruments as well as ceiling for overall capital market exposure). The quoted equity shares/bonds/units of VCFs in the banks' portfolio shall be held under the 'available for sale' (AFS) category and shall be marked to market, preferably on a daily basis, but at least on a weekly basis in line with valuation norms for other equity shares. Banks' investments in unquoted shares/ bonds/units of VCFs made after issuance of these guidelines shall be classified under the 'held to maturity' (HTM) category for an initial period of three years, and shall be valued at cost. For the investments made before the issuance of these guidelines, the classification shall be done as per the existing norms. After three years, the unquoted units/shares/bonds shall be transferred to the AFS category and shall be valued according to the guidelines. Investments in shares/units/bonds of VCFs shall be assigned 150 per cent risk weight for measuring the credit risk during the first three years when these are held under the HTM category. When these are held under or transferred to the AFS, the capital charge for the specific risk component of the market risk (as required in terms of the present guidelines on computation of capital charge for market risk), shall be fixed at 13.5 per cent to reflect the risk weight of 150 per cent. The charge for general market risk component shall be at 9 per cent for investments in shares/units, as in the case of other equities. For investments in bonds, the charge for general market risk shall be computed as in the case of investment in any other kind of bonds. The exposures to VCFs other than investments shall also be assigned a risk weight of 150 per cent. The entire investment in VCFs will be outside the purview of guidelines relating to non-SLR securities.

V.17 Guidelines on banks' exposure to capital markets were rationalised in terms of base and coverage in April 2007. Under the extant norms, banks' aggregate exposure to the capital market in all forms was restricted to five per cent of their total outstanding advances (including commercial paper) as on March 31 of the previous year. Within this overall ceiling, banks' direct investments in shares, convertible bonds/debentures and units of equity-oriented mutual funds were restricted to 20 per cent of their net worth. On a consolidated basis, banks' aggregate exposure to capital market was subject to the overall ceiling of two the per cent of their total on-balance-sheet assets (excluding intangible assets and accumulated losses) as on March 31 of the previous year, within which their investments in shares, convertible bonds/debentures and units of equity oriented mutual funds were restricted to 10 per cent of their consolidated net worth. In terms of the revised guidelines, aggregate exposure of a bank on solo as well as on consolidated basis to the capital markets in all forms (both fund and non-fund based) should not exceed 40 per cent of its net worth (consolidated net worth in the case of consolidated bank) as on March 31 of the previous year. Within this overall ceiling, direct investment in shares, convertible bonds/debentures, units of equity-oriented mutual funds and all exposures to VCFs (both registered and unregistered) should not exceed 20 per cent of the bank's net worth/consolidated net worth.

V.18 From the perspective of financial stability, the concentration risk on the liability side of banks is as important as that on the asset side. While the counterparty risk concentration on the assets side has attracted adequate attention and received regulatory policy response, the concentrated risk on the liability side of the banks has not received similar attention. Uncontrolled liabilities, in particular inter-bank liabilities, may have systemic implications, even if the individual counterparty banks are within the allocated exposure. In order to reduce the extent of concentration on the liability side of banks, the Reserve Bank put in place a comprehensive framework of liability management in March 2007. Accordingly, banks were advised to fix, with the approval of their boards of directors, a limit for their inter-bank liabilities within the prudential limit of 200 per cent of their net worth, based on their audited balance sheet as on March 31 of the previous year. Banks with CRAR of more than 11.25 per cent are allowed to have an additional limit of 100 percentage points, *i.e.*, up to 300 per cent of the net worth. The limit so fixed will include only fund based inter-bank liabilities. Since the limits are for inter-bank borrowings within India, inter-bank borrowings/ liabilities outside would be excluded. Collateralised borrowings under the CBLO and refinance from NABARD and SIDBI would also be excluded. The existing limit on the call money borrowings prescribed by the Reserve Bank would operate as a sub-limit within the above limits.

Accounting and Disclosure Norms

V.19 In order to ensure that the drawdown by banks of their statutory reserves is done prudently and is not in violation of any of the regulatory prescriptions, banks were advised (September 2006) (i) to take prior approval from the Reserve Bank before any appropriation is made from the statutory reserve or any other reserves; (ii) all expenses including provisions and write-offs recognised in a period, whether mandatory or prudential, should be reflected in the profit and loss account for the period as an 'above the line' item (*i.e.*, before arriving at the net profit); (iii) wherever draw down from reserves takes place with the prior approval of the Reserve Bank, it should be effected only 'below the line' (*i.e.*, after arriving at the profit/loss for the year); and (iv) to ensure that suitable disclosures are made of such draw down of reserves in the 'notes on accounts' to the balance sheet.

V.20 In March 2003, banks were advised to adopt the three business segments, *viz.,* 'treasury', 'other banking business' and 'residual' as the uniform business segments, and 'domestic' and 'international' as the uniform geographic segments, for the purpose of segment reporting under the Accounting Standard (AS) 17. However, the 'other banking business' segment was found to very broad, containing almost the entire banking book. In order to enhance transparency, banks were advised in April 2007 to divide this segment into three categories, *viz.*, corporate/wholesale banking, retail banking and other banking operations. The disclosure requirement will come into force from the reporting period ending March 31, 2008. The retail banking has been defined keeping in view the criteria of orientation, product, granularity, and low value of individual exposures. Individual housing loans will also be included in the retail banking segment. Wholesale banking would include all advances to trusts, partnership firms, companies and statutory bodies, not included under retail banking.

V.21 Disclosure of information in the public interest by the employees of an organisation is increasingly gaining acceptance by public bodies for ensuring better governance standards and probity/ transparency in the conduct of affairs of public institutions. Accordingly, as a proactive measure to strengthen financial stability and to enhance public confidence in the financial sector, the Reserve Bank introduced the 'protected disclosures scheme for the private sector and foreign banks' on April 18, 2007. The scheme is broadly on the lines of the Government of India Resolution of April 2004 which is applicable to the public sector banks as well as the Reserve Bank (Box V.2).

Resolution of Non-Performing Loans

V.22 In order to facilitate recovery of their assets, banks have been provided with a number of avenues. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act, 2002), *inter alia*, seeks to regulate securitisation and reconstruction of financial assets and enforcement of security interest for realisation of dues without the intervention of courts or tribunals. The Act enables banks and financial institutions (FIs) to realise long term assets, improve recovery by exercising powers to take possession of securities and sell them and reduce non-performing assets by adopting measures for recovery or reconstruction. Under the Act, commercial banks issued 193,887 notices up to March 31, 2007, involving an outstanding amount of Rs.44,214 crore. Of this, an amount of Rs.10,909 crore was recovered from 106,692 cases, while Rs.6,512 crore was received through 46,461 compromise proposals.

V.23 The Recovery of Debts Due to Banks and Financial Institutions Act, 1993 provides for the establishment of tribunals for the expeditious adjudication and recovery of debts owed to banks and FIs. The amendments made in 2000 and 2003 to the Act and the Rules framed thereunder have strengthened the functioning of the Debt Recovery Tribunals (DRTs). Out of 75,441 cases involving Rs.1,20,559 crore filed with the DRTs by the banks, 41,410 cases involving Rs.53,639 crore were adjudicated by end-March 2007. The amount recovered through the adjudicated cases was Rs.18,521 crore.

V.24 Commercial banks and FIs can also use the forum of *Lok Adalats* to reduce the stock of NPAs. While *Lok Adalats* organised by the Civil Courts can settle banking disputes involving an amount up to Rs.20 lakh, those convened by the various DRTs/Debt Recovery (Appellate) Tribunals (DRATs) can resolve cases involving Rs 10 lakh and above. At end-March 2007, the number of cases filed by commercial banks with *Lok Adalats* stood at 976,101 involving an amount of Rs.5,833 crore. Of this, 352,302 cases involving an amount of Rs.1,772 crore have been decided. An amount of Rs.759 crore has been recovered from 283,401 cases.

Anti-Money Laundering

V.25 Detailed guidelines based on the recommendations of the Financial Action Task Force (FATF) on Anti-Money Laundering Standards and on Combating Financing of Terrorism were issued to banks in November 2004 to formulate and put in place a proper policy framework on ‘Know Your Customer’ and Anti-Money Laundering (ALM) measures. With a view to implementing Special Recommendation VII (SR VII) of the FATF, which aims at preventing terrorists and other criminals from having unfettered access to wire transfers for moving their funds, the Reserve Bank advised banks in April 2007 that domestic wire transfers of Rs.50,000 and above and all cross-border wire transfers should be accompanied by accurate and meaningful originator information (name, address and account number) which should

Box V.2
Protected Disclosures Scheme for Private Sector and Foreign Banks

Globally, large scale corporate frauds have necessitated various legislative measures for safeguarding public interest, through enactments such as the Whistleblower Protection Act in the US and the Public Interest Disclosure Act in the UK. In the Indian context, the Government of India had authorised, on April 21, 2004, the Central Vigilance Commission (CVC) as the ‘designated agency’ to receive written complaints or disclosure on any allegation of corruption or of misuse of office and recommend appropriate action. The jurisdiction of the CVC in this regard is restricted to employees of the Central Government or of any corporation established by it under any Central Act, Government companies, societies or local authorities owned or controlled by the Central Government. Thus, the Government of India scheme covers the public sector banks and the Reserve Bank (since it is an entity established under the Central statute).

The Reserve Bank introduced a similar scheme on April 18, 2007, applicable to private sector and foreign banks operating in India. The complaints under the scheme would cover areas such as corruption, misuse of office, criminal offences, suspected/actual fraud, failure to comply with existing rules and regulations, and acts resulting in financial loss/operational risk, loss of reputation, and detrimental to depositors’ interest/public interest. Under the scheme, employees of the bank concerned (private sector and foreign banks operating in India), customers, stakeholders, NGOs and members of public can lodge complaints.

be retained throughout the payment chain. Furthermore, the record of originator information accompanying a wire transfer should be kept for ten years, as required under the Prevention of Money Laundering Act (PMLA), 2002. The beneficiary banks should also put in place effective risk-based procedures in order to identify wire transfers that lack complete originator's information. In case, any overseas ordering bank/financial institution fails to furnish information on the remitter, the receiving bank should restrict or even terminate its business relationship with the ordering bank.

Towards More Deregulation

V.26 In order to facilitate the expansion of Indian corporates' business abroad, the prudential limit on credit and non-credit facilities extended by banks to Indian joint ventures (where the holding by the Indian company is more than 51 per cent)/wholly owned subsidiaries abroad was enhanced from 10 per cent to 20 per cent of their unimpaired capital funds (Tier I and II capital) in November 2006.

Opening up of the Financial Sector

V.27 During 2006-07, Indian banks continued to expand their presence overseas (Table 5.2). As at end-June 2007, 16 banks (11 public sector banks and 5 private sector banks) had a network of 188 offices (123 branches, 38 representative offices, 7 joint ventures and 20 subsidiaries) overseas.

V.28 During the calendar year 2006, the Reserve Bank issued approvals for opening 13 branches of foreign banks in India. During 2006-07 (July 2006-June 2007), permission was granted to three existing foreign banks to open 10 branches in India, to six foreign banks to open one representative office each in Mumbai and to one foreign bank to open a representative office in New Delhi. During the same period, six foreign banks have opened their branches across India and four foreign banks have opened their representative offices in Mumbai (Table 5.3). As at end-June 2007, 29 foreign banks were operating in India with 268 branches. In addition, 34 foreign banks were also operating in India through their representative offices.

Mergers and Amalgamations

V.29 In view of the deteriorating financial condition of the Ganesh Bank of Kurundwad Ltd. (GBK), the Government of India, on the recommendation the Reserve Bank, placed the bank under an Order of Moratorium for a period of three months with effect from the close of business on January 7, 2006. During the period of moratorium, based on a

Table 5.2: Offices of Indian Banks Opened Abroad: July 2006 to June 2007

Name of the Bank	Type of Presence	Country	Place
1	2	3	4
Allahabad Bank	Branch	Hong Kong	Hong Kong
Andhra Bank	RO	UAE	Dubai
Bank of Baroda	OBU	Singapore	Singapore
	Branch	Hong Kong	Hong Kong
	Branch	Hong Kong	Hong Kong
Bank of India	Branch *	China	Shenzen
	Branch	Belgium	Antwerp
Canara Bank	Branch	Hong Kong	Hong Kong
ICICI Bank Ltd	RO	Malaysia	Kuala Lumpur
	RO	Indonesia	Jakarta
Punjab National Bank	Subsidiary	United Kingdom	London
State Bank of India	Branch	UAE	DIFC
	Branch	Bahrain	Manama
	Branch	Israel	Tel Aviv
	Subsidiary**	Indonesia	
UCO Bank	RO	China	Guangzhou
Union Bank of India	RO	China	Shanghai
UTI Bank Ltd	Branch	Hong Kong	Hong Kong
	Branch	UAE	DIFC
	RO	China	Shanghai

* : Upgradation of a representative office to a branch.
** : 76 per cent stake in PBIM, an Indonesian bank.
Note : RO : Representative office.
UAE : United Arab Emirates.
OBU : Offshore Banking Unit.
DIFC : Dubai International Financial Centre.

Table 5.3: Offices of Foreign Banks Opened in India: July 2006 to June 2007

Name of the Bank	Type of Presence	Place
1	2	3
Hong Kong and Shanghai Banking Corporation (HSBC)	Branch	Raipur, Jodhpur, Lucknow
ABN Amro Bank N V	Branch	Kohlapur, Salem, Udaipur, Ahmedabad
Barclays Bank	Branch	Kanchipuram, Bangalore
Shinhan Bank	Branch	New Delhi
Deutsche Bank	Centralised Back Office	Mumbai
Standard Chartered Bank	AO	Chennai,Mumbai
National Australia Bank Ltd	RO	Mumbai
Banca di Roma	RO	Mumbai
Depfa Bank PLC	RO	Mumbai
Banco Bilbao Vizcaya Argentina SA	RO	Mumbai

Note : AO : Administrative Office. RO : Representative Office.

proposal received from the Federal Bank Ltd., the Reserve Bank prepared a draft Scheme of Amalgamation of GBK with the Federal Bank Ltd. The objections/suggestions received on the draft Scheme were considered by the Reserve Bank. With the Reserve Bank having complied with all the statutory requirements under Section 45 of the Banking Regulation Act, 1949, the Government of India sanctioned the said scheme and the Scheme of Amalgamation came into force on January 25, 2006. However, the amalgamation was challenged by GBK and others before the High Court of Bombay and thereafter before the Supreme Court. The Supreme Court dismissed the special leave petition on August 28, 2006. Following this, the Government issued necessary notification on September 1, 2006 and GBK was amalgamated with the Federal Bank Ltd. with effect from September 2, 2006.

V.30 In view of the deteriorating financial condition of the United Western Bank Ltd. (UWB), the Government of India, on an application made by the Reserve Bank, issued an Order of Moratorium under sub Section (2) of Section 45 of the Banking Regulation Act, 1949, on the bank for a period of three months effective September 2, 2006. During the period of moratorium, the Reserve Bank received expression of interest for amalgamation from 17 entities. On September 12, 2006, the Reserve Bank placed in public domain a draft scheme of amalgamation of the UWB with the Industrial Development Bank of India (IDBI) Ltd. and invited suggestions/objections on the draft scheme. After considering the objections and suggestions, the Scheme was forwarded to the Government of India for sanction, which was granted on September 30, 2006. The amalgamation came into force on October 3, 2006.

V.31 ICICI Bank Ltd. and Sangli Bank Ltd. made applications to the Reserve Bank, after obtaining the approval from their shareholders, for sanction of the scheme of amalgamation of Sangli Bank Ltd. with the ICICI Bank Ltd. The scheme of amalgamation was sanctioned by the Reserve Bank under Section 44 A of the Banking Regulation Act, 1949 and the amalgamation became effective from April 19, 2007.

V.32 The Government of India sanctioned the scheme of Transfer of Undertaking of Bharat Overseas Bank Ltd. to Indian Overseas Bank which was made effective from the close of business on March 31, 2007.

Supervisory Initiatives

V.33 The Basel Committee on Banking Supervision (BCBS) had released the document ‘International Convergence of Capital Measurement and Capital Standard: A Revised Framework’ (popularly known as Basel II framework) on June 26, 2004. With a view to ensuring migration to Basel II in a non-disruptive manner, the Reserve Bank adopted a consultative approach and constituted a Steering Committee comprising senior officers from banks, the Indian Banks’ Association (IBA) and the Reserve Bank. On the basis of the recommendations of the Steering Committee and the sub-groups formed by it, the Reserve Bank had issued draft guidelines for implementation of the new capital adequacy framework for comments in February 2005. The draft guidelines were revised on the basis of the feedback received and reissued for a second round of consultation in March 2007. On the basis of feedback received on the second draft, the guidelines for implementation of the New Capital Adequacy Framework (Revised Framework) were finalised and issued on April 27, 2007 (Box V.3).

V.34 In view of the emergence of financial conglomerates in the country, the supervisory framework is being strengthened (Box V.4). Since the supervision of financial conglomerates is relatively a new concept in the Indian context, the conglomerate supervision framework in place in a couple of countries is being studied to identify the processes and structures of conglomerate supervision which can be replicated in India.

Financial Inclusion

V.35 With a view to achieving the objective of greater financial inclusion, all banks were advised in November 2005 to make available a basic banking ‘no-frills’ account either with ‘nil’ or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population. All the public and the private sector banks as well as foreign banks, except those not having significant retail presence, are reported to have introduced the basic banking ‘no-frills’ account. Up to end-March 2007, 6.7 million ‘no-frills’ accounts were opened by banks.

V.36 Recognising that Information Technology (IT)-enabled services have the potential for effectively meeting the challenge of providing banking facilities in remote and unbanked areas while keeping the transaction costs low, banks were urged in May 2007

Box V.3
Basel II - Implementation of the New Capital Adequacy Framework by Banks in India: Salient Features

- Banks in India shall adopt the Standardised Approach for credit risk, and the Basic Indicator Approach for operational risk for computing their capital requirements under the Revised Framework. Banks shall continue to apply the Standardised Duration Approach for computing capital requirement for market risk.
- Foreign banks operating in India and Indian banks having operational presence outside India should adopt the Revised Framework with effect from March 31, 2008. All other commercial banks (excluding Local Area Banks and Regional Rural Banks) are encouraged to migrate to the Revised Framework in alignment with them, but in any case not later than March 31, 2009.
- Banks are required to maintain a minimum capital to risk-weighted assets ratio (CRAR) of 9 per cent on an ongoing basis. However, taking into account the relevant risk factor and internal capital adequacy assessments of each bank, the Reserve Bank may prescribe a higher level of minimum capital ratio to ensure that the capital held by a bank is commensurate with its overall risk profile.
- Banks are required to maintain, at both solo and consolidated level, a minimum Tier I ratio of at least 6 per cent. Banks below this level must achieve this ratio on or before March 31, 2010.
- The minimum capital maintained by banks on implementation of Basel II norms shall be subject to a prudential floor computed with reference to the requirement as per Basel I framework for credit and market risks. The floor has been fixed at 100 per cent, 90 per cent and 80 per cent for the position as at end-March for the first three years of implementation of the Revised Framework.
- With a view to ensuring smooth transition to the Revised Framework and providing opportunity to banks to streamline their systems and strategies, banks were advised to have a parallel run of the Revised Framework.
- Banks may use the credit ratings awarded by the following four credit rating agencies for assigning risk weights for credit risk for capital adequacy purposes: Credit Analysis and Research Ltd., CRISIL Ltd., Fitch India, and ICRA Ltd. Banks are also allowed to use the credit ratings of following three international rating agencies: Fitch, Moody's and Standard & Poor's.
- Claims on domestic sovereigns (Central and State Governments) will attract a zero risk weight while those guaranteed by State Governments will attract 20 per cent risk weight.
- Risk weights for claims on banks will be linked to the capital adequacy position of the counter party bank. Scheduled and other banks will receive a differential treatment.
- Claims on corporates will be risk weighted as per the ratings awarded by the chosen rating agencies. Unrated claims on corporates will attract a risk weight of 100 per cent. Claims above Rs.50 crore sanctioned/renewed on or after April 1, 2008 will attract a higher risk weight of 150 per cent; this threshold will be lowered to Rs.10 crore with effect from April 1, 2009.
- Claims eligible for inclusion as regulatory retail portfolio, specified claims secured by mortgage of residential property, loans and advances to banks' own staff meeting the specified conditions, and consumption loans up to Rs.1 lakh against gold and silver ornaments shall attract a preferential risk weight ranging between 20 per cent and 75 per cent.
- Claims in respect of a few specified categories such as venture capital funds, commercial real estate, consumer credit including personal loans and credit card receivables, capital market exposures, and claims on non-deposit taking systemically important NBFCs will attract risk weights of 125 per cent or 150 per cent.
- Capital requirements for operational risk under the Basic Indicator Approach will be the average of a fixed percentage of positive annual gross income of the previous three completed financial years.
- A set of disclosure requirements has been prescribed to encourage market discipline.
- Banks are required to obtain prior approval of the Reserve Bank to migrate to the advanced approaches such as the Internal Rating Based Approach for credit risk and the Standardised Approach or the Advanced Measurement Approach for operational risk for computing capital requirements. The pre-requisites and procedure for approaching the Reserve Bank for seeking such approval will be issued in due course.

to scale up their financial inclusion efforts by utilising appropriate technology. Banks were also advised to ensure that the solutions developed are highly secure, amenable to audit and widely accepted open standards to allow inter-operability among the banks. Banks have initiated pilot projects utilising smart cards/mobile technology to increase their outreach.

V.37 In February 2007, banks were permitted to prepare a scheme for offering 'doorstep banking' services to their customers, with the approval of their boards, thereby dispensing with the need for approval from the Reserve Bank. Under the scheme, banks can offer doorstep services such as pick up of cash/instruments, delivery of cash against

Box V.4
Evolving Framework for Financial Conglomerate Supervision in India

The Financial Conglomerate (FC) monitoring framework is operated on the following two tracks: (a) off-site monitoring of intra-group transactions and group-wide risks through a system of quarterly FC returns and (b) half-yearly discussions between the group representing all regulators concerned and the CEOs of the entities in the Group on significant issues relating to group-wide oversight structure, risk management, intra-group transactions *etc.* The half-yearly discussions enhance the understanding amongst the regulators about the affairs of the Groups. The responsibility of collecting FC data/information and forwarding the same on a quarterly basis to the principal regulator has been entrusted to the dominant/major entity in the Group (quite often the parent) which is called a "designated entity" (DE).

In view of the experience gained in monitoring of FCs over the past two years, new initiatives have been taken in consultation with the other regulators for further strengthening of the FC oversight framework. First, the FC identification criteria have been altered to bring under the oversight framework only such Groups which have significant presence in at least two of the five accepted financial market segments in India. It was decided not to treat the Primary Dealer business as a separate segment. Second, the FC returns have been amended in order to capture intra-group transactions and exposures of all the entities (including trusts/ SPVs) and also to appropriately focus on the supervisory issues. Third, the need for the principal regulator to engage in direct dialogue with the principal auditors of the Group has been agreed to help the regulators communicate supervisory concerns to the conglomerates more effectively. The modalities for the dialogue are being worked out. Finally, the principal regulators have also agreed in principle to undertake a joint study of the books of accounts and other operations of major entities in an identified financial conglomerate. The joint study is expected to not only back-test the efficacy of the reporting format in capturing the intra-group transactions/exposures and other 'material' information but also enhance the regulatory understanding of the affairs of the conglomerates.

cheques received at the counter and delivery of demand drafts to corporates/Government departments/PSUs and pick up of cash/instruments and delivery of demand drafts to individual customers. In May 2007, banks were also permitted to offer delivery of cash/demand draft to individuals. Furthermore, the delivery of cash/draft to individuals/ corporate/government departments/PSUs was permitted against requests received through any secure convenient channels.

Customer Service

V.38 The broad approach of the Reserve Bank to customer service is to empower the common person in availing banking services and strengthen customer-service delivery in banks by adopting a consultative process with banks through the Indian Banks' Association (IBA). Specifically, the focus is on (a) sensitising banks to customer service and encouraging the involvement of boards of banks, especially in matters relating to banks' own grievance redressal machinery; (b) insisting on transparency in all dealings with the customers and ensuring reasonableness in pricing; (c) promoting adherence to self-imposed codes by banks on commitments to bank customers and monitoring compliance by an independent agency, *viz.,* Banking Codes and Standards Board of India (BCSBI); (d) strengthening and empowering institutional mechanism for dispute resolution; (e) using regulation/prescription only when essential, while encouraging IBA to take initiatives; and (f) rationalising the Reserve Bank's own systems and procedures.

V.39 With the setting up of the Customer Service Department on July 1, 2006 in the Reserve Bank, various customer service activities relating to the banks and the Reserve Bank, which were handled by different departments of the Reserve Bank, have been brought under a single roof (Box V.5).

V.40 The revised Banking Ombudsman Scheme, 2006 came into effect from January 1, 2006 and included many important features such as new grounds for complaints, easier complaint submission facility and appeal option to the complainants. During 2006-07, the functioning of the Banking Ombudsman offices was facilitated by fully operationalising the complaint tracking software, enabling complainants to file their complaints online. Under the revised Scheme, the Banking Ombudsman dealt with 26,062 complaints during July-December 2006. Of these, 18,117 complaints were disposed of, while 7,945 complaints were pending as on December 31, 2006. On May 24, 2007, the Scheme was amended to enable bank customers to appeal to the Reserve Bank against not only awards passed by the Banking Ombudsmen but also other decisions given by it in

Box V.5
Customer Service Department

The Reserve Bank has been vigorously pursuing the efforts to improve the customer service in the banking sector. Accordingly, it has been taking measures for protection of customers' rights, enhancing the quality of customer service and strengthening the grievance redressal mechanism in banks and within the Reserve Bank itself. The activities pertaining to customer service in banks and the Reserve Bank were, however, being undertaken by its different departments. In order to reinforce its initiatives in the provision of customer services, it was decided to bring together all activities relating to customer service in banks and the Reserve Bank in a single department. The Reserve Bank, therefore, constituted a new department called the Customer Service Department (CSD), effective from July 1, 2006. The constitution of a new department focusing exclusively on customer services outlines the importance placed by the Reserve Bank on the delivery of customer services. The functions of the Customer Service Department include:

- Dissemination of instructions/information relating to customer service and grievance redressal by banks and the Reserve Bank.
- Overseeing the grievance redressal mechanism in respect of services rendered by the various Reserve Bank offices/departments.
- Administration of the Banking Ombudsman (BO) scheme.
- Acting as a nodal department for the Banking Codes and Standards Board of India (BCSBI).
- Ensuring redressal of complaints on customer service in banks received directly by the Reserve Bank.
- Liaison between banks, the Indian Banks' Association, the BCSBI, the BO offices and the regulatory departments in the Reserve Bank on matters relating to customer services and grievance redressal.

The periodical feedback that the Department receives from the complaints dealt at the Banking Ombudsman offices has become one of the most important inputs for policy initiatives in the Reserve Bank.

respect of complaints falling on such grounds specified in the Scheme.

V.41 All scheduled commercial banks/NBFCs involved in credit card operations were advised in November 2005 to maintain a 'Do Not Call Registry' in order to tackle the complaints relating to unsolicited commercial communications being received by customers/non-customers as part of the telemarketing efforts of banks and with a view to protecting the right to privacy of the members of the public. Despite this measure, complaints continued to be received from credit card subscribers. To address this issue, the Telecom Regulatory Authority of India (TRAI) has framed the Telecom Unsolicited Commercial Communications (UCC) Regulations, 2007. The Regulations envisage setting up a mechanism by all telecom service providers to receive requests from subscribers who do not want to receive UCC and maintain and operate a private 'do not call' list. The telephone numbers and area code from this list will be updated online by the operators to a National Do Not Call Registry (NDNC) to be maintained by National Informatics Centre. Telemarketers will have to register in the NDNC Registry and would interact with it for updating their list. The guidelines issued by TRAI on June 6, 2007 mandate telemarketers to register themselves with Department of Telecommunications (DoT) or any other agency authorised by DoT. In view of the above, banks have been advised not to engage telemarketers (DSAs/ DMAs) not having such valid registration certificate. The IBA shall coordinate with banks to furnish the list of telemarketers (DSAs/DMAs) engaged by them, along with the registered telephone numbers being used by them, to TRAI.

V.42 A 'Code of Banks' Commitment to Customers' was released on July 1, 2006. The Code signifies the first formal collaborative effort by the Reserve Bank, the banks and the Banking Codes and Standards Board of India (BCSBI) to provide a framework for a minimum standard for banking services which individual customers can legitimately expect with reliability, transparency and accountability. The Code outlines how each bank expects to deal with the day-to-day requirements of the customers and accordingly, what each customer should reasonably expect from his/her bank. As at end-July 2007, 69 out of 84 SCBs had registered with the BCSBI.

V.43 In order to facilitate complaint submission by the customers, banks have been advised that a complaint form, along with the name of the nodal officer for complaint redressal, may be provided on their websites. The complaint form should also indicate that the first point for redressal of complaints is the bank itself and that complainants may approach the Banking Ombudsman only if the complaint is not resolved at the bank level within a month. Similar information is to be displayed in the boards put up in all the bank branches to indicate the name and address of the Banking Ombudsman. In addition, the name, address and telephone numbers of the controlling authority of the bank to whom complaints can be addressed are also to be given prominently.

V.44 In order to enhance the effectiveness of the grievance redressal mechanism, banks were advised in February 2007 to place a statement of complaints before their boards/customer service committees along with an analysis of the complaints received. Banks were also advised to disclose brief details of complaints dealt and the Banking Ombudsman awards issued against them along with their financial results. Furthermore, banks were advised to place a detailed statement/analysis of complaints on their websites for information of the general public at the end of each financial year.

V.45 In order to protect the rightful interest of borrowers and guard against undue harassment by lenders, the Reserve Bank had issued the guidelines on Fair Practices Code for Lenders in May 2003. Accordingly, banks/FIs were required to ensure that loan application forms in respect of priority sector advances up to Rs.2 lakh contain comprehensive information about the fees/charges and any other matter which affects the interest of the borrower. Banks/FIs were also required to convey in writing the reasons for rejection of loan applications of small borrowers seeking loans up to Rs.2 lakh. In March 2007, these guidelines were made applicable in respect of all categories of loans irrespective of the amount of loan sought. The provisions relating to rejection of applications were also applicable with respect to credit card applications.

V.46 Keeping in view the advantages of a handy and compact pass book as a ready reckoner for transactions and the problems associated with statement of accounts, banks (including UCBs) were advised (October 2006) to invariably offer pass book facility to all their savings bank account holders (individuals). In case, a bank offers the facility of sending statement of account and the customer chooses to get such a statement, the same must be provided to the customer on a monthly basis. Furthermore, the cost of providing such pass book or statements should not be charged to the customer. Banks were also advised (September 2006) to ensure that the full address and telephone numbers of branches are mentioned in the passbook/statement of accounts issued to the account holders in order to improve the quality of customer service in branches. It was also reiterated (December 2006) that banks should ensure the provision of both the drop box facility and the facility for acknowledgement of the cheques at the regular collection counters to customers[1]. In order to improve transparency, banks (including urban cooperative banks) were advised in July 2006 to place their service charges and fees on their websites at a prominent place under the title of ‘Service Charges and Fees’. A link to the websites of the banks has also been provided on the Reserve Bank’s website.

V.47 In 1999, the practice of fixing the benchmark service charges by the Indian Banks’ Association (IBA) on behalf of the member banks was discontinued and the decision to prescribe the service charges was left to the discretion of the boards of individual banks. Banks were then advised that they should ensure that the charges were reasonable and not out of line with the average cost of providing the services and that customers with low volume of activities were not penalised. However, the Reserve Bank continued to receive representations from the public regarding unreasonable and non-transparent service charges. Accordingly, in order to ensure fair practices in banking services, the Reserve Bank constituted a Working Group to formulate a scheme for ensuring reasonableness of bank charges. The Group submitted its report in August 2006 and banks have been advised to implement the accepted recommendations of the Working Group (Box V.6).

V.48 In view of several complaints being received by the Reserve Bank and Banking Ombudsman offices regarding levying of excessive interest and charges on certain loans and advances, boards of banks were advised in May 2007 to lay down appropriate internal principles and procedures within three months, so that usurious interest, including processing and other charges, are not levied by them on loans and advances, particularly, personal loans and such other loans of similar nature. Similar advices were issued to cooperative banks and NBFCs.

[1] Banks were also advised to invariably display on the cheque drop box itself that ‘customers can also tender cheques at the counter and obtain acknowledgment on the pay-in-slip’.

Box V.6
Reasonable Service Charges by Banks to Customers

The Working Group to formulate a scheme for ensuring reasonableness of bank charges examined various issues such as basic banking/financial services to be rendered to individual customers, the methodology adopted by banks for fixing and notifying the charges and the reasonableness of such charges.

The Working Group identified 27 services related to deposit/loan accounts, remittance facilities and cheque collections, as an indicative list of basic banking services to be offered by banks. In order to ensure reasonableness in fixing and communicating the service charges, the Working Group suggested a set of principles. According to these, for basic services rendered to individuals, the banks should (a) levy charges at rates lower than the rates applied when the same services are given to non-individual entities; (b) levy charges only if they are just and supported by reason; and (c) levy service charges *ad valorem* only to cover incremental cost, subject to a cap. For basic services rendered to special category of individuals, banks should levy charges on more liberal terms than the terms on which the charges are levied to other individuals.

The recommendations of the Working Group were accepted by the Reserve Bank with certain modifications and the Reserve Bank advised banks in February 2007 to identify the basic banking services on the basis of the broad parameters indicated by the Working Group and implement the accepted recommendations of the Working Group on making available such services at reasonable prices/charges. The list of services identified by the Working Group is only an indicative one and banks may, at their discretion, include within the category of basic services such additional services as they may consider appropriate. Banks are required to provide to customers complete information upfront on all charges applicable to basic services and any proposed changes in charges, in a timely manner. Changes in the service charges are to be carried out only with prior notice to the customers of at least 30 days. Banks should inform the customers in an appropriate manner regarding recovery of service charges. Banks are also required to inform customers in all cases where a transaction initiated by the bank itself results in or is likely to lead to a shortfall in the minimum balance required to be maintained. The recommendations of the Working Group relating to redressal of grievances and financial education may also be implemented by banks.

Regional Rural Banks

V.49 The process of amalgamation of regional rural banks (RRBs) initiated in September 2005 in order to strengthen them continued during 2006-07. With the amalgamation of 145 RRBs into 45 new RRBs, the total number of RRBs declined from 196 at end-March 2005 to 133 at end-March 2006 and further to 96 at end-March 2007.

V.50 Considering the critical role of the sponsor banks in positioning the RRBs as partners in the development of the rural sector and in order to encourage synergies between the parent bank and the RRBs, the Reserve Bank advised all sponsor banks to take steps on issues pertaining to human resources, information technology and operations of the RRBs sponsored by them.

V.51 With a view to improving the performance of the RRBs and giving more powers and flexibility to the boards of directors in decision making, the Reserve Bank constituted a Task Force (Chairman: Dr. K.G. Karmakar) (September 2006) to suggest areas where more autonomy could be given to the boards of the RRBs, particularly in matters of investments, business development and staffing. The Task Force, which submitted its Report in January 2007, recommended, *inter alia*, an increase in number of directors on the boards of the RRBs for large-sized banks, selection of Chairman on merit from a panel of qualifying officers, fixing a minimum period for tenure of Chairman, and extension of capital adequacy norms to RRBs. The recommendations of the Task Force are under implementation/examination.

V.52 The Union Budget for 2007-08 had, *inter alia*, announced that RRBs with a negative net worth would be recapitalised in a phased manner. Modalities for recapitalisation are being worked out by the Government of India in consultation with the State Governments and sponsor banks.

Deposit Insurance

V.53 A basic function of all deposit insurance systems is to reimburse depositors promptly for the losses in the event of an insured financial institution's closure. As per the Deposit Insurance and Credit Guarantee Corporation (DICGC) Act, 1961, the depositors' dues are expected to be settled within a maximum period of five months from the date of assuming charge by the liquidator or coming into force of the scheme. However, the time lag between the issue of liquidation order and actual reimbursement to the depositor was observed to be very large due to various factors, *viz*., non-receipt of claim lists, delay in appointment of liquidators and court cases. Therefore, the DICGC framed a policy on expeditious settlement of claims of the depositors of insured banks. During the pendency of the Court case, where no injunction restraining the Corporation to settle the claim is passed, the claim will be settled against irrevocable undertaking given by the liquidator of the bank, binding the said bank to repay the whole amount released by the Corporation in case the liquidation order is set aside. Furthermore, where the claims are not received even after expiry of more than three months from the date of liquidator assuming charge of office, the Corporation will issue a public advertisement in local newspapers stating that, although the Corporation is ready to settle depositors' claims, it is not able to do so due to non-submission of claim list by the liquidators. The depositors will be asked to contact the concerned banks/liquidators to furnish details of claims where required. Before such a notice is issued, the concerned Registrar of Cooperative Societies will be given one month's time to take up the matter with the concerned liquidators and arrange for quick submission of the claim list.

V.54 In terms of the proviso to Section 16 (1) of the DICGC Act, 1961, the total amount payable to any depositor in the same capacity and same right is not to exceed Rs.1 lakh. Hitherto, the practice had been to interpret the accounts held in the name of two depositors jointly in the nomenclature of say A and B, and B and A, as if they were in the same capacity and same right. Therefore, balances in both the accounts were aggregated for arriving at the amount of claim payable. This procedure was followed for all types of accounts *viz*., savings, recurring, current and fixed deposits held in the names of same set of persons maintained in all branches of the bank. This policy led to several grievances from the depositors. In order to redress these grievances, the matter relating to interpretation of the expression "in the same capacity and same right" was examined afresh and the policy in this regard was modified. Hereafter, accounts held exactly in the same nomenclature and having names in the same order with different branches of the bank will be treated in the same capacity and same right. Thus, deposits held in the names of say A and B, and B and A, will be treated as two separate accounts and each joint account will be eligible for claim up to Rs.1 lakh. Similarly, in the case of three joint account holders, deposits held in the names of X, Y and Z should be considered in different capacity and right as compared to deposits held in Y, Z and X and Z, X and Y. With the adoption of this interpretation, a majority of the grievances of the depositors will be redressed.

Cooperative Banks

V.55 Urban cooperative banks (UCBs) play a significant role in achieving the objective of financial inclusion by providing credit and deposit facilities to middle/lower middle income people in urban/semi-urban areas. The Reserve Bank, therefore, continued with its policy initiatives during 2006-07 to ensure that these banks emerge as a sound and healthy network of jointly owned, democratically controlled, and ethically managed banking institutions, for providing need based quality banking services, essentially to the middle and lower middle classes and marginalised sections of the society.

V.56 The approach followed for strengthening the UCBs sector focuses on the following elements: (a) withholding, in each State, new licenses/new branch authorisations till the Reserve Bank has regulatory comfort; (b) consultative and collaborative handling of the problems at a decentralised level (State) with representation from all stakeholders to avoid problem of dual control; (c) professionalisation of audit and management through consent; (d) emphasis on minimising systemic impact on account of exit of weak banks; (e) encouraging mergers to facilitate non-disruptive exit; (f) incentivising the State governments to enter into MoUs by linking liberalisation/flexibility in operations of UCBs in the State with the signing of MoU; and (g) calibrating expansion incumbent on financial strength and regulatory comfort.

V.57 Given the present legal framework, the States which have a large number of UCBs were approached by the Reserve Bank for signing MoU in order to develop a coordinated approach for regulation and supervision of UCBs and address the problems of dual control. In the States that have signed the MoU, the Reserve Bank has constituted State-level Task Force for Cooperative Urban Banks (TAFCUBs) comprising representatives of the Reserve Bank, State Government and the UCBs. The TAFCUBs identify potentially viable and non-viable UCBs and suggest time-bound revival path for the former and non-disruptive exit route for the latter set of banks. The exit of non-viable banks could be through merger/ amalgamation with stronger banks, conversion into societies or ultimately, as a last resort, through liquidation. So far, MoUs have been signed with 12 State Governments, *viz*., Gujarat, Andhra Pradesh, Karnataka, Madhya Pradesh, Uttarakhand, Rajasthan, Chattisgarh, Goa, Maharastra, Haryana, National Capital Territory of Delhi and West Bengal; State-level TAFCUBs have also been constituted in these 12 States, which together account for 80 per cent of the total number of UCBs and 66 per cent of the total deposits of the sector. The MoUs have also been signed between the Reserve Bank and the Central Government in respect of Multi-State UCBs that account for another 25 per cent of deposits of the sector. As such, 83 per cent of the UCBs accounting for about 90 per cent of the total deposits are covered under the MoU arrangements. The problems of all such banks are being addressed through consultation with other significant stakeholders, *viz.,* State/Central Government and Federation/Association of UCBs. With the comfort of coordinated supervision, UCBs in States which have signed the MoUs, have been enabled to expand their business by allowing them to open currency chests, sell units of mutual fund and insurance products, provide foreign exchange services, open new ATMs and convert extension counters into branches. Furthermore, banks in such states could also be considered for grant of license to open new branches.

V.58 The consolidation of the UCBs through the process of merger of weak entities with stronger ones has been set in motion by providing transparent and objective guidelines, taking into consideration the interests of depositors and financial stability. Pursuant to the issue of guidelines on mergers of the UCBs in February 2005 which delineate the pre-requisites and steps to be taken in this regard, the Reserve Bank received 71 proposals for merger in respect of 62 banks. The Reserve Bank has issued no objection certificates in 41 cases. Of these, 31 mergers have become effective upon the issue of statutory orders by the Central Registrar of Cooperative Societies (CRCS)/RCS concerned. Sixteen proposals for merger were rejected by the Reserve Bank, while three proposals were withdrawn by the banks. The remaining 11 are under consideration.

V.59 In the absence of other options for exit, 44 banks considered unviable were taken for liquidation during July 2005 to June 2007 upon cancellation/ refusal of their banking licence. As the action was an outcome of the consultative process, the liquidation did not have any systemic implications. The safety net provided through DICGC ensured that the small depositors' interests were protected.

V.60 Given the heterogeneity of the UCB sector, a two track regulatory approach is being followed for UCBs. Accordingly, UCBs are classified under two categories, *viz*., (a) Tier I banks comprising unit banks having a single branch/Head Office with deposits up to Rs.100 crore and UCBs having multiple branches within a single district with deposits up to Rs.100 crore; and (b) Tier II banks comprising all the other banks. Relaxed prudential norms are applicable for Tier I banks.

V.61 As part of rationalisation of supervision, a simplified off-site surveillance (OSS) reporting system, comprising a set of five returns, has been introduced for Tier I banks having deposits of over Rs.50 crore. The larger UCBs are placed under a composite OSS reporting system of eight returns. A software has also been developed to facilitate electronic preparation and submission of all supervisory and regulatory (including OSS) returns to the Reserve Bank.

V.62 The share capital of UCBs does not have all the characteristics of equity, since the share capital can be withdrawn by members after the minimum lock-in period and can also be adjusted against their loans and advances. In order to explore various options for raising capital, a Working Group was constituted comprising representatives of the Reserve Bank, State Governments and the UCB sector to identify alternative instruments/avenues for augmenting the capital funds of UCBs. The Group submitted its Report in November 2006 (Box V.7).

V.63 To enhance professionalism and improve the quality of governance in UCBs, the Reserve Bank provides training for skill upgradation in all important areas of banking operations. Training programmes are conducted at regional centres, free of cost for all UCBs and are imparted in local/regional languages to enable local staff to attend the programme and absorb it without any difficulty. So far, 515 CEOs, 675 directors and 585 officials of UCBs, besides 97 liquidators and 163 auditors/chartered accountants have been trained as part of training programmes for UCBs in States that have signed MoU.

V.64 Well managed UCBs are being permitted to set up select offsite/onsite ATMs, based on the recommendations of the concerned TAFCUB, subject to the following eligibility norms: (i) minimum deposits of Rs.100 crore; (ii) compliance with the prescribed CRAR; (iii) net NPA less than 10 per cent; and (iv) consistent record of profitability and compliance with the CRR/SLR stipulations. Scheduled UCBs classified as Grade I do not require prior approval of the Reserve Bank for setting up onsite ATMs. Offsite ATMs approved by the Reserve Bank have to be installed within the area of operation of the UCBs and shifting or relocation requires prior approval. UCBs permitted to have ATMs may also issue ATM-cum-Debit Cards. Prior approval of the Reserve Bank for network connectivity and/or sharing of the ATMs has been dispensed with.

Box V.7
Report of the Working Group on Issues Concerning Raising of Capital by UCBs

The Group recommended that the State Governments may exempt the UCBs from the existing monetary ceiling on individual shareholding to enable the UCBs with low capital or negative net worth to shore up their capital base.

The Group identified the following four new instruments to enable the UCBs to raise long term capital/quasi-capital funds:

- unsecured, subordinated (to the claims of depositors), non-convertible, redeemable debentures/bonds
- special shares (to be non-voting, perpetual and transferable by endorsement and delivery)
- redeemable cumulative preference shares
- long-term subordinated deposits with maturity in excess of 15 years which would be ineligible for the DICGC cover.

With regard to these instruments, the Group recommended that while the funds raised through the special shares - non-voting in nature which could be issued even at a premium - may be reckoned for Tier I capital, those raised through the other three instruments may be treated as Tier II capital. None of these instruments would have a put option but could have a call option exercisable by the bank with the prior permission of the Reserve Bank. Exercise of call option/redemption in the case of debentures/bonds and special shares would be subject to a lock-in clause of the bank meeting the prescribed CRAR at the relevant time. The Group suggested necessary amendments to the Acts/Rules to facilitate issuance of some of the instruments proposed by it. The Group also recommended that the Reserve Bank may:

- exempt commercial banks from the rating requirement to enable them to invest in special shares and Tier II bonds issued by the UCBs within the ceiling prescribed for investment in unlisted securities.
- permit the UCBs to invest in Tier II bonds of other UCBs, subject to appropriate limits linked to the investing/recipient bank's net owned funds.
- treat Tier II capital raised by banks with negative net worth as part of regulatory capital even if Tier I capital is negative.
- dispense with extant instructions on share to loan ratios, since the UCBs have been subjected to the capital adequacy norms.

V.65 To enable the UCBs to provide better customer service, they were allowed to undertake the following limited transactions at the extension counters: (i) deposit/withdrawal; (ii) issue and encashment of drafts, mail transfers and travellers' cheques; (iii) collection of bills; (iv) advances against fixed deposits of their customers (within the sanctioning power of the concerned official at the extension counter); and (vi) disbursement of other loans (only for individuals) sanctioned by the Head Office/base branch up to the limit of Rs.10 lakh.

V.66 UCBs were advise to ensure that they are fully compliant with the Anti-Money Laundering (AML) standards. The chief executive officers (CEOs) of UCBs are required to personally monitor the progress in implementing the KYC guidelines and the AML procedures in letter and spirit and put in place a system of fixing responsibility for breach of instructions issued. They are also required to furnish a compliance certificate in this regard.

V.67 Guidelines were issued to all Multi-State Primary UCBs for settlement of chronic NPAs, especially in the small and medium enterprises (SME) sector, under one time settlement (OTS) scheme. For this purpose, the small scale industrial units are defined as undertakings in which investment in plant and machinery does not exceed Rs.1 crore, except in respect of units manufacturing hosiery, hand tools, drugs and pharmaceuticals, stationery items and sports goods where the investment limit is Rs.5 crore. Units with investment in plant and machinery in excess of the SSI limit and up to Rs.10 crore are treated as medium enterprises (MEs). These guidelines do not cover loans availed of/guaranteed by directors/their relatives/firms or companies in which directors are interested and cases of wilful defaults, frauds and malfeasance.

V.68 On the basis of the recommendations of the Task Force on Revival of Rural Cooperative Credit Institutions (Chairman: Prof. A. Vaidyanathan), the Government of India has prepared a package for revival of the short-term rural co-operative credit structure. A National Implementing and Monitoring Committee (NIMC) has been set up to oversee implementation and monitoring of the revival package. So far, twelve States, *viz*., Maharashtra, Madhya Pradesh, Orissa, Rajasthan, Andhra Pradesh, Haryana, Gujarat, Uttarakhand, Uttar Pradesh, Bihar, West Bengal and Arunachal Pradesh have entered into Memorandum of Understanding with the Government of India and NABARD.

V.69 In January 2005, the same Task Force was also assigned the work of recommending measures for strengthening the long-term co-operative credit structure (LTCCS) for agriculture and rural development. The Task Force submitted its final report to the Government of India in August 2006 which has been forwarded to the State Governments for their comments.

V.70 As at end-March 2007, 127 out of 367 district central co-operative banks (DCCBs) and seven out of 31 State co-operative banks (StCBs) did not comply with the provisions of Section 11 (1) of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies). Similarly, 127 DCCBs and 7 StCBs did not comply with the provisions of Section 22(3)(a) of the Act and 333 DCCBs did not comply with Section 22(3)(b) of the Act as at end-March 2007. Two DCCBs were granted banking licence during 2006-2007. Thus, the total number of licensed StCBs and DCCBs stood at 14 and 75, respectively, as at end-March 2007. At present, two StCBs and nine DCCBs have been placed under directions issued under Section 35A of the Banking Regulation Act, 1949, prohibiting them from accepting fresh deposits, allowing withdrawal of deposits in excess of stipulated amount, granting loans and advances.

Financial Institutions

V.71 Norms for income recognition, asset classification, provisioning and other related matters concerning Government guaranteed exposures for financial institutions were modified during 2006-07. Until then, asset classification and provisioning requirement in respect of State Government guaranteed exposures were contingent upon the invocation of State Government guarantee. Pursuant to the recommendations of the Technical Group on Refinancing Institutions (Chairman: Shri G.P. Muniappan), the asset classification and provisioning requirement were de-linked from the invocation of guarantee. Effective March 31, 2007, State Government guaranteed advances and investments in State Government guaranteed securities would attract the asset classification and provisioning norms if the interest and/or principal or any other amount due to the FI remained overdue for more than 90 days. However, the period of default in respect of agricultural activity would be related to the agricultural cycle instead of 90 days. The credit facilities backed by guarantee of the Central Government, though overdue, may be treated as NPA only when the Government repudiates its guarantee when invoked. This provision is, however, not applicable in the case of income recognition, where the existing norms continue.

Non-Banking Financial Companies

V.72 Non-banking financial companies (NBFCs) play a crucial role in broadening the access to financial services, enhancing competition and diversifying the financial sector. Some NBFCs have been given the status of a conglomerate, in view of the wide nature of activities undertaken by them, which fall under the jurisdiction of more than one financial sector regulator. Accordingly, the need to strengthen these entities while simultaneously monitoring their activities to mitigate the systemic risks has assumed significance. The Reserve Bank has, therefore, been strengthening the regulatory and supervisory framework for NBFCs since 1997 with the aim of making the NBFC sector vibrant and healthy. These efforts were pursued further during 2006-07.

V.73 NBFCs are increasingly being recognised as complementary to the banking system; they are capable of absorbing shocks as also spreading risks at times of financial distress. The application of different levels of regulations to the activities of banks and NBFCs, and even among different categories of NBFCs, had given rise to some issues arising out of the uneven coverage of regulations. Based on the recommendations of an Internal Group to examine the issues relating to the level playing field, regulatory convergence and regulatory arbitrage in the financial sector and taking into consideration the feedback received thereon, it was decided to put in place a revised framework to address the issues pertaining to the overall regulation of systemically important NBFCs and the relationship between banks and NBFCs (Box V.8). Furthermore, under the revised framework, non-deposit taking NBFCs with asset size of Rs 100 crore and above have been defined as ‘systemically important NBFCs’ (NBFC-ND-SI). Such NBFCs are required to maintain a minimum CRAR of 10 per cent and should not (i) lend to any single borrower/any single group of borrowers more than 15 per cent/25 per cent of their owned funds, respectively; (ii) invest in the shares of another company/any single group of companies more than 15 per cent/25 per cent of their owned funds, respectively; and (iii) lend and invest (loan/investment taken together) more than 25 per cent/40 per cent of their owned funds to a single party/a single group of parties, respectively. The above credit/investment norms can be exceeded by 5 percentage points for any single party and by 10 percentage points for a single group of parties, if the additional exposure is on account of infrastructure loan and/or investment. Asset finance companies (AFCs) are permitted to exceed the exposure norms up to a further 5 percentage points of their owned funds, in exceptional circumstances with the approval of their boards. NBFC-ND-SI not accessing public funds, both directly

Box V.8
Banks and Financial Regulation of Systemically Important NBFCs

In view of the regulatory gaps in the area of bank and NBFC operations, the existing framework of prudential regulations for bank and NBFC operations was reviewed based on the following principles: (i) All systemically relevant entities offering financial services ought to be brought under a suitable regulatory framework to contain systemic risks; (ii) focus should be on activity-centric regulation rather than institution-centric regulation in order to reduce or eliminate scope for regulatory arbitrage; (iii) the ownership pattern of NBFCs should be such that more than one entity in the Group does not compete for public deposits; (iv) the ownership structure of NBFCs should not be the determining factor to decide on the products that NBFCs may offer; (v) foreign entities which can undertake certain permitted activities in India under the automatic route for FDI should not later expand into activities which are not permitted under the automatic route without going through a further authorisation process; and, (vi) banks should not use an NBFC as a delivery vehicle for seeking regulatory arbitrage opportunities or to circumvent bank regulation(s) and that activities of NBFCs do not undermine banking regulations.

Keeping in view the above principles, the following broad modifications were made in the regulatory framework for banks:

(i) The exposure (both lending and investment, including off- balance sheet exposures) of a bank to a single NBFC/ NBFC-Asset Finance Companies (AFC) should not exceed 10 per cent/15 per cent of the bank's capital funds as per its last audited balance sheet. The exposure ceilings would be 15 per cent/20 per cent of the capital funds, in case the exposure in excess of 10 per cent/15 per cent is on account of funds on-lent by the NBFC-AFC to infrastructure sectors.

(ii) NBFCs promoted by the parent/group of a foreign bank having presence in India, which is a subsidiary of the foreign bank's parent/group or where the parent/group is having management control, would be brought under the ambit of consolidated supervision.

(iii) Bank sponsored NBFCs, currently not permitted to offer discretionary portfolio management services (PMS), will be allowed to offer discretionary PMS to their clients, on a case by case basis.

(iv) Banks in India, including foreign banks operating in India, shall not hold more than 10 per cent of the paid-up equity capital of a deposit taking NBFC, except in the case of housing finance companies.

Banks were required to comply with the modified regulations with effect from April 1, 2007.

and indirectly, may apply to the Reserve Bank for an appropriate dispensation, consistent with the spirit of the exposure limits. The ceiling on investment is not applicable to investment by NBFCs in the equity capital of an insurance company to the extent permitted by the Reserve Bank. The revised framework was made effective from April 1, 2007. The residuary non-banking companies (RNBCs) and primary dealers will continue to be governed by the extant guidelines, pending a review.

V.74 In order to ensure improved customer satisfaction as also to impart transparency to their lending operations, NBFCs were advised in September 2006 to put in place the Fair Practices Code. The Code mandates a minimum benchmark, leaving the discretion to the NBFCs to enhance the practices. The guidelines in this respect require the NBFCs to, *inter alia*, provide the specified information in loan application forms; introduce a system of acknowledgement for receipt of all loan applications; indicate a timeframe for disposal of loan applications; convey in writing to the borrower the amount of loan sanctioned along with the terms and conditions including annualised rate of interest and method of application thereof; give notice to the borrower of any change in terms and conditions; refrain from interference in the affairs of the borrower; and refrain from undue harassment of the borrower in the matter of recovery of loans. The boards of directors of NBFCs should also put in place appropriate grievance redressal mechanism within the organisation to resolve disputes arising in this regard.

V.75 NBFCs no longer engaged in the business of non-banking financial institution (NBFI) were observed to be holding the certificate of registration (CoR) granted by the Reserve Bank, although they are not required/eligible to hold the same. NBFCs were, therefore, advised in September 2006 to submit a certificate from their Statutory Auditors every year to the effect that they continue to undertake the business of NBFI.

V.76 In terms of extant instructions, in the case of a change of management and control of NBFCs, prior public notice of 30 days was required before effecting the sale, or transfer of the ownership by sale of shares, or transfer of control, whether with or without sale of shares or by way of amalgamation/merger of an NBFC with another NBFC or a non-financial company by the NBFC and also by the transferor, or the transferee.

From October 2006, such prior public notice has to be given by the NBFC and also by the transferor or the transferee or jointly by the parties concerned.

V.77 In order to strengthen the NBFC sector by allowing diversification in their area of business, NBFCs were allowed in December 2006 to (i) market and distribute mutual fund products as agents of mutual funds; and (ii) issue co-branded credit cards with commercial banks, without risk sharing. These businesses, with the prior approval of the Reserve Bank for an initial period of two years (to be reviewed thereafter), would be subject to fulfilment of the following minimum requirements by the NBFCs: (a) minimum net owned fund of Rs.100 crore; (b) net profit as per last two years' audited balance sheet; (c) net NPAs not exceeding 3 per cent of net advances, as per the last audited balance sheet; (d) CRAR of 10 per cent for non-deposit-taking NBFCs (NBFCs-ND) and 12 per cent/15 per cent for deposit-taking NBFCs (NBFCs-D). With regard to mutual fund business, NBFCs should, *inter alia*, also comply with SEBI guidelines/ regulations and they should only act as an agent and not acquire units of mutual funds. In the case of credit card business, the role of NBFC would, *inter alia*, be limited only to marketing and distribution.

V.78 The classification of NBFCs was modified in December 2006 to provide a separate classification for companies financing physical assets supporting productive/economic activity. Accordingly, NBFCs, whose principal business, *i.e.*, not less than 60 per cent of their total assets and total income is from the financing of real/physical assets supporting economic activity such as automobiles, general purpose industrial machinery and the like, have been classified as asset finance companies (AFCs). Consequent upon this reclassification, the NBFCs earlier classified as equipment leasing (EL) companies and hire-purchase (HP) companies will emerge as asset finance companies. Since the classification for the purpose of income recognition, asset classification and provisioning norms is based on asset specification, the extant prudential norms continue as hitherto. However, the exposure norms relating to restriction on investments in land and buildings and unquoted shares would be modified and the provisions applicable to EL/ HP companies would also be applicable to AFCs.

V.79 Securitisation companies/reconstruction companies (SCs/RCs) were advised (September 2006) to invest in security receipts, issued by the trust set up for the purpose of securitisation, an amount not less than 5 per cent under each scheme. In October 2006, the SCs/RCs, which had obtained a CoR from the Reserve Bank under Section 3 of the SARFAESI Act, 2002, were directed to commence business within six months from the date of grant of the CoR. The Reserve Bank may, on an application made by the SC/RC, grant extension of time for commencement of business beyond six months, up to a maximum of 12 months from the date of grant of the CoR. In May 2007, SCs/RCs registered with the Reserve Bank under the SARFAESI Act, 2002 were advised to declare net asset value of the security receipts issued by them at periodic intervals. The Reserve Bank has so far granted the CoR to six SCs/ RCs, of which three have commenced the business of securitisation/reconstruction of assets.

V.80 All NBFCs accepting/holding public deposits were hitherto required to create floating charge on the statutory liquid assets invested in favour of their depositors. In view of the practical difficulties in creating charge in favour of a large number of depositors, NBFCs accepting/holding public deposits were allowed (January 2007) to create the floating charge through the mechanism of 'Trust Deed', by March 31, 2007.

V.81 As the regulation of Mutual Benefit Financial Companies (Notified Nidhis) (MBFCs) and Mutual Benefit Companies (Potential Nidhis) (MBCs) has been taken over by the Ministry of Company Affairs (since renamed as the Ministry of Corporate Affairs), it was decided not to call for returns from MBFCs and MBCs. However, if the application of MBCs (Potential Nidhis) for the grant of the *nidhi* status is rejected by the Ministry, the provisions as applicable to NBFCs would apply to such companies.

V.82 In order to increase investor confidence through adoption of best corporate practices, deposit taking NBFCs with deposit size of Rs.20 crore and above and NBFCs-ND-SI have been advised to frame internal guidelines on corporate governance covering, *inter alia*, constitution of audit committee, nomination committee and risk management committee, and disclosure and transparency practices.

MACRO-PRUDENTIAL INDICATORS REVIEW

V.83 The Reserve Bank has been compiling macro-prudential indicators (MPIs) since March 2000. These comprise both aggregated micro-prudential indicators (AMPIs) of the health of individual financial institutions and macroeconomic indicators (MEIs) associated with the financial system soundness. India is one of the countries which volunteered to participate in the coordinated compilation exercise of financial soundness indicators in December 2005 under the aegis of the International Monetary Fund.

V.84 An overview of MPIs for 2006-07 indicates a further improvement in asset quality of the major constituents of the financial sector (Table 5.4). Capital adequacy ratios continued to remain above the minimum requirements. Return on assets of scheduled commercial banks during 2006-07 remained almost unchanged at the previous year's level, while that of primary dealers (PDs) witnessed a sharp decline due to the merger of nine stand-alone PDs into bank-PDs.

Capital Adequacy

V.85 The capital to risk-weighted asset ratio (CRAR) of scheduled commercial banks at end-March 2007 remained unchanged from the previous year, suggesting that the expansion of capital kept pace with the increase in total risk-weighted assets (Table 5.4). Growth in risk-weighted assets reflected (i) higher growth in the advances portfolio of banks as compared with investments in Government securities; (ii) increase in risk weights for personal loans, real estate and capital market exposure; and (iii) application of capital charge for market risk for investments held under the AFS category from March 2006. The core capital (*i.e.*, Tier I) ratio of the banks declined from 9.3 per cent as at end-March 2006 to 8.3 per cent at end-March 2007. Only one old private sector bank, *viz.,* Sangli Bank, could not comply with the prescribed minimum CRAR at end-March 2007 (Table 5.5). This bank was subsequently amalgamated with ICICI Bank.

V.86 The CRAR of the scheduled UCBs was 11.8 per cent at end-March 2007, lower than 12.7 per cent at end-March 2006 (Table 5.4). Out of 53 scheduled UCBs, the CRAR of 41 UCBs was over 9 per cent, while that of 10 UCBs was less than 3 per cent.

V.87 The aggregated CRAR of FIs increased from 22.3 per cent at end-March 2006 to 24.5 per cent at end-March 2007 (Tables 5.4 and 5.6). This was mainly on account of an increase in the aggregated CRAR of term-lending institutions facilitated by a turnaround in the net worth of IFCI.

V.88 The aggregated CRAR of the NBFCs increased from 14.8 per cent at end-March 2006 to 21.6 per cent at end-September 2006, well above the regulatory minimum [12 per cent for equipment leasing and hire purchase finance companies (categorised as asset finance companies from December 2006) and 15 per cent for other NBFCs]. However, seven large companies reported negative CRAR. As at end-September 2006, 84.9 per cent of the reporting companies had CRAR equal to or in excess of 12 per cent (Chart V.1). The CRAR of PDs continued to be at a high level even as it declined to 33.4 per cent at end-March 2007 from 53.9 per cent at end-March 2006 due to the merger of high CRAR entities with their parent/group banks.

Table 5.4: Select Financial Indicators

(Per cent)

Item	Year ended March	Scheduled Commercial Banks	Scheduled Urban Cooperative Banks	Development Finance Institutions	Primary Dealers	Non-Banking Financial Companies
1	2	3	4	5	6	7
CRAR	2006	12.3	12.7	22.3	53.9	14.8
	2007	12.3	11.8	24.5	33.4	21.6
Gross NPAs to Gross Advances	2006	3.5	21.1	8.2	n.a.	3.1
	2007	2.7	17.2	5.6	n.a.	3.4
Net NPAs to Net Advances	2006	1.3	3.7	0.9	n.a.	0.3
	2007	1.1	2.4	0.1	n.a.	0.9
Return on Total Assets	2006	0.9	0.7	1.0	5.6	2.9
	2007	0.9	0.7	1.5	2.9	n.a.
Return on Equity	2006	12.7	n.a.	9.3	12.5	16.3
	2007	13.4	n.a.	11.9	9.0	n.a.
Cost/Income Ratio	2006	51.5	55.9	14.8	32.8	16.1
	2007	51.2	61.5	18.7	49.9	n.a.

n.a.: Not available.

Note : 1. Data for March 2007 are provisional.
2. Data for 2007 in respect of NBFCs pertain to the period ended September 2006.
3. Data for scheduled commercial banks pertain to the domestic operations only and may not tally with the balance sheet data.
4. Owing to the merger of certain PDs with their parent/group banks, data for March 2007 in respect of PDs relate to the financial performance of 8 stand-alone PDs as against 17 PDs in March 2006.

Source : Off-site returns for scheduled commercial banks, scheduled urban co-operative banks, NBFCs and PDs and balance sheet data for FIs.

Table 5.5 : Scheduled Commercial Banks – Frequency Distribution of CRAR (End-March 2007)

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
			Number of Banks			
Public Sector Banks	0 (0)	0 (0)	0 (0)	28 (28)	0 (0)	28 (28)
Nationalised Banks	0 (0)	0 (0)	1 (0)	20 (20)	0 (0)	20 (20)
SBI Group	0 (0)	0 (0)	0 (0)	8 (8)	0 (0)	8 (8)
Private Sector Banks	1 (1)	0 (2)	2 (2)	19 (20)	3 (3)	25 (28)
Old Private Sector Banks	1 (1)	0 (2)	2 (1)	11 (14)	3 (2)	17 (20)
New Private Sector Banks	0 (0)	0 (0)	0 (1)	8 (6)	0 (1)	8 (8)
Foreign Banks	0 (0)	0 (0)	0 (2)	10 (8)	19 (19)	29 (29)
All Banks	**1 (1)**	**0 (2)**	**2 (4)**	**57 (56)**	**22 (22)**	**82 (85)**

Note : 1. Data are provisional and unaudited.
2. Figures in parentheses are data for March 2006.

Source : Off-site supervisory returns submitted by the banks pertaining to their domestic operations only.

Asset Quality

V.89 Asset quality of scheduled commercial banks improved further during the year, with gross and net NPA ratios declining to 2.7 per cent and 1.1 per cent, respectively, at end-March 2007 (Table 5.7). Robust economic activity and better recovery climate have facilitated the reduction in non-performing assets in recent years. Net NPAs of only two banks were in excess of 5 per cent of net advances (Table 5.8). Asset quality of financial institutions and scheduled UCBs also improved during 2006-07, with net NPAs at 0.1 per cent and 2.4 per cent, respectively, of their net

Table 5.6: CRAR and Net NPAs of Select Financial Institutions (End-March 2007)

(Per cent)

Financial Institution	CRAR (Per cent)	Net NPAs (Rupees crore)	Net NPAs to Net loans
1	2	3	4
Term-Lending Institutions (TLIs)			
IFCI	14.04	0.00	0.00
EXIM Bank	16.38	115.0	0.5
TFCI	40.89	0.00	0.00
All TLIs	**15.82**	**115.00**	**0.38**
Refinancing Institutions (RFIs)			
NABARD	26.97	23.00	0.03
NHB	24.02	0.00	0.00
SIDBI	37.48	22.37	0.14
All RFIs	**29.45**	**45.37**	**0.04**
All FIs	**24.54**	**160.37**	**0.12**

Source : Off-site returns submitted by FIs.

Chart V.I: Frequency Distribution of CRAR of Reporting NBFCs

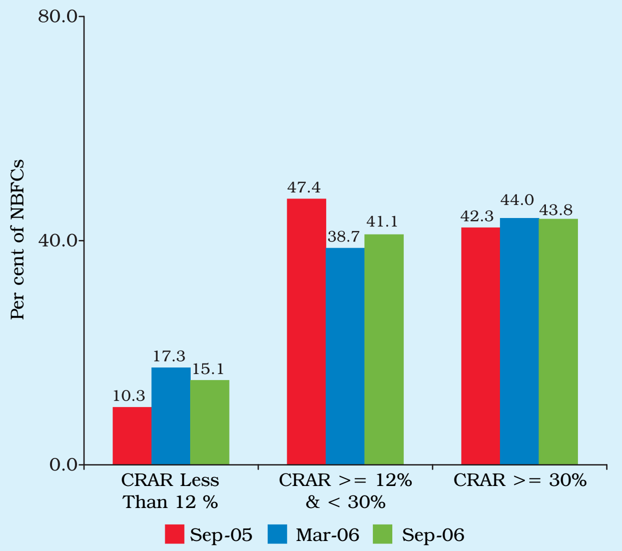


Table 5.7: Scheduled Commercial Banks – Performance Indicators

(Per cent)

Item/ Bank Group	2006-07 Q1	2006-07 Q2	2006-07 Q3	2006-07 Q4	2007-08 Q1
1	2	3	4	5	6
Operating Expenses/ Total Assets*					
Scheduled Commercial Banks	2.3	2.0	1.9	1.7	2.0
Public Sector Banks	2.2	1.8	1.7	1.6	1.8
Old Private Sector Banks	2.1	2.2	1.9	1.1	1.9
New Private Sector Banks	2.6	2.3	2.3	1.8	2.6
Foreign Banks	2.9	3.2	2.8	2.2	2.9
Net Interest Income/Total Assets*					
Scheduled Commercial Banks	3.0	2.6	2.9	2.5	2.8
Public Sector Banks	3.0	2.4	2.9	2.5	2.7
Old Private Sector Banks	3.0	3.0	2.9	2.4	2.9
New Private Sector Banks	2.6	2.5	2.5	1.9	2.3
Foreign Banks	4.3	4.1	3.3	3.2	4.2
Net Profit/Total Assets*					
Scheduled Commercial Banks	0.9	0.9	1.0	0.8	1.0
Public Sector Banks	0.7	0.9	0.9	0.8	0.9
Old Private Sector Banks	0.8	1.1	1.2	0.5	1.1
New Private Sector Banks	0.8	1.0	0.9	0.6	0.8
Foreign Banks	2.1	1.5	1.1	1.9	2.2
Gross NPAs to Gross Advances**					
Scheduled Commercial Banks	3.4	3.2	3.0	2.7	2.8
Public Sector Banks	3.8	3.5	3.3	2.8	2.9
Old Private Sector Banks	4.7	4.5	3.8	3.2	3.1
New Private Sector Banks	1.9	2.0	2.2	2.1	2.5
Foreign Banks	1.9	2.1	2.0	1.9	2.0
Net NPAs to Net Advances**					
Scheduled Commercial Banks	1.2	1.2	1.2	1.1	1.2
Public Sector Banks	1.3	1.3	1.2	1.2	1.2
Old Private Sector Banks	1.7	1.6	1.3	1.0	0.9
New Private Sector Banks	0.9	1.0	1.1	1.1	1.3
Foreign Banks	0.7	0.9	0.9	0.7	0.8
CRAR**					
Scheduled Commercial Banks	12.0	12.6	12.6	12.3	12.6
Public Sector Banks	12.0	12.6	12.4	12.4	12.9
Old Private Sector Banks	11.8	12.1	12.9	12.4	13.0
New Private Sector Banks	12.2	13.3	12.9	12.0	11.6
Foreign Banks	11.9	11.9	12.6	12.4	12.3

* : Annualised to ensure comparability between quarters.
** : Position as at the end of the quarter.
Source : Off-site supervisory returns submitted by the banks pertaining to their domestic operations.

Table 5.8: Net NPAs to Net Advances of Scheduled Commercial Banks

(Frequency Distribution)

Year/Net NPAs to Net Advances Ratio	Public Sector Banks: SBI Group	Public Sector Banks: Nationalised Banks	Private Sector Banks: Old	Private Sector Banks: New	Foreign Banks
1	2	3	4	5	6
		Number of Banks			
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					
Up to 2 per cent	7	10	4	6	22
Above 2 per cent and up to 5 per cent	1	8	12	3	2
Above 5 per cent and up to 10 per cent	0	2	4	1	2
Above 10 per cent	0	0	0	0	4
2005-06					
Up to 2 per cent	7	15	11	6	26
Above 2 per cent and up to 5 per cent	1	5	7	2	0
Above 5 per cent and up to 10 per cent	0	0	2	0	0
Above 10 per cent	0	0	0	0	3
2006-07 *					
Up to 2 per cent	8	18	14	7	27
Above 2 per cent and up to 5 per cent	0	2	2	1	1
Above 5 per cent and up to 10 per cent	0	0	0	0	0
Above 10 per cent	0	0	1	0	1

* : Data as on March 31, 2007 are unaudited and provisional.
Source: Off-site supervisory returns submitted by banks pertaining to their domestic operations only.

assets as at end-March 2007 (see Table 5.4). Out of 53 scheduled UCBs, net NPA of 18 UCBs were in excess of 5 per cent of their advances (Table 5.9).

Earnings and Profitability Indicators

V.90 Total income of SCBs increased marginally from 8.03 per cent of their assets in 2005-06 to 8.04 per cent in 2006-07 due to an increase in interest income resulting mainly from a significant rise in credit offtake (Table 5.10).

V.91 Higher interest expenses, however, led to a sharper increase in total expenditure (as per cent to total assets), despite the fall in operating expenses. As a result, during 2006-07, profits before provisions and taxes (as per cent to total assets) were lower than those in the previous year. However, profit after tax (as per cent to total assets) at 0.90 per cent during 2006-07 was marginally higher than that during 2005-06 (0.88 per cent) due to lower provisions. As many as 45 banks (out of 82 banks) recorded an increase in the profits ratio during the year (Table 5.11).

Table 5.9: Net NPAs to Net Advances of Scheduled Urban Cooperative Banks*

(Frequency Distribution)

Net NPAs to Net Advances (%)	2004-05	2005-06	2006-07
1	2	3	4
Up to 2 per cent	21	25	23
Above 2 and up to 5 per cent	6	8	12
Above 5 per cent and up to 10 per cent	11	10	10
Above 10 per cent	16	11	8
Total	**54**	**54**	**53**

***** : Based on provisional data.

V.92 Total income of UCBs declined marginally from 6.42 per cent of their assets in 2005-06 to 6.40 per cent in 2006-07 due to decline in non-interest income. Earnings before provisions and taxes were, however, higher on account of increase in interest income and decline in interest expenses (as percentage to total assets). Provisions made in 2006-07 were higher than those in 2005-06. The return on total assets of scheduled UCBs declined marginally to 0.69 per cent in 2006-07 from 0.71 per cent in 2005-06. (Table 5.12).

V.93 The return on assets of PDs declined to 2.92 per cent during 2006-07 from 5.04 per cent during 2005-06, reflecting the merger impact.

Table 5.10: Operational Results of Scheduled Commercial Banks – Key Ratios

(Per cent to total assets)

Indicator	2004-05	2005-06	2006-07
1	2	3	4
1. Total Income	8.21	8.03	8.04
Interest Income (net of interest tax)	6.72	6.65	6.88
Non-Interest Income	1.49	1.38	1.16
2. Total Expenditure	5.98	5.98	6.10
Interest Expenses	3.83	3.82	4.13
Operating Expenses	2.15	2.16	1.97
3. Earnings Before Provisions and Taxes (EBPT)	2.22	2.05	1.92
4. Provisions and Contingencies	1.33	1.17	1.02
5. Profit after Tax	0.89	0.88	0.90
			Amount in Rupees crore
1. Total Income	1,87,079	2,16,286	2,66,266
Interest Income (net of interest tax)	1,53,123	1,79,087	2,27,731
Non-Interest Income	33,956	37,199	38,535
2. Total Expenditure	1,36,315	1,61,048	2,02,137
Interest Expenses	87,292	1,02,866	1,36,899
Operating Expenses	49,024	58,182	65,237
3. Earnings Before Provisions and Taxes (EBPT)	50,515	55,212	63,459
4. Provisions and Contingencies	30,233	31,549	33,707
5. Profit after Tax	20,283	23,663	29,752

Note : 1. Off-site supervisory returns submitted by the banks pertaining to their domestic operations only.
2. Data for March 2007 are provisional and unaudited.

Sensitivity to Market Risk

Interest Rate Risk

V.94 The investment portfolio of the scheduled commercial banks has become relatively less sensitive to interest rate risk on account of shifting of major portion of investments to HTM category (60 per cent), which are not required to be marked to market unlike those in the trading book. Furthermore, given the relative unattractiveness of investments in

Table 5.11: Operational Results of Scheduled Commercial Banks – 2006-07
(Number of banks showing increase in ratios during the period)

Ratio to total Assets	Public Sector Banks		Private Sector Banks		Foreign Banks	All Banks
	SBI Group Banks	Nationalised Sector Banks	Old Private Sector Banks	New Private		
1	2	3	4	5	6	7
1. Total Income	3	8	11	5	18	45
Interest Income	6	13	11	5	23	58
Non-Interest Income	0	4	8	2	16	30
2. Total Expenditure	5	12	8	5	16	46
Interest Expenses	7	16	12	7	19	61
Operating Expenses	0	0	3	3	17	23
3. Earnings before Provisions and Taxes (EBPT)	0	7	11	3	20	41
4. Provisions and contingencies	0	6	9	2	15	32
5. Profit after Tax	5	10	10	4	16	45

Note : 1. Off-site supervisory returns submitted by the banks pertaining to their domestic operations only.
2. Data are provisional and unaudited.

Table 5.12 Operational Results of Scheduled Urban Cooperative Banks – Key Ratios

(Per cent to total Assets)

No.	Item	2005-06	2006-07
1		2	3
1.	Total Income	6.42	6.40
	Interest Income	5.62	5.70
	Non-Interest Income	0.80	0.70
2.	Total Expenses	5.22	5.19
	Interest Expenditure	3.61	3.45
	Non-interest Expenses	1.61	1.74
3.	Earnings Before Provisions and Taxes	1.20	1.21
4.	Provisions and Contingencies	0.49	0.52
5.	Profit after Tax	0.71	0.69

Note : All data are provisional.

government securities in an increasing interest rate scenario, banks restricted/liquidated their investments to fund credit growth which is expected to reduce the impact of the rising yields on the banks' balance sheets. Banks have adopted various portfolio management techniques like reduction of duration, particularly in the case of trading book in conjunction with reduction in the size of the trading book itself, to immunise themselves from marked to market losses.

Currency Risk

V.95 In the foreign exchange market, the Indian rupee exhibited two-way movement *vis-à-vis* the US dollar during 2006-07. During 2007-08 so far, there have been upward pressures on the exchange rate, reinforcing the need for all market participants with foreign currency exposure to hedge their currency risk.

Commodity Risk

V.96 The commodities market witnessed high volatility and two-way movements during 2006-07. While banks and other financial institutions do not generally indulge in active commodity trading, movements in commodities market can affect financial markets adversely through the credit channel. This is especially so in the case of bank lending to sectors that have not hedged themselves against the adverse movements of the commodities prices.

Equity Risk

V.97 The Reserve Bank has put in place several regulatory requirements to ensure that the banks' participation in the capital market is within limits. The stringent margin requirements ensure that the banks' advances are well collateralised which act as an effective safety net to their advances for investments in the capital market. Capital market exposure of the banking system as a percentage of gross advances, at 2.3 per cent at end-March 2007, remained well within the regulatory limit of 5 per cent even as capital market indices reached historical levels during 2006-07. The total capital market exposure of the banks at end-March 2007 amounted to Rs.33,330 crore.

Liquidity

V.98 The ratio of liquid assets to total assets in respect of scheduled commercial banks declined to 32.3 per cent at end-March 2007 from 33.0 per cent at end-September 2006. The decline in the ratio may be attributed to the upturn in industrial growth witnessed in recent times, which, in turn, bolstered the credit demand. Consequently, the increase in advances was more than the increase in SLR investment.

Outlook

V.99 The Reserve Bank would continue with various regulatory and supervisory initiatives to strengthen the domestic financial sector in order to maintain financial stability. In consonance with the aim of benchmarking the Indian financial sector to the international best practices, commercial banks in India will start implementing Basel II from the year ended March 2008 onwards. In order to strengthen the risk management in banks, credit derivatives are proposed to be introduced in a calibrated manner, taking into account the risk management systems in banks and their state of preparedness for Basel II. The principles for accounting of derivatives are also being finalised. In view of the fast pace of deregulation, liberalisation and the emergence of financial conglomerates, the supervisory process is being constantly fine-tuned to ensure that adequate attention is given to the complexities of organisational structures, business processes and risk-positions of the banks. The focus is on risk based supervisory framework and smooth migration to Basel II that will require appropriate capacity building in the Reserve Bank as well as in the banks. While strengthening the regulatory and the supervisory framework, the Reserve Bank will continue to persevere with its efforts towards greater financial inclusion and improvement in customer service provided by the banking sector.

VI PUBLIC DEBT MANAGEMENT

VI.1 During 2006-07, the debt management strategy of the Reserve Bank continued to be guided by the twin objectives of minimisation of cost over time and pursuit of maturity profiles consistent with rollover risk. The debt management operations were undertaken in an environment characterised by pre-emptive monetary tightening measures and upward shifting of yield curve. A major source of the demand for Government securities emanated from the banking and insurance sectors for complying with the statutory requirements. The Reserve Bank was prohibited from participating in the primary issuances of Government securities from April 1, 2006 in accordance with the provisions of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003. Carrying forward the process of development of the Government securities market and with a view to facilitate debt management in the post-FRBM environment, specific measures were undertaken during the year such as permitting short sales, introduction of "when issued" market and introduction of a revised scheme of underwriting commitment for primary dealers (see Chapter IV). The Reserve Bank continued with the policy of passive consolidation of dated securities and elongation of maturity profile.

VI.2 This Chapter reviews the public debt management operations of the Reserve Bank during 2006-07. The borrowing programme of the Central Government, higher than that in the previous year, was conducted smoothly during 2006-07 - the first year of the Reserve Bank's absence from the primary market as per the FRBM stipulations. This was enabled by concerted efforts to improve the market microstructure. The pre-emption of revenue receipts by the interest cost of open market loans continued to decline during 2006-07. At the same time, the risk profile of outstanding open market debt improved as reflected in the near stability in the weighted average maturity (around 10 years) as well as in modified duration (5.6 years) in recent years. The weighted average cost of market borrowings increased during the year, reflecting the hardening of interest rate structure.

VI.3 A notable aspect of the market borrowings of the States during 2006-07 was that the actual borrowings were lower than those allocated. The reduction in borrowings was mainly on account of a build-up of cash balances. The upsurge in cash balances during 2006-07, notwithstanding deceleration in small savings collections, was facilitated by fiscal consolidation initiatives and higher Central devolution and transfers. For the first time, the States raised the entire amount through the auction route. In general, the spreads of the cut-off yields in the auctions over the secondary market yields of comparable Central Government securities were lower than those in the previous year, reflecting improved market perception of States' fiscal position.

CENTRAL GOVERNMENT

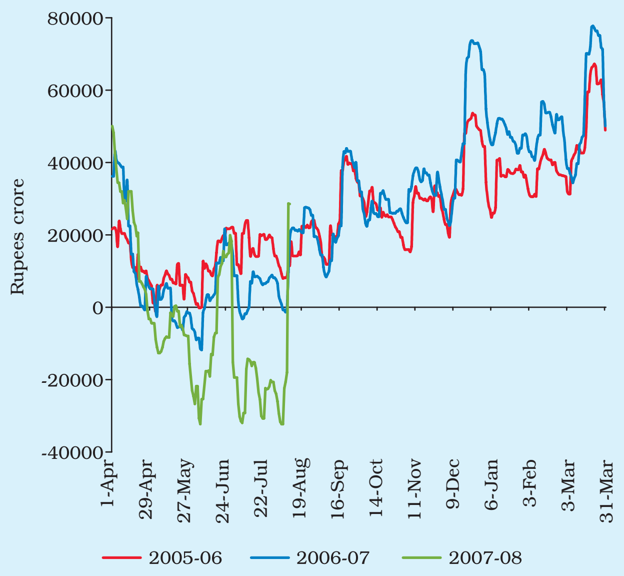
Ways and Means Advances

VI.4 With the Reserve Bank withdrawing from participation in the primary issuance of Central Government securities with effect from April 1, 2006 in accordance with the FRBM Act, 2003, the Ways and Means Advances (WMA) arrangements were revised from 2006-07 in consultation with the Government. Under the previous arrangements, the limits of WMA were fixed on a half-yearly basis; for 2005-06, the limits were Rs.10,000 crore for the first half of the fiscal year (April-September) and Rs.6,000 crore for the second half of the fiscal year (October-March). In order to facilitate the transition necessitated by the new FRBM provisions, under the revised arrangements, the limits for 2006-07 were fixed on a quarterly basis instead of a half-yearly basis. Accordingly, the WMA limits for 2006-07 were placed at Rs.20,000 crore and Rs.10,000 crore for the first and second quarters, respectively, and Rs.6,000 crore each for the third and fourth quarters of the year. The Reserve Bank retained the flexibility to revise the limits in consultation with the Government of India taking into consideration the transitional issues and prevailing circumstances. Interest rates on WMA and overdraft have been linked to the repo rate as against the Bank Rate hitherto, following the emergence of the repo rate as the short-term reference rate. Accordingly, the interest rate on WMA is at the repo rate and that on overdraft is at repo rate *plus* two percentage points.

VI.5 The liquidity position of the Government remained by and large comfortable during 2006-07. The surplus cash balances of the Centre which amounted to Rs.48,928 crore (inclusive of investment balance of Rs.20,000 crore) at end-March 2006 dwindled during April 2006 and the Centre had to take recourse to WMA during May-August 2006. The peak WMA availed during the year was Rs.11,754 crore (59 per cent of the limit) on June 6, 2006.The Centre, however, did not resort to overdraft during the year. During 2006-07, the Centre availed WMA for a total of 39 days as compared with only two days during 2005-06. The Centre availed WMA up to August 7, 2006, and, thereafter, maintained surplus cash balances with the Reserve Bank. The surplus exceeded the investment ceiling of Rs.20,000 crore from September 16, 2006. The surplus balance reached a historic peak of Rs.77,726 crore on March 22, 2007, reflecting State Governments' investment in Government of India Treasury Bills and buoyancy in advance tax collections. The surplus balance, however, declined to Rs.50,092 crore as on March 31, 2007, but remained higher than the previous year's level of Rs.48,928 crore (Chart VI.1). The surplus averaged Rs.27,976 crore during 2006-07 as compared with Rs.25,772 crore a year ago.

VI.6 The WMA limits for 2007-08 have been fixed at Rs.20,000 crore for the first half of the year (April-September) and Rs.6,000 crore for the second half of the year (October-March). The applicable interest rate on WMA and overdraft would continue to be linked to the repo rate as hitherto. The Centre began the fiscal year with a large surplus balance of Rs.50,092 crore, which eroded rapidly and turned into a deficit by April 27, 2007 reflecting sharp reduction in the investments in the Government of India Treasury Bills by States, higher than anticipated spending and lower collections under the National Small Saving Fund (NSSF). The cash balance of the Government persisted in a deficit mode till June 17, 2007 except for a brief period of 2 days on May 17-18, 2007. The cash deficit crossed the WMA limit of Rs.20,000 crore on May 30, 2007 and remained in an overdraft position till June 8, 2007. Additional issuance of 91-day and 182-day Treasury Bills amounting to Rs.27,500 crore on six occasions, during June 6-27, 2007, coupled with an auction of dated securities amounting to Rs.5,000 crore on June 12, 2007 outside the calendar, advance tax inflows for the April-June quarter together with the resumption of investment by States in the Government of India Treasury Bills facilitated building up of a surplus position in Government balances from June 18, 2007. With the transfer of the State Bank of India (SBI) stake from the Reserve Bank of India to the Government involving cash outgo of Rs.35,531 crore on June 29, 2007, the cash balance of the Government again turned into a deficit and remained so till August 8, 2007. Following the transfer of surplus from the Reserve Bank on August 9, 2007, the cash balance of the Government of India returned to a surplus mode. The Government resorted to overdraft on three occasions during 2007-08 (up to August 10, 2007) in contrast with the previous year when it did not resort to any overdraft. During 2007-08 so far, the Government availed of WMA/OD on 90 days as against 39 days during the previous year.

Chart VI.1: Cash Balances of the Central Government



Treasury Bills

VI.7 As per the annual issuance calendar released on March 24, 2006, the notified amounts of 91-day, 182-day and 364-day Treasury Bills (TBs) under the normal market borrowing programme were kept unchanged at Rs.500 crore (weekly auction), Rs.500 crore (fortnightly auction) and Rs.1,000 crore (fortnightly auction), respectively. The notified amount of the TBs issued under the market stabilisation scheme (MSS) was, however, varied during the year keeping in view the prevailing liquidity conditions. The net issuances (excluding MSS) of 91-day, 182-day and 364-day TBs were placed at Rs.28,911 crore, Rs.7,435 crore and Rs.8,795 crore, respectively, during 2006-07 (Table 6.1 and Appendix Table 58). The normal market borrowing component of all issues of the TBs was fully subscribed to by the market and there was no devolvement on primary dealers (PDs).

VI.8 During 2006-07, the primary market yields of the TBs across all the maturities were consistently

Table 6.1: Profile of Treasury Bills

(At Face Value)

(Rupees crore)

Type of Treasury Bill	Weighted Average Cut-off Yield (Per cent)		Gross Amount		Net Amount		Outstanding Amount	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	End-March 2006	End-March 2007
1	2	3	4	5	6	7	8	9
91-Day	5.51	6.80	1,03,424	1,31,577	-11,474	28,911	16,318	45,229
			(52,057)	(48,222)	(-19,500)	(14,473)	0	(14,473)
182-Day	5.65	6.87	26,828	36,912	9,771	7,435	9,771	17,206
			(13,078)	(16,125)	(3,000)	(4,950)	(3,000)	(7,950)
364-Day	5.87	7.07	45,018	53,813	-2,114	8,795	45,018	53,813
			(16,000)	(20,440)	(-4,981)	(4,440)	(16,000)	(20,440)

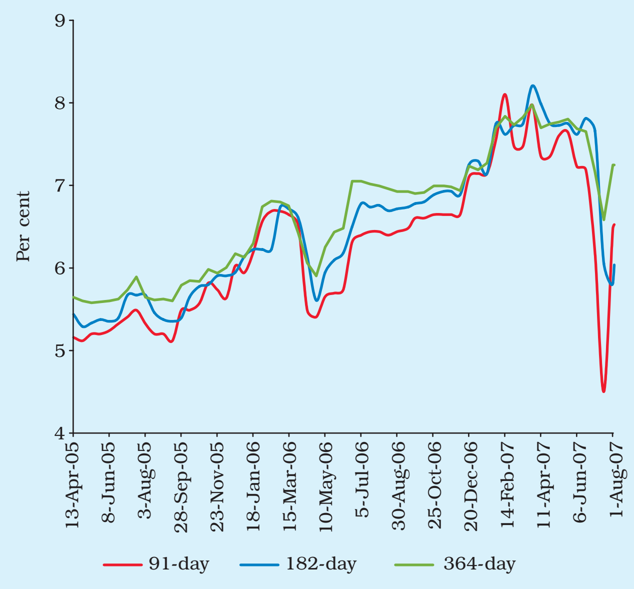
Note : Figures in parentheses pertain to issuances under the MSS.

higher than their respective levels a year ago. The average primary market yields of TBs increased by 95-108 basis points over the previous year (Chart VI.2). The firming up of the yields reflected a variety of factors such as rise in domestic inflation, hike in fed funds rate, larger issuances of TBs on account of reintroduction of the MSS, and increase in repo and reverse repo rates and the cash reserve ratio.

VI.9 The yield spread of 364-day TBs over 91-day TBs varied between 74 basis points (June 7, 2006) and (-)26 basis points (February 14, 2007) (Table 6.2). The average yield spread during the fiscal year was 38 basis points (28 basis points a year ago).

VI.10 During 2006-07, non-competitive bids aggregating Rs.72,514 crore of TBs were received as compared with Rs.29,702 crore during the previous

Chart VI.2: Primary Market Yields of Treasury Bills



year, reflecting investment of surplus cash balances of a relatively more enduring nature with the State Governments. The share of non-competitive bids in gross issues of auctioned TBs increased to 33 per cent during 2006-07 from 17 per cent during 2005-06, almost entirely due to investments by the State Governments.

VI.11 On March 30, 2007, the calendar for the regular auction of TBs for 2007-08 (April-March) was announced. The notified amounts of 91-day, 182-day and 364-day TBs were kept unchanged at Rs.500 crore, Rs.500 crore and Rs.1,000 crore, respectively.

VI.12 Under the modified arrangements for liquidity management announced on March 2, 2007, the Reserve Bank, subject to variations in liquidity, would announce every Friday the possibility and the quantum of MSS issuances, covering TBs and dated securities, for the succeeding week. The total outstanding amount of 91-day, 182-day and 364-day Treasury Bills issued under the MSS during 2007-08 (as on August 3, 2007) amounted to Rs.13,500 crore, Rs.10,030 crore and Rs.21,440 crore, respectively.

VI.13 Till end-May 2007, the issuances of Treasury Bills under the normal portion were undertaken in accordance with the indicative calendar. In June 2007, TBs were actively used as a cash management instrument to enable the Government to acquire the stake in SBI from the Reserve Bank. Issuance of TBs under the MSS was accordingly discontinued after June 6, 2007. Additional issuances of TBs under the normal portion aggregating Rs.27,500 crore were undertaken on six occasions during June 2007; of these, the amounts raised through 91-day, 182-day and 364-day TBs were Rs.18,500 crore, Rs.6,000 crore and Rs.3,000 crore, respectively. The additional issuances were synchronised with the then prevailing easy liquidity conditions and thus did not distort the

Table 6.2: Treasury Bills – Primary Market

Month	Notified Amount (Rupees crore)	Average Implicit Yield at Minimum Cut-off Price (Per cent)			Bid-Cover Ratio*		
		91-day	182-day	364-day	91-day	182-day	364-day
1	2	3	4	5	6	7	8
2006-07							
April	5,000	5.52	5.87	5.98	5.57	4.96	2.02
May	18,500	5.70	6.07	6.34	1.88	1.84	1.69
June	15,000	6.15	6.64	6.77	1.63	1.35	2.11
July	15,000	6.42	6.75	7.03	1.82	1.55	3.12
August	19,000	6.41	6.70	6.96	2.03	2.71	3.48
September	15,000	6.51	6.76	6.91	1.35	1.80	2.92
October	15,000	6.63	6.84	6.95	1.31	1.20	2.02
November	18,500	6.65	6.92	6.99	1.33	1.22	2.49
December	15,000	7.01	7.27	7.09	1.19	1.29	3.34
January	19,000	7.28	7.45	7.39	1.02	1.35	1.74
February	15,000	7.72	7.67	7.79	2.48	2.56	3.16
March	15,000	7.68	7.98	7.90	2.08	2.15	3.87
2007-08							
April	15,000	7.53	7.87	7.72	2.87	3.36	3.16
May	18,500	7.59	7.70	7.79	2.33	2.57	2.33
June	35,000	7.39	7.76	7.67	3.23	4.11	3.97
July	12,500	5.07	5.94	6.87	5.99	2.67	4.10

* : Ratio of competitive bids received to notified amount.

yields. During the first quarter of 2007-08, the average cut off yields in the primary auctions of 91-day, 182-day and 364-day TBs hovered around 7.50 per cent, 7.75 per cent and 7.70 per cent, respectively. In July 2007, the average cut off yields of the three TBs declined sharply to 5.07 per cent, 5.94 per cent and 6.87 per cent, respectively, reflecting further easing of market liquidity conditions.

Dated Securities

VI.14 Net market borrowings through dated securities during 2006-07 amounted to Rs.1,06,916 crore, showing an increase of 12.1 per cent over that of Rs.95,370 crore during 2005-06.Gross market borrowings aggregated Rs.1,46,000 crore in 2006-07 (11.5 per cent higher than that of Rs.1,31,000 crore during 2005-06) (Table 6.3 and see Appendix Table 34). The total devolvement on the PDs during 2006-07 was Rs.5,604 crore; there was no devolvement on the PDs or the Reserve Bank during 2005-06.

VI.15 The Reserve Bank continued with the policy of passive consolidation and elongation of maturity profile of Government dated securities during 2006-07. Out of 33 issues of dated securities during the year, 30 were reissues of existing securities; three new securities of 10-year, 15-year and 30-year maturities were issued to provide a benchmark in the

Table 6.3: Gross and Net Market Borrowings of the Central Government

(Rupees crore)

Instrument	2005-06 (Actual)	2006-07 (BE)	2006-07 (Actual)	2007-08 (BE)	2007-08 (Actual)*
1	2	3	4	5	6
Total	1,60,018 (98,237)	1,81,875 (1,13,778)	1,79,373 (1,11,270)	1,87,769 (1,10,827)	96,628 (56,047)
of which:					
(i) Dated Securities	1,31,000 (95,370)	1,55,018 (1,15,939)	1,46,000 (1,06,916)	1,55,455 (1,09,579)	83,000 (55,232)
(ii) 364-day Treasury Bills	29,018 (2,867)	26,857 (-2,161)	33,373 (4,354)	32,314 (1,248)	13,628 (815)

BE : Budget Estimates. * : Up to August 10, 2007.
Note : Figures in parentheses represent net borrowings.

secondary market (Appendix Table 59). In 2005-06, only one out of the 31 issues was a new security. The share of reissued securities in total issuances in 2006-07 was 90.4 per cent (97.7 per cent in the previous year). Out of 100 outstanding marketable securities as on March 31, 2007, amounting to Rs.10,83,346 crore, eleven securities each with minimum outstanding amount of Rs.25,000 crore accounted for 32 per cent of the total outstanding amount at end-March 2007 (14 per cent as at end-March 2006).

VI.16 Like the major Treasuries, India has been following the practice of releasing an issuance calendar (Box VI.1). In India, the system of releasing the calendar began during 2002-03. Since then, half-yearly issuance calendars are released every year. During 2006-07, the issuance calendar for the first half of the year was issued on March 24, 2006 for Rs.89,000 crore. The aggregate amount raised during the first half of the year was exactly the same as was indicated in the issuance calendar, although on a few occasions the actual issuance differed from the scheduled issuance. In the auction held on June 22, 2006, an additional issuance of Rs.4,000 crore was made to absorb excess liquidity in the system. Taking into account the liquidity conditions and investor demand, the notified amounts in the two auctions held in July 2006 were reduced by Rs.4,000 crore, offsetting the additional issuance in June 2006. The issuance calendar for the second half of the fiscal year, released on September 25, 2006, was for Rs.63,000 crore. After a review of the Central Government's requirements, the scheduled auction in the 10-year segment for Rs.5,000 crore on January 12, 2007 was cancelled while the notified amount in the auction held in March 2007 was reduced by Rs.1,000 crore.Thus, the actual issuance during the second half was lower at Rs.57,000 crore.

Box VI. 1
Auction Calendar for Dated Securities: Underlying Considerations

Debt management strategy based on the principles of transparency and predictability is believed to be most effective in minimising government borrowing costs in the long-term. The uncertainty about the timing and amount of borrowing creates upward pressure on the Government's borrowing costs as investors load 'uncertainty risk premium' for an unpredictable and opportunistic issuance policy. The announcement of a calendar for market borrowings can reduce uncertainty about the debt manager's future actions and enables investors to plan their investments in the desired securities. Accordingly, by the early 1990s most of the major Treasuries in the world transited in favour of a more predictable and transparent issuance policy.

The issuance calendars by the majority of the developed countries such as the US, the UK, France, Canada and Japan provide information on only two major variables of the auctions, *viz.*, (a) the timing of issuance and (b) the tenor and type of security to be issued at that time. The most unpredictable variable of the issuance calendar, *i.e.*, the requirement of funds by the Government at the time of scheduled auction or the notified amount for the auction is not covered by these treasuries in their auction calendars. These treasuries subsequently release the information relating to the size of issuance when they gain certainty about the likely market borrowing requirement of the Government at the time of auction - some with the formal announcement of the auction and others through a periodic fortnightly/quarterly schedule.

The issuance calendar issued by the Reserve Bank of India is similar to the one released by the German Treasury but distinct from those of other developed treasuries as it covers all three variables of auctions, with notified amount given in exact terms. The performance of the issuance calendar released by the Reserve Bank has so far been generally satisfactory, with a very low rate of deviation between actual and scheduled issuances.

The calendar is drawn up by estimating inter-temporal market borrowing requirement of the Government and selection of maturity bucket/security to be issued. The size and timing of the auction in the calendar are based on a number of variables such as the expected cash position of the Government at the time of commencement of calendar, size of maturing debt to be rolled over, coupon payment liabilities, expected transfers to States, routine payment liabilities of the Centre, tax inflows and other transfer payments such as surplus transfer from the Reserve Bank. The securities/maturity bucket is identified after taking into consideration factors such as the likely demand for Government securities from different segments of the market, the likely interest rate scenario, the redemption profile of existing debt, and the need for benchmark securities by the market. Though the calendar, thus, prepared is indicative in nature, it has largely been adhered to. On some rare occasions, the actual issuance differs from the announced issuance on account of the evolving cash position of the Government, the prevailing market conditions, the interest rate scenario and other public policy considerations.

VI.17 The market response to the primary auctions of dated securities during 2006-07, as measured by bid-to-cover ratio (BCR), was more favourable than that in the previous year (Box VI.2).

VI.18 The weighted average yield of dated securities increased to 7.89 per cent during 2006-07 from 7.34 per cent during 2005-06 and 6.11 per cent during 2004-05 reflecting the hardening of interest rate structure (Table 6.4 and Appendix Table 60). Despite an increase in the yield during the year, the weighted average coupon on the outstanding stock of Government dated securities continued its downward trend, declining to 8.55 per cent as on March 31, 2007 from 8.75 per cent at end-March 2006 and 10.84 per cent at end-March 2002. The weighted average maturity of dated securities issued during 2006-07 was 14.72 years; it was lower than that of 16.90 years during 2005-06 but close to that prevailing during 2001-02 to 2004-05. The weighted average maturity of outstanding stock, however, inched up further to 9.97 years as on March 31, 2007 from 9.92 years at end-March 2006 and 8.20 years at end-March 2002.

VI.19 Apart from average maturity, another indicator of the risk profile of debt is modified duration, which is a measure of the sensitivity of the market value of debt to interest rate movements. Longer duration indicates, *ceteris paribus*, a greater degree of sensitivity of market value of debt to small interest rate changes. The modified duration of the outstanding open market loans of the Government increased steadily from 4 years at end-March 2000 to 6.2 years at end-March 2004 (Chart VI.3). This implied that a one per cent decline in yield would have resulted in an increase of 6.2 per cent in the market value of outstanding open market debt. The increase in the modified duration during this period essentially reflected the demand for longer duration securities in the context of a persistent decline in the secondary market yields. Since end-March 2005, the modified duration has hovered around 5.6 years. The reduction in modified duration in recent years

Box VI. 2
Primary Auctions of Government Securities in 2006-07 – An Analysis

The market response for the auctions during 2006-07, as measured by bid-to-cover ratio (BCR), was better than that in the previous year.The average BCR for 2006-07 was 2.36 as compared with 2.19 during 2005-06. The BCR is largely influenced by the prevailing liquidity conditions in the market, interest rate expectations and the statutory requirement of market participants at the time of auctions. The pattern of primary subscription by different groups of investors, however, does not indicate any major shift in demand pattern during the past two years. Since PDs have the responsibility to ensure the success of the primary issuances, they continued to remain the largest subscriber group accounting for nearly 49 per cent of issuances during both the years. The share of the insurance sector, which subscribed nearly 26 per cent of total issuances in 2005-06, fell to around 23 per cent in 2006-07, largely on account of availability of special Government securities such as Oil bonds and FCI bonds offering higher yields. The higher demand for Government securities by the banking sector, reflecting their emerging SLR requirement as well as larger availability of short tenor securities issued under the MSS, led to an increase in the banking sector's share from 22 per cent to 25 per cent.

An inverse relationship was observed to exist between the issue size and the BCR, reflecting inflexibility in demand for Government securities on account of the fixed set of market participants. No significant relationship of the BCR was found with other variables such as the coupon rate and the tenure of the securities.

A comparison of cut-off prices emerging in the auction with the closing market prices of the securities on the auction date and one day prior to it, reflected a high degree of alignment of primary issuance with secondary market yields. The weighted average dispersion of the bid prices from the cut-off price was low in the case of most auctions, indicating efficiency in bidding. Only on a few occasions, the dispersion was found to be high.

To measure the extent of uniformity of market expectations about the outcome of the auctions and also the bidding skills of the market participants, concentration of bid prices was measured by weighing the Herfindahl index of bid prices with the number of bids received in the auction. A higher value of the measure reflects the higher concentration of bids around the expected cut-off price/yield. A reasonably higher value for concentration of bids was obtained for most of the auctions, which was also consistent with the results observed for efficient bidding. Furthermore, the BCR and the concentration of bid price revealed a strong positive correlation, indicating that primary market demand for securities under auction increases during conditions when market participants hold uniform views.

reflected a myriad of factors, *viz*., the upward movement in yields, issuance of floating rate bonds during 2004-05 [with duration equivalent to the coupon reset period (6 months to one year)], and lengthening of the maturity profile of issuances undertaken during 2005-06. The extant modified

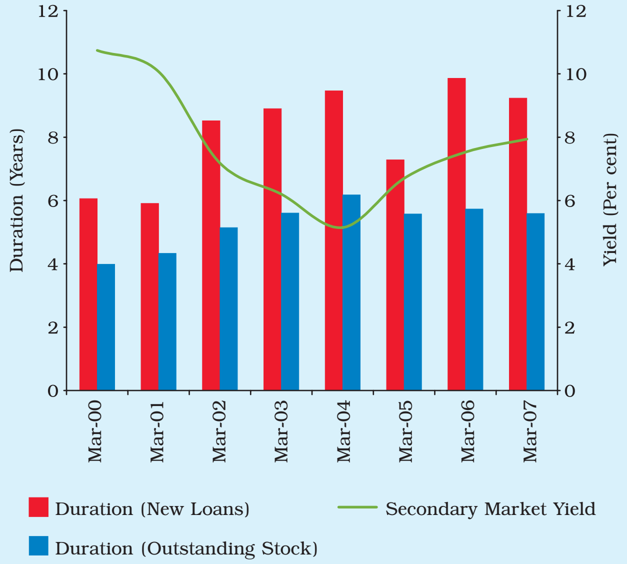
Table 6.4: Central Government's Market Loans – A Profile*

(Yield in per cent/Maturity in years)

Year	Range of YTMs at Primary Issues			Weighted Average Yield	Range of Maturities of New Loans	Weighted Average Maturity	Weighted Average Maturity of Outstanding Stock	Weighted Average Coupon 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	9.78	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	–	6.70-7.06	6.91-7.79	7.34	5-30	16.90	9.92	8.75
2006-07	7.69-7.94	7.06-8.29	7.43-8.75	7.89	4-30	14.72	9.97	8.55
2007-08#	—	7.58-8.44	8.34-8.64	8.23	6-30	14.32	10.39	8.46

: Up to August 10, 2007. * : Excludes issuances under the MSS. YTM: Yield to Maturity.
.. : Not Available. –: No Issues.

Chart VI.3: Modified Duration and Secondary Market Yields



duration of outstanding open market loans of the Government of India is comparable with the sovereign debt profile of some of the developed countries.

VI.20 During 2006-07, the spread between the primary cut-off yields in the auctions of dated securities and the prevailing secondary market yields of dated securities of similar maturity ranged between (-) 3 and 14 basis points. However, for a majority of issues (22 out of the 30 auctions of dated securities), the spread was quite narrow (ranged between (-) 3 and 6 basis points), indicating efficient price discovery in the primary auctions (Table 6.5).

VI.21 As a consequence of passive consolidation, a predominant share of the securities have been reissues, with coupons often at variance from the prevailing secondary market yields, resulting in premium received or discount paid by the Government. The total interest cost (adjusted for premium received and discount paid in respect of reissues) on outstanding market loans as a ratio of revenue receipts has declined steadily from 28.3 per cent in 2003-04 to 19.3 per cent in 2006-07.

VI.22 The absolute cost of underwriting of new issues borne by the Reserve Bank declined during 2006-07, notwithstanding the introduction of a revised scheme entailing 100 per cent underwriting commitment by PDs. During 2006-07, Rs.43.8 crore was paid as underwriting commission to PDs as compared with Rs.68.5 crore during the previous year.

Table 6.5: Primary Cut-off Yield and Prevailing Secondary Market Yield

(Amount in Rupees crore/Yield in per cent)

Date of Auction	Residual Maturity	Gross Amount Raised	Primary Cut-off Yield	Prevailing Secondary Market Yield	Spread (Basis points) (4)-(5)	Bid-Cover Ratio
1	2	3	4	5	6	7
April 10, 2006	10.00	5,000	7.59	…	–	2.26
April 10, 2006	28.33	3,000	7.97	7.95	2	2.14
April 25, 2006	6.02	6,000	7.06	7.09	-3	1.93
April 25, 2006	26.34	4,000	8.00	7.98	2	2.35
May 4, 2006	9.94	6,000	7.55	7.53	2	1.88
May 4, 2006	28.26	4,000	8.14	8.10	4	2.16
May 23, 2006	15.00	5,000	7.94	…	–	2.27
June 6, 2006	5.07	6,000	7.39	7.33	6	2.19
June 6, 2006	30.00	4,000	8.33	…	–	2.46
June 22, 2006	7.81	5,000	7.91	7.88	3	1.66
June 22, 2006	14.92	4,000	8.46	8.38	8	1.66
July 11, 2006	9.75	5,000	8.29	8.30	-1	1.51
July 11, 2006	28.08	2,000	8.75	8.61	14	2.04
July 27, 2006	3.79	4,000	7.69	7.68	1	2.26
August 8, 2006	4.90	6,000	7.94	7.86	8	2.55
August 8, 2006	9.68	3,000	8.27	8.20	7	3.24
August 18, 2006	10.40	5,000	8.12	8.10	2	2.65
August 18, 2006	29.79	3,000	8.72	8.72	0	3.15
September 8, 2006	9.59	6,000	7.76	7.70	6	2.79
September 8, 2006	27.91	3,000	8.45	8.41	4	2.72
October 13, 2006	9.49	6,000	7.63	7.63	0	1.76
October 13, 2006	29.64	3,000	8.10	8.10	0	2.30
November 3, 2006	5.49	6,000	7.50	7.48	2	2.55
November 3, 2006	27.76	3,000	8.02	8.01	1	2.44
November 24, 2006	10.13	5,000	7.43	7.42	1	2.74
December 8, 2006	7.35	5,000	7.31	7.30	1	2.14
December 8, 2006	29.49	4,000	7.63	7.60	3	2.61
January 12, 2007	29.39	4,000	8.24	8.17	7	1.43
January 25, 2007	14.32	5,000	8.20	8.12	8	2.41
February 9, 2007	7.18	6,000	7.88	7.82	6	1.67
February 9, 2007	29.32	3,000	8.19	8.12	7	2.92
March 9,2007	9.84	4,000	8.06	8.00	6	2.93
March 9, 2007	29.24	3,000	8.40	8.33	7	2.73

.. : Not available. – : Not applicable.

The reduction in the underwriting commission during 2006-07, despite a higher underwriting obligation of Rs.1,46,000 crore than that of Rs.1,31,000 crore in the previous year, reflected the successful adaptation of PDs to the post-FRBM environment, in general, and the revised system of underwriting, in particular.

VI.23 The share of securities of tenor between 5 and 10 years issued during 2006-07 increased to 47 per cent from 26 per cent in the previous year. The hardening of yields and the higher statutory investment demand for Government securities by the banking sector prompted the relatively higher issuance of securities of tenor up to 10 years (Table 6.6).

Table 6.6: Maturity Profile of Central Government Dated Securities

(Per cent)

Year	Issued during the Year			Outstanding Stock (End-March)		
	Under 5 Years	5-10 Years	Over 10 Years	Under 5 Years	5-10 Years	Over 10 Years
1	2	3	4	5	6	7
1997-98	18	82	0	41	41	18
1998-99	18	68	14	41	42	16
1999-00	0	35	65	37	39	24
2000-01	6	41	53	27	47	26
2001-02	2	24	74	31	36	33
2002-03	0	36	64	26	35	39
2003-04	5	15	80	24	32	44
2004-05	11	11	78	27	30	43
2005-06	0	26	74	26	31	43
2006-07	7	47	46	26	41	33

VI.24 Annual repayment obligations would hover in a range of Rs.44,028 crore to Rs.74,074 between 2008-09 and 2015-16 before peaking at Rs.1,08,130 crore during 2016-17 (Table 6.7).

VI.25 The declining trend in the share of high cost debt continued during 2006-07. The share of outstanding debt with coupon of more than 8 per cent declined to 46.6 per cent at end-March 2007 from 49.8 per cent a year ago. About 45 per cent of the outstanding stock of debt at end-March 2007 was contracted at interest rates of 6.00-7.99 per cent (36.4 per cent a year ago) (Table 6.8).

Table 6.7: Repayment Schedule of the Centre's Outstanding Market Loans

(As on March 31, 2007)

(Rupees crore)

1	2
2007-08	45,876
2008-09	44,028
2009-10	54,589
2010-11	66,586
2011-12	73,581
2012-13	74,074
2013-14	65,009
2014-15	69,018
2015-16	65,244
2016-17	1,08,130
2017-18	63,774
2018-19	42,478
2019-20	28,000
2020-21	11,000
2021-22	41,846
2022-23	41,000
2023-24	21,000
2025-26	16,688
2026-27	19,389
2027-28	15,000
2028-29	11,000
2031-32	2,687
2032-33	21,000
2034-35	29,350
2035-36	29,000
2036-37	24,000
Total	**10,83,346**

Table 6.8: Interest Rate Profile of the Outstanding Stock of Central Government Securities

Interest Rate (Per cent)	Outstanding Amount (Rupees crore)		Share in Total (Per cent)	
	end-March 2006	end-March 2007	end-March 2006	end-March 2007
1	2	3	4	5
4.00-4.99	19,500	11,000	2.0	1.0
5.00-5.99	1,15,818	82,818	11.9	7.6
6.00-6.99	1,42,307	1,63,949	14.6	15.1
7.00-7.99	2,12,540	3,20,540	21.8	29.6
8.00-8.99	60,973	1,07,681	6.2	9.9
9.00-9.99	59,424	71,424	6.1	6.6
10.00-10.99	93,067	1,01,382	9.5	9.4
11.00-11.99	1,59,308	1,18,668	16.3	10.9
12.00-12.99	94,249	93,184	9.7	8.6
13.00-14.00	19,530	12,700	2.0	1.2
Total	**9,76,717**	**10,83,346**	**100**	**100**

VI.26 During 2006-07, insurance companies continued to absorb the largest share of fresh issues of dated securities, followed by commercial banks, largely reflecting their increased investment requirements. Notwithstanding the steady erosion in their share over the past three years, commercial banks continued to account for the predominant share in the outstanding stock of dated securities at end-March 2007 (Box VI.3).

Recapitalisation Bonds

VI.27 The Union Budget 2006-07 had announced the unwinding of the entire outstanding amount of Recapitalisation Bonds/Special Securities issued to nationalised banks, amounting to Rs.20,809 crore, through conversion into tradable, SLR eligible, Government of India dated securities. The conversion in each tranche was proposed to be effected in successive quarters beginning with the second quarter of 2006-07 and the fourth and the final tranche of conversion was to be effected during 2007-08. However, only one tranche of conversion was effected during 2006-07 (on February 15, 2007) under which two Recapitalisation Bonds, aggregating Rs.8,708 crore were converted into three marketable Government securities with residual maturities of 15, 20 and 25 years. During 2007-08 (up to August 10, 2007), another tranche of conversion was effected on

Box VI.3
Ownership Pattern of Government Securities

A diversified investor base is one of the basic characteristics of a well developed and efficient market. Diversity in investor base imparts stability to the markets by minimising the impact of 'herd mentality'.

In India, traditionally, the major holders of Government securities have been banks and insurance companies. While banks and insurance companies held the securities due to the statutory stipulations, the Reserve Bank held these securities in discharge of its role as monetary authority and merchant banker to the Government. The share of banks' holdings in outstanding Government securities declined sharply from a peak of 71.9 per cent at end-March 1994 to 44 per cent by end-December 2006, reflecting a variety of factors such as the reduction in SLR requirement and the strong demand for bank credit (Chart).

The share of the Reserve Bank in holdings of Government securities has also declined from about 25 per cent in 1991 to around seven per cent by end-December 2006, on account of a number of factors such as sterilisation operations in the face of sustained capital flows, the gradual phasing out of the monetisation of fiscal deficits and the growing commitment to fiscal discipline by the Government. The reforms in the Government securities market have been aimed at widening and diversifying the investor base to ensure efficient price discovery. Expanding the instrument base to cater to different kinds of investors, permitting non-competitive bidding in auctions, establishment of the primary dealer system for market making, permitting FIIs to invest in Government securities, introduction of anonymous order matching system for enhancement of trading efficiency and expanding its scope to odd lot trading, and CSGL trading are some of the measures initiated in this direction. While these measures have helped in bringing new players into the market (Table), active and widespread participation of these entities is expected to materialise gradually. The holdings remain concentrated in a few major categories of institutions. This scenario is expected to change with the development of new segments like pension and provident funds and more retail participation.

Chart: Share of Major Investors in Government Securities

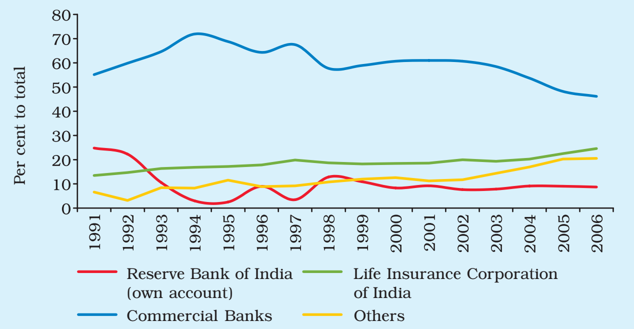


Table: Holding Pattern of Central Government Dated Securities

(Per cent to total)

Category	Mar-06	Jun-06	Sep-06	Dec-06
1	2	3	4	5
Commercial Banks	45	44	45	44
Insurance Companies	25	26	27	27
Primary Dealers	5	6	5	5
Mutual Funds	1	1	1	1
Cooperative Banks	4	3	3	3
Financial Institutions	1	1	1	1
Corporates	1	2	2	2
Provident Funds	6	6	6	6
Reserve Bank of India	8	7	7	7
Others	4	4	3	4

August 2, 2007 under which three Recapitalisation Bonds aggregating Rs.6,831 crore were converted into three marketable Government securities with the same residual maturities as in the first conversion.

Special Securities to Oil Marketing Companies (OMCs)

VI.28 With a view to compensating oil marketing companies (OMCs) for under-recoveries in their domestic LPG and kerosene (PDS) operations during 2006-07, the Government of India issued five special securities to OMCs on five occasions in 2006-07 aggregating Rs.24,121 crore. The special securities, with 15-year, 17-year and 20-year maturities, were without SLR status as these were not issued as a part of the approved market borrowing programme of the Government. The coupon rates on these bonds were fixed on the basis of prevailing secondary market yields with a suitable non-SLR spread of 20-25 basis points.

Special Securities to Food Corporation of India (FCI)

VI.29 As part of settlement of the outstanding dues of the Food Corporation of India (FCI) in respect of food grains supplied by it to the Ministry of Rural Development, the Government of India issued special securities worth Rs.16,200 crore during 2006-07 to the FCI. The first tranche of the Special Bonds was issued for Rs.5,000 crore (nominal) on October 16, 2006. Two further tranches were issued on December

15, 2006 and February 12, 2007 for Rs.5,000 crore and Rs.6,200 crore, respectively. The bonds issued were of 16-year, 18-year and 20-year maturity. The investments in these FCI Special Bonds are not reckoned as eligible investment by banks and insurance companies for their statutory requirements. However, investment by provident funds, gratuity funds, and superannuation funds in the Special Bonds would be treated as eligible investment under the administrative order of the Ministry of Finance. These bonds are transferable and eligible for repo transactions.

Market Borrowings during 2007-08

VI.30 Market borrowings (through dated securities) of the Central Government for 2007-08 are budgeted at Rs.1,55,455 crore (net Rs.1,09,579 crore), Rs.9,455 crore higher than the actual amount raised in 2006-07. The issuance calendar for dated securities for the first half of 2007-08 released on March 30, 2007 was fixed at Rs.92,000 crore (Rs.89,000 crore raised during the corresponding period of the previous year). The monthly amount to be raised varies between Rs.7,000 crore (September 2007) and Rs.19,000 crore (July 2007) (Table 6.9). A sizeable amount (46 per cent) to be raised during the first half would be through securities of tenor between 10-14 years.

VI.31 During 2007-08 so far (up to August 10, 2007), a gross amount of Rs.83,000 crore (excluding issuances under the MSS) has been raised through dated securities, as compared with Rs.72,000 crore in the corresponding period of the previous year. While the amounts raised in April and May 2007 were in accordance with the issuance calendar, an additional Rs.5,000 crore, outside the calendar, was raised on June 12, 2007 to fund the acquisition of SBI stake by the Government. All but one of the securities were reissues. The weighted average yield of the dated securities issued was higher at 8.23 per cent than that of 7.87 per cent during the corresponding period of the previous year. The weighted average maturity of the dated securities issued at 14.72 years was higher than that of 13.21 years during the corresponding period of the previous year.

Table 6.9: Indicative Calendar and Actual Borrowings of Central Government during 2007-08

(Amount in Rupees crore/Maturity in years)

Sr. No.	Borrowings as per Indicative Issuance Auction Calendar: Period of Auction	Amount	Residual Maturity	Actual Borrowings: Date of Auction	Amount	Residual Maturity	Yield (Per cent)
1	2	3	4	5	6	7	8
1.	April 5-12, 2007	6,000	5-9	April 12, 2007	6,000	8.39	8.16
		4,000	20 and above	April 12, 2007	4,000	29.15	8.58
2.	April 20-27, 2007	6,000	10-14	April 27, 2007	6,000	9.71	8.16
3.	May 4 -11, 2007	6,000	10-14	May 11, 2007	6,000	9.92	8.31
		4,000	20 and above	May 11, 2007	4,000	29.06	8.64
4.	May 18-25, 2007	5,000	5-9	May 25, 2007	5,000	8.26	8.24
		3,000	15-19	May 25, 2007	3,000	14.96	8.40
5.	June 1-8, 2007	6,000	10-14	June 5, 2007	6,000	9.86	8.18
		3,000	20 and above	June 5, 2007	3,000	29.00	8.52
6.	June 15-22, 2007	6,000	10-14	June 12, 2007*	5,000	9.84	8.44
				June 15, 2007	6,000	9.83	8.35
7.	July 6-13 , 2007	6,000	10-14	July 6, 2007	6,000	10.00	7.99
		4,000	20 and above	July 6, 2007	4,000	28.91	8.45
8.	July 20-27, 2007	6,000	5-9	July 20, 2007	6,000	6.11	7.59
		3,000	20 and above	July 20, 2007	3,000	25.10	8.34
9.	August 3-10, 2007	6,000	10-14	August 3, 2007	6,000	9.93	7.93
		4,000	20 and above	August 3, 2007	4,000	25.06	8.45
10.	August 17-24, 2007	5,000	5-9				
		2,000	10-14				
11.	September 7-14, 2007	4,000	10-14				
		3,000	20 and above				

* : An additional Rs.5,000 crore, outside the calendar, was raised on June 12, 2007 to fund acquisition of SBI stake by the Central Government.

VI.32 The Union Budget 2007-08 had proposed the establishment of an autonomous Debt Management Office (DMO), which would take up debt management functions from the Reserve Bank. In the first phase, a Middle Office would be set up to facilitate transition to a full-fledged DMO.

STATE GOVERNMENTS

Ways and Means Advances

VI.33 Following the recommendations of the Advisory Committee on Ways and Means Advances (WMA) and Overdrafts (OD) to State Governments (Chairman: Shri M.P. Bezbaruah), a revised WMA/OD Scheme was put in place from 2006-07. The aggregate Normal WMA limit for the State Governments was increased by 10.5 per cent to Rs.9,875 crore for 2006-07. The rates of interest on Normal and Special WMA and OD were linked to the repo rate. In addition, with the objective of providing an incentive to the State Governments to build-up the Consolidated Sinking Fund (CSF) and the Guarantee Redemption Fund (GRF), net incremental annual investments in these Funds were made eligible for the purpose of availing Special WMA up to a ceiling equivalent to the Normal WMA limit.

VI.34 The daily average utilisation of Normal WMA, Special WMA and overdrafts by the State Governments declined during 2006-07 (Table 6.10).

VI.35 During 2006-07, eight States resorted to WMA as against 12 States in the previous year (Table 6.11). Only two States resorted to overdraft during 2006-07 as against eight States in the previous year. The lower utilisation of WMA reflected improved liquidity position on the back of persistent cash surplus with the State Governments.

VI.36 Notwithstanding some slowdown in the automatic inflow of funds under the high-cost NSSF, most State Governments continued to accumulate sizable cash surpluses during 2006-07 emanating mainly from substantially higher Central transfers by way of taxes and grants, and fiscal consolidation measures. The surplus cash balances of the State Governments are automatically invested in 14-day Intermediate TBs, the discount rate in respect of which is 5 per cent at present. While 14-day Intermediate TBs can be rediscounted with the Reserve Bank (with a load of 50 basis points), auction TBs cannot be rediscounted with the Reserve Bank. The outstanding investments of States in 14-day Intermediate TBs at Rs.45,769 crore (by 22 States) at end-March 2007 was 17 per cent higher than that of Rs.38,983 crore (by 24 States) at end-March 2006. On the other hand, the outstanding investment of the State Governments in auction TBs recorded a substantially higher order of increase of 165 per cent to Rs.34,186 crore at end-March 2007 from Rs.12,883 crore at end-March 2006.This could be attributed to the perceived durability of surplus balances with the State Governments and relatively higher yield (around 7-8 per cent) in auction TBs. In terms of monthly averages, the total investments (14-day Intermediate TBs and auction TBs taken together)

Table 6.10: WMA/Overdrafts of State Governments

(Rupees crore)

Month	Special WMA			Normal WMA			Overdraft			Total		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
1	2	3	4	5	6	7	8	9	10	11	12	13
April	458	25	235	1,984	723	114	1,084	37	15	3,526	785	364
May	254	6	437	920	162	654	118	0	461	1,292	169	1,552
June	5	1	204	61	3	222	0	0	10	66	4	436
July	67	5	389	282	56	310	38	0	3	387	61	702
August	79	10		244	145		31	10		354	164	
September	27	10		113	223		0	2		140	235	
October	8	9		102	189		0	22		110	220	
November	13	10		148	268		0	48		161	327	
December	8	22		175	246		24	122		207	390	
January	3	43		15	297		0	75		19	415	
February	1	39		2	121		0	5		4	165	
March	0	35		3	4		0	2		3	41	
Average	**77**	**18**	**316**	**337**	**203**	**325**	**108**	**27**	**122**	**522**	**248**	**763**

* : Average of daily outstandings.

Table 6.11: State-wise Availment of WMA/Overdraft

(Rupees crore)

Sr. No.	State	WMA 2005-06 Number of days	WMA 2006-07 Number of days	Overdraft 2005-06 Number of Occasions*	Overdraft 2005-06 Number of days	Overdraft 2006-07 Number of Occasions*	Overdraft 2006-07 Number of days
1	2	3	4	5	6	7	8
1.	Andhra Pradesh	0	0	0	0	0	0
2.	Bihar	0	0	0	0	0	0
3.	Chhattisgarh	0	0	0	0	0	0
4.	Goa	0	0	0	0	0	0
5.	Gujarat	0	0	0	0	0	0
6.	Haryana	0	0	0	0	0	0
7.	Jharkhand	0	29	0	0	0	0
8.	Karnataka	0	0	0	0	0	0
9.	Kerala	240	223	11	63	9	63
10.	Madhya Pradesh	0	0	0	0	0	0
11.	Maharashtra	41	42	1	20	0	0
12.	Orissa	0	0	0	0	0	0
13.	Punjab	22	0	0	0	0	0
14.	Rajasthan	0	0	0	0	0	0
15.	Tamil Nadu	0	0	0	0	0	0
16.	Uttar Pradesh	34	0	1	11	0	0
17.	West Bengal	0	0	0	0	0	0
Special Category States							
1.	Arunachal Pradesh	29	2	0	18	0	0
2.	Assam	57	0	2	22	0	0
3.	Himachal Pradesh	25	1	0	0	0	0
4.	Manipur	63	0	1	44	0	0
5.	Meghalaya	15	0	1	1	0	0
6.	Mizoram	14	1	0	0	0	0
7.	Nagaland	42	28	1	17	2	16
8.	Tripura	0	0	0	0	0	0
9.	Uttaranchal	27	63	1	13	0	0

*: Refers to fresh occurrences of overdraft during the year.

increased from Rs.41,066 crore during 2005-06 to Rs.63,995 crore during 2006-07 (Table 6.12).

VI.37 The upsurge in the surplus cash balances of the State Governments since the middle of 2004-05, in sharp contrast to the liquidity pressures witnessed in the earlier period, has posed newer challenges to the financial and cash management of the State Governments. Under the extant arrangements, the cash balances of the State Governments are automatically invested in 14-day Intermediate Treasury Bills (ITBs) issued by the Central Government. The State Governments are also permitted to invest, as non-competitive bidders, in the auction Treasury Bills (ATBs) of the Central Government. The rates of discount on ITBs and ATBs are lower than the interest paid on open market borrowings and small savings, resulting in a negative carry on cash balances. Consequently, many State Governments have expressed the need for alternative investment options for their cash balances. In view of large surpluses, while some States decided to curtail the size of their market borrowings, two States decided to use a part of surplus to buyback a portion of their outstanding stock (Box VI.4).

VI.38 The issues relating to the investment of surplus cash balances of the States were discussed in the 18th Conference of State Finance Secretaries held on August 7, 2006. Taking cognisance of the different views expressed during the Conference, it was decided to constitute a small group of State Finance Secretaries and the Reserve Bank officials to suggest a framework for alternative investment options of surplus cash balances of the State Governments. The Working Group included the Finance Secretaries of Assam, Karnataka,

Table 6.12: Investments of State Governments*

(Rupees crore)

Month	Investment in 14-day Treasury Bills			Investment in Auction Treasury Bills			Total		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
1	2	3	4	5	6	7	8	9	10
April	14,764	32,538	31,160	2,492	14,247	34,496	17,256	46,785	65,656
May	18,458	34,559	31,203	3,460	17,542	32,612	21,918	52,101	63,815
June	32,318	40,480	44,430	4,202	19,262	32,500	36,520	59,742	76,930
July	32,633	47,089	35,938	4,891	16,626	39,557	37,524	63,715	75,495
August	35,611	47,538		4,511	17,249		40,122	64,787	
September	40,530	47,858		6,974	18,762		47,504	66,620	
October	36,252	38,470		6,247	21,529		42,499	59,999	
November	40,429	41,694		6,423	21,656		46,852	63,350	
December	44,109	43,879		5,610	25,106		49,719	68,985	
January	42,905	42,860		7,626	25,591		50,531	68,451	
February	36,515	48,084		7,913	24,554		44,428	72,638	
March	48,811	51,848		9,116	28,920		57,927	80,768	
Average	**35,278**	**43,075**	**35,683**	**5,789**	**20,920**	**34,791**	**41,066**	**63,995**	**70,474**

* : Average of Friday outstanding.

Maharashtra and Rajasthan, who had volunteered their participation. The Working Group submitted its Report to the Reserve Bank in December 2006.

VI.39 Following the recommendations of the Advisory Committee on Ways and Means Advances and Overdrafts to the State Governments (Chairman: Shri M.P. Bezbaruah), the State-wise limits of Normal WMA limits for 2006-07 were reviewed towards the end of the year. It was perceived that the extant Normal WMA limits were adequate, *inter alia,* on account of (i) low utilisation of WMA by the State Governments during 2006-07; (ii) acclimatisation of the State Governments to the changes in the fiscal environment as envisaged by the Twelfth Finance Commission, thereby signaling the end of the period of transition; and (iii) expected persistence of the comfortable liquidity position of the State Governments during 2007-08. Accordingly, it was decided to retain the extant State-wise Normal WMA

Box VI. 4
Pre-payment of Debt by State Governments

Accumulation of sizeable surplus cash and the negative carry on these balances led the States to adopt different strategies during 2006-07. While most of the States preferred to curtail the size of their market borrowing, the State Governments of Orissa and Rajasthan decided to utilise a part of their surplus cash balances to prepay some of their outstanding debt through buyback auctions. The modalities of buyback auctions were finalised by the Reserve Bank in consultation with these State Governments and the Government of India. Prepayment of outstanding debt reduces future coupon payment liabilities, generates market interest in the otherwise dormant securities and imparts liquidity in those securities.

Two rounds of buyback auctions were conducted on February 22, 2007 and March 23, 2007 for these States. In the first round of buyback auctions for the State Development Loans (SDLs) of Orissa and Rajasthan, the target amounts were fixed at Rs.300 crore and Rs.100 crore (face values), respectively. Eighty two bids for an aggregate amount of Rs.542.4 crore were received in the buyback auction for the SDLs of Orissa, whereas the SDLs of Rajasthan attracted 25 bids aggregating Rs.386.2 crore. Orissa accepted bids amounting to Rs.308.2 crore against the target amount of Rs.300 crore at a cut-off discount of 0.37 per cent to the reference prices, whereas Rajasthan accepted an amount of Rs.84.5 crore against the target amount of Rs.100 crore at nil cut-off discount to the reference prices. One of the reasons cited by market participants for the subdued response in buyback auction for the SDLs of Rajasthan was the selection of low coupon securities by the State. The second buyback auction with a target amount of Rs.400 crore was conducted on March 23, 2007 for the Government of Orissa. In the auction, 34 bids for Rs.195.2 crore were received and the State Government decided to accept an amount of Rs 86.4 crore at a cut-off discount of 0.21 per cent to the reference prices.

Table 6.13: Normal WMA Limits of States

(Rupees crore)

State	2002 (effective April 1, 2002)	2003 (effective March 3, 2003)*	2004 (effective April 1, 2004)	2005 (effective April 1, 2005)	2006 (effective April 1, 2006)#	2007 (effective April 1, 2007)#
1	2	3	4	5	6	7
Non-Special Category States						
Andhra Pradesh	520	620	700	770	880	880
Bihar	245	305	340	380	425	425
Chhattisgarh	100	130	155	175	190	190
Goa	50	50	65	65	65	65
Gujarat	445	485	520	575	630	630
Jharkhand	75	105	175	225	280	280
Haryana	180	205	245	280	295	295
Karnataka	375	460	505	570	625	625
Kerala	225	270	315	345	350	350
Madhya Pradesh	275	345	395	420	460	460
Maharashtra	760	905	1,000	1,050	1,160	1,160
Orissa	185	215	250	270	300	300
Punjab	235	240	325	360	360	360
Rajasthan	310	365	405	440	505	505
Tamil Nadu	415	570	615	670	730	730
Uttar Pradesh	630	755	835	920	1,020	1,020
West Bengal	360	420	480	495	545	545
Sub Total	**5,385**	**6,445**	**7,325**	**8,010**	**8,820**	**8,820**
Special Category States						
Arunachal Pradesh	50	50	50	50	65	65
Assam	180	210	250	295	300	300
Himachal Pradesh	115	135	140	145	190	190
Manipur	50	50	50	55	60	60
Meghalaya	50	50	50	55	60	60
Mizoram	50	50	50	50	55	55
Nagaland	50	55	60	65	80	80
Tripura	55	60	70	80	100	100
Uttaranchal	50	65	95	130	145	145
Sub Total	**650**	**725**	**815**	**925**	**1,055**	**1,055**
Total	**6,035**	**7,170**	**8,140**	**8,935**	**9,875**	**9,875**

* : Advisory Committee on WMA to State Governments (Chairman: Shri C. Ramachandran), January 2003.
# : Advisory Committee on WMA to State Governments (Chairman: Shri M. P. Bezbaruah), October 2005.

limits for 2007-08 (Table 6.13). Other terms and conditions of the Scheme would also continue to remain unchanged for 2007-08.

VI.40 The liquidity position of most of the States has remained fairly comfortable during 2007-08 so far. The weekly average investment by the States in the 14-day TBs during 2007-08 (up to July 31, 2007) at Rs.35,683 crore was broadly at the same level as that in the corresponding period of the previous year. On the other hand, the weekly average investment by the States in ATBs during 2007-08 (up to July 31, 2007) at Rs.34,791 crore was higher than that of Rs.16,919 crore in the corresponding period of the previous year. A few States, which could not build up a sufficient financial buffer during 2006-07 by way of investment in TBs, however, had to resort to WMA/ OD facility from the Reserve Bank for meeting their temporary cash mismatches. During 2007-08 (up to July 31, 2007), seven States availed of Normal WMA, of which three States availed it for a period exceeding two weeks and also resorted to overdrafts. The daily average utilisation of WMA and overdraft by the States was Rs.763 crore in 2007-08 (up to July 31, 2007) as compared with Rs.255 crore in the corresponding period of the previous year.

Market Borrowings

VI.41 The provisional net allocation under the market borrowing programme for the State Governments for 2006-07 was placed at Rs.17,242 crore. Taking into account the repayments of Rs.6,551 crore and additional allocation of Rs.2,804 crore, the gross allocation amounted to Rs.26,597 crore during 2006-07. The State Governments raised a gross amount of Rs.20,825 crore in 2006-07 as compared with Rs.21,729 crore in the previous year (Table 6.14 and Appendix Table 61). The entire amount was raised through the auction route during 2006-07 as compared with 48.5 per cent in the previous year and 2.3 per cent in 2004-05. Six States (Bihar, Chhattisgarh, Gujarat, Haryana, Karnataka and Orissa) did not participate in the market borrowing programme during 2006-07, while two States, *viz*., Goa and Tripura did not raise their full allocations.

VI.42 During 2006-07, 12 tranches of auctions were held under the market borrowing programme of the State Governments as compared with three tap issuances and 9 tranches of auctions during the previous year. All the issues during 2006-07 were of 10-year maturity. The State Governments raised market loans during all but two months (June and September) of 2006-07 (Table 6.15 and Appendix Table 62).

Table 6.14: Annual Market Borrowings of the State Governments

(Rupees crore)

Item	2005-06	2006-07	2007-08
1	2	3	4
1. Net Allocation	16,112	17,242	23,024
2. Additional Allocation	3,522	2,804	535
3. Total Allocation (1+2)	**19,634**	**20,046**	**23,559**
4. Repayments	6,274	6,551	11,555 (9,186) #
5. Gross Allocation (3+4)	**25,909**	**26,597**	**35,114**
6. Total Amount Raised (6.1 + 6.2)	**21,729**	**20,825**	**8,542 #**
6.1 Raised through Tap	11,186	–	–
6.2 Raised through Auction	10,544	20,825	8,542 #
7. Net Amount Raised (6-4)	**15,455**	**14,274**	**-644 #**
8. Outstanding State Development Loans (end-period)	**2,28,898**	**2,42,777**	–

#: Up to August 10, 2007.

Note : 1. Net allocations in respect of three States, *viz*., Goa, Uttarakhand and Uttar Pradesh under market borrowing programme of State Governments during 2007-08 are yet to be finalised.

Table 6.15: Month-wise Market Borrowings of the State Governments

(Amount in Rupees crore)

Sr. No.	Month	No. of States	Raised through Auction: Amount	Raised through Auction: Cut-off Yield (Per cent)	Spread over Central Government Dated Security (Basis points)
1	2	3	4	5	6
2006-07					
1.	April	1	300	7.65	22
2.	May	16	5,585	7.89-8.05	34-52
3.	June	–	–	–	–
4.	July	7	1,458	8.62-8.66	29-33
5.	August	4	1,050	8.11	14
6.	September	–	–	–	–
7.	October	2	201	7.99-8.04	31-36
8.	November	11	2,431	7.74-7.82	21-29
9.	December	8	1,963	7.81-7.99	12-30
10.	January	4	1,215	7.96-7.99	15-18
11.	February	1	200	7.95	26
	February	7	3,400	8.10-8.45	14-49
12.	March	10	2,284	8.25-8.45	28-48
	March	1	738	8.35	41
	Total		**20,825**	**7.65-8.66**	**12-52**
2007-08					
1.	April	5	1,837	8.30	22
2.	May	1	350	8.34	23
	May	2	1,400	8.40	28
3.	June	9	3,566	8.45-8.57	23-25
4.	July	5	1,389	8.00-8.25	19-44
	Total		**8,542**	**8.00-8.57**	**19-44**

VI.43 During 2006-07, one State Government accessed the market as many as seven times, while seven State Governments accessed the market on four occasions. In all, 72 new securities were issued by all the States during 2006-07 for a gross amount of Rs.20,825 crore; the average issue size was Rs.289 crore (Table 6.16). The small size of issuance has been one of the factors that has impacted upon liquidity of the State Government securities. In this context, the process of consultation with the State Governments to introduce a system of reissuances of SDLs is underway.

VI.44 The weighted average yield of State Government securities issued firmed up by 47 basis points to 8.10 per cent during 2006-07 in line with that of Central Government securities, reflecting the general upward movement in interest rates (Table 6.17). The cut-off yield in the auction of State Government

Table 6.16: Frequency Distribution of Tranches of Auctions during 2006-07

No. of times entering the Market/Tranches	No. of States	No. of Securities Issued
1	2	3
1	2	2
2	6	12
3	4	12
4	7	28
5	1	5
6	1	6
7	1	7
Total	**22**	**72**

securities during 2006-07 ranged between 7.65-8.66 per cent. The cut-off yields were 12 to 52 basis points higher than secondary market yields of Government of India dated securities of comparable maturity.

VI.45 While the spreads for almost all the States remained well below 50 basis points, a clear linkage between the fiscal performance of the State Governments and the weighted average spreads obtained in the auctions during the year was not evident (Table 6.18).

VI.46 As at end-March 2007, 70.3 per cent of outstanding stock of debt was at interest rate of less than 9 per cent (65.6 per cent a year ago) (Table 6.19).

VI.47 Almost two-thirds of the outstanding stock of State Government securities were in the maturity bucket of 6-10 years at end-March 2007 (Table 6.20).

VI.48 The maturity profile of market borrowings shows a hump in repayments during 2012-13 to 2015-16 due to high amount of borrowings during 2002-03 to 2004-05 under the Debt Swap Scheme (Table 6.21).

VI.49 With the cessation of Central loans to the State Governments from 2005-06 as recommended by the Twelfth Finance Commission, the reliance of the States on alternative forms of borrowings is expected to increase within the parameters of their Fiscal Responsibility Legislations, wherever applicable. At the same time, in line with the progressive increase in the reliance of the State Governments on open market borrowings through the auction route, competitive pressures amongst the States are expected to intensify in future. There would, thus, be a greater need for coordination between the Central and the State Governments as well as the Reserve Bank to ensure that the Government borrowing programmes are conducted smoothly, consistent with the objectives of monetary policy. An important initiative in this regard is the constitution of a Standing Technical Committee on Borrowings of State Governments (Box VI. 5).

VI.50 Based on the recommendations of the Report of Expert Group on the Settlement of SEB Dues (Chairman: Shri M. S. Ahluwalia) (2001), a scheme for one-time settlement of outstanding dues of State Electricity Boards (SEBs) to Central Public

Table 6.17: Yield on State Government Securities

(Per cent)

Year	Range	Weighted Average
1	2	3
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	6.45
2005-06	7.32-7.85	7.63
2006-07	7.65-8.66	8.10
2007-08*	8.00-8.57	8.35

* : Up to August 10, 2007.

Table 6.18: Weighted Average Spreads during 2006-07

Weighted Average Spread (Basis points)	General Category States	Special Category States
1	2	3
Less than 20	Goa, Rajasthan	Tripura
20 – 25	Kerala, Tamil Nadu	–
25 – 30	Andhra Pradesh	Arunachal Pradesh, Assam, Himachal Pradesh
30 – 35	Jharkhand, Maharashtra, Punjab, West Bengal	Sikkim
35 – 40	Madhya Pradesh	Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland
Above 40	Uttar Pradesh	Uttaranchal

Table 6.19: Interest Rate Profile of the Outstanding Stock of State Government Securities

Sr.No.	Range of Interest Rate (Per cent)	Outstanding Amount (Rupees crore)		Percentage to Total	
		End-March 2006	End-March 2007	End-March 2006	End-March 2007
1	2	3	4	5	6
1.	5.00-5.99	33,825	33,825	14.8	13.9
2.	6.00-6.99	58,563	58,564	25.6	24.1
3.	7.00-7.99	49,601	59,638	21.7	24.6
4.	8.00-8.99	8,004	18,791	3.5	7.7
5.	9.00-9.99	5,412	5,412	2.4	2.2
6.	10.00-10.99	14,563	14,468	6.4	6.0
7.	11.00-11.99	17,062	16,934	7.5	7.0
8.	12.00-12.99	26,146	25,959	11.4	10.7
9.	13.00-13.99	15,722	9,186	6.9	3.8
	Total	**2,28,898**	**2,42,777**	**100**	**100**

Sector Undertakings (CPSUs) was finalised. Under the Tripartite Agreements (TPA) signed among the Government of India, the Reserve Bank and all the 28 State Governments, the aggregate amount of power bonds issued by 27 State Governments (except Goa) amounted to Rs.31,581 crore during 2006-07. Taking into account the repayments during the year, the outstanding amount of power bonds issued by 27 State Governments amounted to Rs.30,002 crore as on March 31, 2007. On April 1, 2007, two State Governments, *viz.*, Karnataka and Tamil Nadu, exercised the call option to prepay their entire outstanding Power Bonds (Rs.523 crore and Rs.1,864 crore, respectively), while the Government of Rajasthan exercised the call option for part pre-payment of its outstanding dues (Rs.111 crore). Thus, on April 1, 2007, the outstanding amount of power bonds in respect of 25 State Governments amounted to Rs.26,051 crore.

Table 6.20: Maturity Profile of Outstanding State Government Securities
(At end-March 2007)

Sr. No.	State	Per cent to Total Amount Outstanding		Total Amount Outstanding (Rupees crore)
		0-5 years	6-10 years	
1	2	3	4	5
1.	Andhra Pradesh	37.9	62.1	23,543
2.	Arunachal Pradesh	19.4	80.6	424
3.	Assam	32.8	67.2	6,525
4.	Bihar	42.0	58.0	10,492
5.	Chhattisgarh	41.6	58.4	2,562
6.	Goa	35.8	64.2	1,108
7.	Gujarat	33.2	66.8	12,722
8.	Haryana	30.3	69.7	4,994
9.	Himachal Pradesh	24.8	75.2	4,583
10.	Jammu & Kashmir	27.0	73.0	3,538
11.	Jharkhand	36.5	63.5	3,707
12.	Karnataka	39.3	60.7	11,700
13.	Kerala	33.1	66.9	12,847
14.	Madhya Pradesh	30.0	70.1	11,352
15.	Maharashtra	24.3	75.7	19,967
16.	Manipur	24.4	75.6	868
17.	Meghalaya	33.4	66.6	1,120
18.	Mizoram	22.8	77.2	709
19.	Nagaland	34.4	65.6	1,700
20.	Orissa	42.5	57.5	8,898
21.	Punjab	23.6	76.4	9,435
22.	Rajasthan	37.6	62.4	16,070
23.	Sikkim	32.8	67.2	517
24.	Tamil Nadu	31.5	68.5	16,373
25.	Tripura	33.3	66.7	1,159
26.	Uttar Pradesh	38.2	61.8	30,788
27.	Uttaranchal	15.9	84.1	4,237
28.	West Bengal	24.5	75.5	20,839
Total		**32.9**	**67.1**	**2,42,777**

Table 6.21 : Maturity Profile of Outstanding State Loans and Power Bonds
(At end-March 2007)

(Rupees crore)

Year	State Loans	Power Bonds	Total
1	2	3	4
2007-08	11,555	5,405	16,959
2008-09	14,371	2,907	17,278
2009-10	16,315	2,907	19,222
2010-11	15,734	2,907	18,640
2011-12	21,999	2,907	24,906
2012-13	30,628	2,870	33,498
2013-14	32,079	2,870	34,949
2014-15	33,384	2,870	36,254
2015-16	35,191	2,907	38,098
2016-17	31,522	1,453	32,975
Total	**2,42,777**	**30,002**	**2,72,779**

Box VI.5

Standing Technical Committee on Borrowings of State Governments

The Twelfth Finance Commission (TFC) had recommended that "….*States, like the Centre, must decide their annual borrowing programme within the framework of their respective fiscal responsibility legislations. … The overall limit to their annual borrowings from all sources should be supervised by an independent body like a Loan Council with representatives from the Ministry of Finance, Planning Commission, Reserve Bank of India and the State Governments. The Council may, at the beginning of each year, announce the annual borrowing limits for each State, taking into account the sustainability considerations…..*" (Para 15.7). The Action Taken Report of the Government of India had, however, not indicated any action in regard to Loan Council.

The Technical Group on Borrowings by the States (Chairperson: Smt. Shyamala Gopinath) constituted by the Government of India (2005) felt that the setting up of a new institution, like the Loan Council, would entail additional cost in terms of physical and human resources and would take time. Furthermore, a large majority of States are seized with the task of addressing the structural problems in managing Government finances which, if carried on to their logical conclusion, could usher in an era of debt sustainability over the medium-term of the TFC period. The Loan Council could lose its rationale for existence once the fiscal situation becomes tractable as seems to have been the case with the Australian Loan Council, which provides the international best practice in respect of coordinated borrowings by the Federal and State Governments.

Against this backdrop, the Technical Group felt that an arrangement for coordinated borrowings between the Centre and the States on the one hand, and among the States on the other could be best served by setting up a Standing Technical Committee (STC) with representation from the Central and the State Governments and the monetary authority. The Annual Policy Statement for 2006-07 (April 2006) had proposed to constitute the STC under the aegis of the State Finance Secretaries Conference with representation from the Central and State Governments and the Reserve Bank. Accordingly, the STC was constituted after consultation with the State Governments and with the concurrence of the Government of India in December 2006. The STC is chaired by the Deputy Governor of the Reserve Bank and its members include the Principal Finance Secretaries of all the State Governments, senior officials of the Government of India and the Reserve Bank. The secretariat to the STC is provided by the Reserve Bank.The terms of reference of the STC include:

- To make annual projections of the borrowing requirements of the State Governments, taking into account the evolving macroeconomic and financial conditions with due regard to the sustainability of debt and the provisions of Fiscal Responsibility Legislation, wherever applicable. The STC's projections may be conveyed to the Reserve Bank by December every year for consideration as an input for internal monetary projections.
- To build alternative scenarios and suggest alternative strategies and instruments for raising resources for States.
- To develop a transparent mechanism for annual allocation of market borrowings among the States.
- To take note of actual borrowings of the State Governments during the year *vis-à-vis* the budgeted GFD. This would help in advising the States to take appropriate action in the case of large deviation of actual borrowings through various instruments from their respective budget estimates.
- To develop an appropriate database that would facilitate the above monitoring exercise.
- To assess the fiscal risks from issuances of State Government guarantees.
- To advise the State Governments on various issues relating to their borrowings including the formulation of a market borrowing calendar, taking into account the Centre's market borrowing requirements; the progressive adoption of the auction route for market borrowings; liquidity of State Government securities; and measures for building capacity relating to debt management at the State Government level.

Market Borrowings of State Governments during 2007-08

VI.51 Net initial allocations and gross market borrowings (provisional) of the State Governments (excluding three State Governments for which the Annual Plans are yet to be finalised) for 2007-08 are placed at Rs.23,024 crore and Rs.35,114 crore, respectively (see Table 6.14). During the current financial year so far (up to August 10, 2007), 14 State Governments raised an aggregate amount of Rs.8,542 crore (as compared with Rs.7,343 crore during the corresponding period of the previous year) at cut-off yields ranging between 8.00 and 8.57 per cent through the auction of their State Development Loans. The weighted average yield of State Government securities issued during 2007-08 (up to August 10, 2007) was 8.35 per cent as compared with

8.07 per cent during the corresponding period of the previous year. The spreads over the corresponding yields of Central Government securities ranged from 19 to 44 basis points for all States. All the issues were of 10-year maturity, as in the previous year.

Consolidated Sinking Fund (CSF) and Guarantee Redemption Fund (GRF)

VI.52 Eighteen State Governments have set up CSF and eight State Governments have set up GRF. These funds are managed by the Reserve Bank. The total investments in CSF and GRF at end-June 2007 were placed at Rs.15,015 crore and Rs.2,481 crore, respectively. The Twelfth Finance Commission had recommended in favour of an expanded coverage of CSF to include amortisation of all liabilities (and not just open market borrowings). The Bezbaruah Committee had recommended that the net incremental annual investment of States in CSF/GRF may be made eligible for availing Special WMA up to a ceiling of their Normal WMA limit. Following these recommendations, the Reserve Bank had circulated revised model schemes for CSF and GRF amongst the State Governments in May 2006. As on June 30, 2007, eleven of the 18 States had adopted the revised CSF scheme while three of eight States had adopted the revised GRF scheme.

Conference of State Finance Secretaries

VI.53 During 2006-07, the 18th and 19th Conferences of State Finance Secretaries were held on August 7, 2006 and January 24, 2007, respectively. Apart from an assessment of the market borrowing programme of the State Governments and operational issues pertaining to Government transactions, the discussion of the 18th Conference primarily focussed on issues relating to computerisation of treasuries, underwriting in respect of open market loans and management of open market borrowings of the State Governments. The 19th Conference primarily focussed on issues relating to indicative calendar of State Government open market borrowings, non-competitive bidding in respect of State Development Loans, re-issuance of State Government securities and payment of brokerage/commission on State Development loans.

Workshop on Management of Foreign Exchange Risk

VI.54 In the context of the recommendations of the Twelfth Finance Commission relating to the back-to-back transfer of external loans by the Centre to the State Governments, and following the discussions in the 19th Conference of State Finance Secretaries, the first workshop on the management of foreign exchange risk was organised by the Reserve Bank on May 24, 2007 for the benefit of State Government officials.

Outlook

VI.55 The size of the open market borrowing programme of the Central Government during 2007-08 through dated securities is placed slightly higher than the actual borrowing raised in the previous year. Carrying forward the market development process of the previous year, active consolidation, introduction of STRIPS, and re-introduction of floating rate bonds and inflation-indexed bonds are some of the measures that could be pursued during 2007-08. These are expected to enhance the efficiency of debt management operations. As far as the State Governments are concerned, efforts to enhance the liquidity of State Government securities and streamline their market borrowing operations would facilitate the mobilisation of funds in a cost effective manner. Reflecting the impact of various policy initiatives, it is expected that the combined Government market borrowing programme for 2007-08 would be completed successfully in accordance with the objectives of debt management.

VII CURRENCY MANAGEMENT

VII.1 Ensuring adequate availability of good quality banknotes and coins is one of the core functions of the Reserve Bank. Towards this objective, the Reserve Bank continued to take measures during 2006-07 to meet the public's demand for banknotes and coins while simultaneously improving the quality of banknotes. The demand for banknotes was met almost in full. There was a marked improvement in the quality of Rs.10 denomination banknotes due to sustained efforts. The mechanisation of note processing activities at currency chests was carried forward by equipping the currency chests with the sorting machines. The disposal capacity of soiled notes has been augmented by putting in place six Currency Verification and Processing Systems (CVPS) at a new sub-office in Lucknow. With this, the Reserve Bank now has a total of 54 CVPS and 28 Shredding and Briquetting Systems (SBS) at its 19 offices.

VII.2 In this backdrop, this Chapter details the currency management operations of the Reserve Bank during 2006-07. A multi-pronged approach was followed by the Reserve Bank with the objective of meeting the public's demand for good quality banknotes and coins. The approach comprised regular supply of fresh notes, speedier disposal of soiled banknotes, improvements in inventory management and mechanisation of cash processing activity. Total supplies of banknotes, both in volume and value terms, from the printing presses were almost close to the indents. The growth in the volume of banknotes remained substantially lower than that in value terms, reflecting the ongoing compositional shift in favour of higher denomination banknotes. Star series banknotes were issued for the first time in 2006-07 with the objective of streamlining the procedures and reducing manpower deployed in the replacement activity at the printing presses. Operations aimed at computerisation and networking of the currency chests with the Reserve Bank's offices were pursued during 2006-07 to reap efficiency gains in reporting and accounting transactions.

BANKNOTES IN CIRCULATION

VII.3 During 2006-07, the value of banknotes in circulation rose by 17.5 per cent (16.8 per cent during 2005-06). The ratio of currency with the public to GDP has risen steadily over the years from 9.5 per cent of GDP at end-March 1990 to 11.6 per cent at end-March 2006 and further to 11.7 per cent at end-March 2007. The ratio of currency with the public to broad money (M_3) declined from 15.1 per cent at end-March 2006 to 14.6 per cent at end-March 2007 continuing with its declining trajectory over the past few years (Chart VII.1).

VII.4 The volume of banknotes rose by 5.2 per cent during 2006-07 (2.3 per cent a year ago). The growth in the volume of banknotes, thus, continued to be substantially lower than that in value terms, mainly on account of the gradual compositional shift towards higher denomination banknotes, particularly Rs.1000 and Rs.500 denominations. While the volume of Rs.500 denomination notes increased by 23.6 per cent during 2006-07 (19.4 per cent a year ago), that of Rs.1000 denomination notes rose by 45.7 per cent (52.7 per cent a year ago). The volume of Rs.10 banknotes increased by 14 per cent due to sustained efforts to pump in more fresh banknotes into circulation to bring about an improvement in the quality of these banknotes. On the other hand, the volume of banknotes of denominations Rs.2 and Rs.5

Chart VII.1: Share of Currency in Broad Money

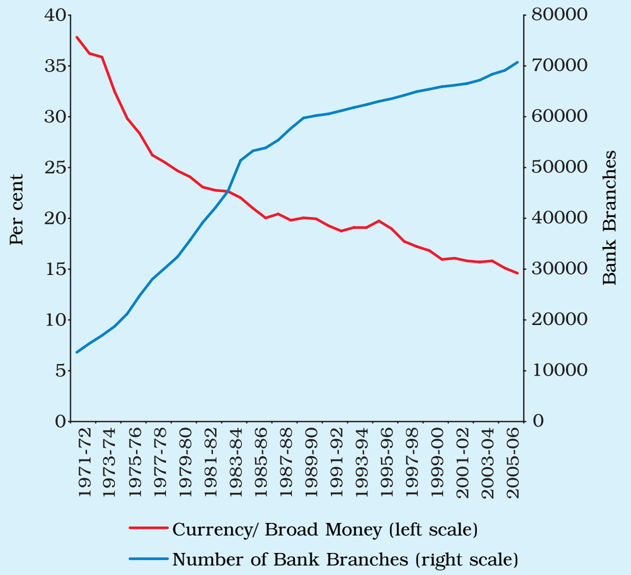


Table 7.1: Banknotes in Circulation

Denomination	Volume (Million pieces)			Value (Rupees crore)		
	End-March 2005	End- March 2006	End-March 2007	End-March 2005	End-March 2006	End-March 2007
1	2	3	4	5	6	7
Rs.2 & Rs.5	6,484	6,217	6,008	2,548	2,431	2,334
Rs.10	6,770	6,274	7,155	6,770	6,274	7,155
Rs.20	1,938	2,038	2,089	3,876	4,076	4,178
Rs.50	5,988	5,568	5,590	29,941	27,840	27,951
Rs.100	12,328	13,464	13,544	1,23,282	1,34,640	1,35,444
Rs.500	3,055	3,647	4,508	1,52,728	1,82,350	2,25,400
Rs.1000	421	643	937	42,082	64,300	93,676
Total	**36,984**	**37,851**	**39,831**	**3,61,227**	**4,21,911**	**4,96,138**

declined during the year, while that of Rs.20, Rs.50 and Rs.100 remained at almost the same level as in 2005-06 (Table 7.1).

VII.5 In volume terms, Rs.100 denomination notes had the largest share (34 per cent of the total pieces in circulation) at end-March 2007. In terms of value, Rs.500 denomination notes had the largest share (over 45 per cent of the total value of banknotes in circulation) at end-March 2007 (Chart VII.2).

VII.6 In the year 2004-05, the Reserve Bank had to contend with the reverse flow of coins. The overall stock of coins with the Reserve Bank, as a result, increased considerably causing strain on storage and distribution of coins. The trend continued for almost two years. In view of the comfortable stock of coins at the currency chests/small coin depots and the Reserve Bank, the Reserve Bank did not place any indent for coins for 2005-06 and 2006-07. There was a reversal in this trend from October 2006 onwards as there was a sudden spurt in the demand for Rs.2 coins. In view of the reported melting of Rs.2 cupro-nickel coins due to rising metal prices, the Government of India, in consultation with the Reserve Bank, decided to mint all denomination coins in ferritic stainless steel (FSS). An indent of 700 million pieces was placed in December 2006 for Rs.2 FSS coins and these coins have already been issued. For the year 2007-08, the Reserve Bank placed an indent of 300 million pieces, subsequently raised to 500 million pieces for Re.1 coins, 1,500 million pieces for Rs.2 coins and 300 million pieces for Rs.5 coins. The total value of coins (including small coins in circulation) increased by 11.2 per cent during 2006-07 (2.3 per cent in 2005-06). In volume terms, the increase was 6.5 per cent in 2006-07 (1.4 per cent in 2005-06) (Table 7.2). The value of coins, relative to the value of the banknotes, remains fairly small and has declined in recent years (from 1.7 per cent at end-March 2006 to 1.6 per cent at end-March 2007).

Chart VII.2: Banknotes in Circulation: March 2007

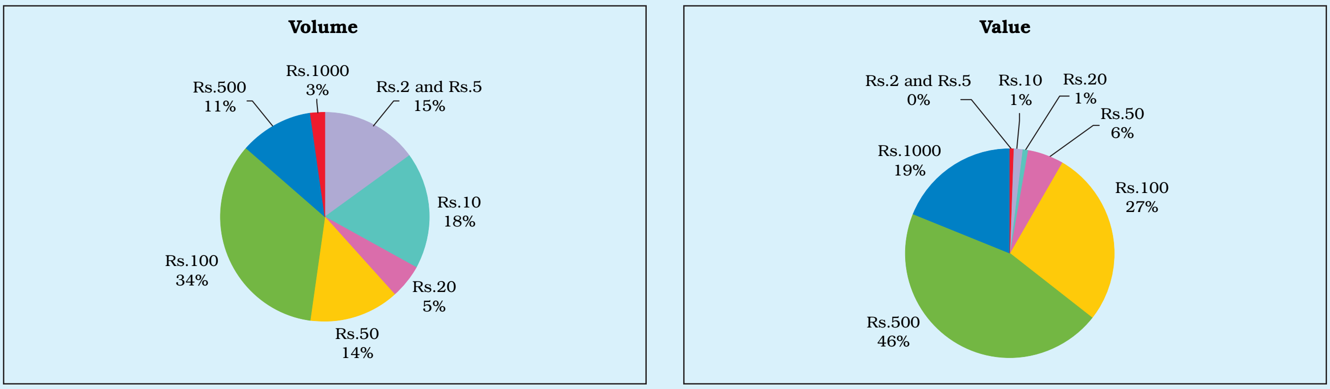


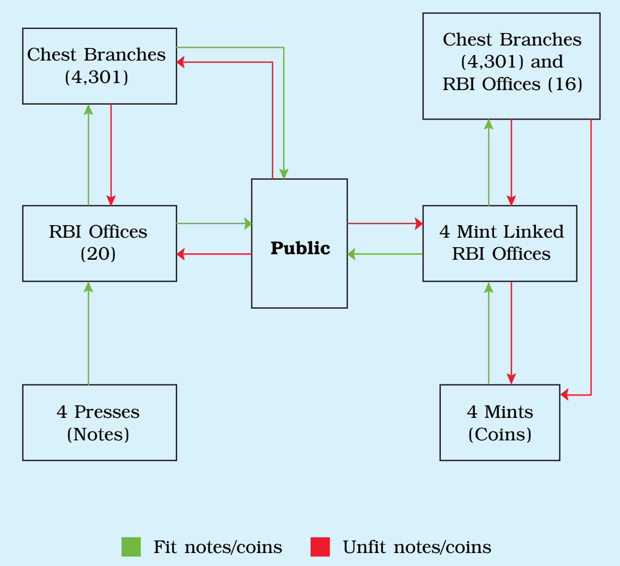
Table 7.2: Coins in Circulation

Denomination	Volume (Million pieces)			Value (Rupees crore)		
	End-March 2005	End- March 2006	End-March 2007	End-March 2005	End-March 2006	End-March 2007
1	2	3	4	5	6	7
Small Coins	54,051	54,115	54,277	1,353	1,357	1,364
Re.1 coin	17,896	18,730	22,878	1,790	1,873	2,288
Rs.2 coin	6,449	6,684	7,441	1,290	1,337	1,488
Rs.5 coin	5,238	5,289	5,761	2,619	2,645	2,881
Total	**83,631**	**84,818**	**90,357**	**7,052**	**7,212**	**8,021**

Currency operations

VII.7 The Reserve Bank continued with its initiatives to provide the public with good quality banknotes. Towards this objective, a multi-pronged approach is pursued involving regular supply of fresh notes, speedier disposal of soiled banknotes, improvement in inventory management and mechanisation of cash processing activity. In the recent period, the discontinuance of the practice of stapling banknotes has also contributed to improvement in quality of banknotes. Banks have been advised to issue only clean notes to the public and to remit the soiled notes in unstapled condition to the Reserve Bank through currency chests. Efforts are being made to increase the life of the banknotes and the Reserve Bank is examining various options in this regard.

Chart VII.3: Currency Management Cycle



Currency Chests

VII.8 The core central banking function of note issue and currency management is performed by the Reserve Bank through its 18 Issue Offices, the sub-office of the Issue Department at Lucknow, a currency chest at Kochi and a wide network of 4,301 currency chests and 4,027 small coin depots. The Reserve Bank has agency arrangements, mainly with scheduled commercial banks, under which a currency chest facility is granted to them. The currency chest branch is an extended arm of the Reserve Bank's Issue Department and carries out the same functions of issue of fresh banknotes/coins, retrieval of soiled banknotes, exchange of banknotes and coins including mutilated banknotes (Chart VII.3). The total number of currency chests declined further during 2006-07 reflecting the impact of the on-going policy to progressively convert and/or close currency chests held with the State Treasuries as well as rationalisation of currency chests mainly by State Bank of India (Table 7.3).

VII.9 Out of the 4,301 currency chests maintained by various banks, 4,027 chests have so far been

Table 7.3: Currency Chests

Category	Number of Currency Chests		
	June 30, 2005	June 30, 2006	June 30, 2007
1	2	3	4
Treasuries	149	116	26
State Bank of India	2,198	2,182	2,127
SBI Associate Banks	1,008	994	988
Nationalised Banks	983	1,028	1,061
Private Sector Banks	72	83	94
Co-operative Banks	1	1	1
Foreign Banks	4	4	4
Reserve Bank	20	20	20
Total	**4,435**	**4,428**	**4,321**

Table 7.4: Volume of Banknotes Indented and Supplied

(Million pieces)

Denomination	2004-05			2005-06			2006-07			2007-08
	Indent	Supply	% of Supply to Indent	Indent	Supply	% of Supply to Indent	Indent	Supply	% of Supply to Indent	Indent
1	2	3	4	5	6	7	8	9	10	11
Rs.5	160	179	112	–	50	–	–	50	–	–
Rs.10	4,700	4,332	92	3,300	1,183	36	3,500	3,480	99	4,200
Rs.20	1,000	755	76	1,200	706	59	500	438	88	600
Rs.50	2,040	1,862	91	2,700	1,063	39	1,400	1,458	104	1,200
Rs.100	5,030	3,956	79	5,550	3,208	58	4,000	4,034	101	4,200
Rs.500	1,625	1,252	77	1,800	661	37	1,500	1,473	98	1,800
Rs.1000	300	257	86	450	130	29	600	589	98	700
Total	**14,855**	**12,593**	**85**	**15,000**	**7,001**	**47**	**11,500**	**11,472**	**99.8**	**12,700**

equipped with note sorting machines. The progress made in respect of installation of note sorting machines in the remaining currency chests of the various banks is being closely monitored.

Printing of Fresh Banknotes

VII.10 The supply of banknotes, both in volume and value terms, from the printing presses recovered during 2006-07 from the sharp decline in the preceding year. Total supplies in volume terms rose by 64 per cent during 2006-07 while those in value terms increased by almost 115 per cent during the year. Total supplies during 2006-07 were 99.8 per cent in terms of volume and 99.0 per cent in terms of value of the indent (Tables 7.4 and 7.5). The relatively lower supply of Rs.20 denomination banknotes *vis-à-vis* the indent was due to the reason that printing of these denominations with new/additional security features commenced late during 2006-07.

VII.11 As part of its ongoing efforts to reduce the expenditure for printing of banknotes, the Reserve Bank continued with its efforts to source banknotes from the lowest cost producer (Box VII.1).

VII.12 The position of indent and supply of coins during 2004-05 to 2006-07 is set out in Table 7.6.

Disposal of Soiled Notes

VII.13 During 2006-07, 7,325 million pieces of soiled banknotes (18.3 per cent of banknotes in circulation) were disposed off. Notes of Rs.100 denomination constituted the largest share of soiled notes, followed by Rs.10 denomination notes (Table 7.7). As against a disposal of 7,325 million pieces during the year, 10,214 million pieces of fresh banknotes were

Table 7.5: Value of Banknotes Indented and Supplied

(Rupees crore)

Denomination	2004-05			2005-06			2006-07			2007-08
	Indent	Supply	% of Supply to Indent	Indent	Supply	% of Supply to Indent	Indent	Supply	% of Supply to Indent	Indent
1	2	3	4	5	6	7	8	9	10	11
Rs.5	80	90	113	–	–	–	–	–	–	–
Rs.10	4,700	4,332	92	3,300	1,183	36	3,500	3,480	99	4,200
Rs.20	2,000	1,510	76	2,400	1,412	59	1,000	876	88	1,200
Rs.50	10,200	9,310	91	13,500	5,316	39	7,000	7,292	104	6,000
Rs.100	50,300	39,560	79	55,500	32,084	58	40,000	40,348	101	42,000
Rs.500	81,250	62,600	77	90,000	33,065	37	75,000	73,655	98	90,000
Rs.1000	30,000	25,700	86	45,000	12,960	29	60,000	58,910	98	70,000
Total	**1,78,530**	**1,43,102**	**80**	**2,09,700**	**86,020**	**41**	**1,86,500**	**1,84,561**	**99**	**2,13,400**

Box VII.1
Printing Cost of Banknotes

The Reserve Bank has been sourcing banknotes from the two presses of the Security Printing and Minting Corporation of India (SPMCIL), and the two presses of its wholly owned subsidiary, Bharatiya Reserve Bank Note Mudran Pvt. Ltd. (BRBNMPL). The cost of printing banknotes during the year ended March 2007 was Rs.2,020.20 crore. Of this, Rs.1041.95 crore was paid to the SPMCIL presses in respect of 4,642 million banknotes supplied by them and Rs.978.25 crore to BRBNMPL for 6,830 million notes procured from its presses. It has been the Reserve Bank's endeavour to consistently bring down the cost of banknotes by encouraging the note presses to bring about greater efficiency in their operations while maintaining the quality of printed notes. The cost of banknotes paid to the SPMCIL and BRBNMPL presses in the last five years is set out in the Table.

Table: Supply and Cost of Banknotes

Year (April-March)	SPMCIL		BRBNMPL	
	Supply	Cost	Supply	Cost
	(Million pieces)	(Rupees crore)	(Million pieces)	(Rupees crore)
2002-03	5,198	750.10	6,172	682.99
2003-04	5,065	894.23	8,101	815.33
2004-05	4,622	783.25	7,971	660.32
2005-06	2,694	405.90	4,307	628.96
2006-07	4,642	1,041.95	6,830	978.25

supplied to members of public and to currency chests (9,485 million pieces supplied in 2005-06). The number of notes withdrawn from circulation and eventually disposed off in the Reserve Bank offices has, therefore, decreased due to improvement in the quality of notes in circulation as part of the Reserve Bank's Clean Note Policy.

Mechanisation

VII.14 Mechanisation of cash processing activity and disposal of soiled banknotes has been one of the major thrust areas of the Reserve Bank in currency management. With the opening of Lucknow sub-office in October 2006 and resultant capacity augmentation, the Reserve Bank has now in place 54 Currency Verification and Processing Systems (CVPS) and 28 Shredding and Briquetting Systems (SBS) at its 19 Offices. During 2006-07, 4,532 million pieces of banknotes were processed on these machines. The remaining notes were disposed off under other modes including manual system.

Counterfeit Banknotes

VII.15 During 2006-07, the number of counterfeit banknotes detected at the Reserve Bank offices and bank branches declined by 15.5 per cent. However, in value terms, the counterfeit banknotes increased by 31.2 per cent on account of rise in detections in the banknotes of higher denominations, *viz.*, Rs.1000 and Rs.500 banknotes (Table 7.8). All banks have been advised to install note sorting machines at their currency chest branches to facilitate careful

Table 7.6 : Indent and Supply of Coins

(Million pieces)

Denomination	2004-05		2005-06		2006-07	
	Indent	Supply	Indent	Supply	Indent	Supply
1	2	3	4	5	6	7
25 paise	0	0	0	0	0	0
50 paise	0	0	0	0	0	0
Re. 1	1,250	463	0	12.7	0	45 *
Rs.2	500	232	0	21.5	700	686
Rs.5	750	201	0	7.2	0	11
Total	**2,500**	**896**	**0**	**41.4**	**700**	**742**

* : Includes mainly commemorative coins.

Table 7.7: Denomination-wise Disposal of Soiled Notes

Denomination	Volume in million pieces		
	2004-05	2005-06	2006-07
1	2	3	4
Rs.1000	5	5	7
Rs.500	257	242	276
Rs.100	4,324	3,250	2,360
Rs.50	2,490	2,160	1,456
Rs.20	485	532	489
Rs.10	3,716	2,593	2,243
Up to Rs.5	475	522	494
Total	**11,752**	**9,304**	**7,325**
Memo:			
Total Banknotes in Circulation	36,984	37,851	39,831

examination and detection of counterfeit banknotes at the currency chest level as also to ensure efficient sorting of banknotes.

New/Additional Security Features of Banknotes

VII.16 In order to maintain the confidence of the public in the banknotes, the Reserve Bank, in consultation with the Government of India, reviews the security features of banknotes periodically. As a part of this process, the Reserve Bank had started from 2005-06, the introduction of banknotes with several new/additional security features in denominations of Rs.10, Rs.50, Rs.100, Rs.500 and Rs.1000. These include (a) demetallised, magnetic and machine readable windowed security thread with a colour shift from green to blue in Rs.100, Rs.500 and Rs.1000 denominations; (b) improved intaglio printing; (c) improved see-through feature incorporating the denominational numeral instead of the floral design; and (d) electrotype watermark featuring the denominational numeral alongside Mahatma Gandhi portrait in the watermark window. The process of issuance of all the denominations of the banknotes in the Mahatma Gandhi Series 2005 with additional/new security features was completed during 2006-07 with the issuance of Rs.20 denomination banknotes with additional/new security features in August 2006. Posters containing the pictorial details of additional/new security features on banknotes have been provided to all the banks for public dissemination. The Regional Offices of the Reserve Bank have been advised to facilitate public awareness of these security features at the local levels through organisations such as the railways and police authorities as well as through posters printed in vernacular. The details regarding the security features of the new banknotes have been posted on the Reserve Bank's website.

Introduction of Star Series Banknotes

VII.17 The Reserve Bank commenced the issuance of Star series banknotes in the denomination of Rs.10, Rs.20 and Rs.50 during 2006-07. The Star series banknotes look exactly like the earlier banknotes in the Mahatma Gandhi series but have an additional character, *viz.*, * (Star) in the number panel between the prefix and the serial number. The packets with Star series notes contain, as usual, 100 pieces, though not in serial order. The Star series system helps in streamlining the procedures at the printing presses and reducing manpower deployed in replacement activity. The bands of the fresh note packets containing the Star series numbered note/s clearly indicate the presence of such banknotes in the packets.

Table 7.8: Counterfeit Banknotes Detected

	Number of pieces			Value (Rupees)		
Denomination	2004-05	2005-06	2006-07	2004-05	2005-06	2006-07
1	2	3	4	5	6	7
Rs.10	79	80	110	790	800	1,100
Rs.20	156	340	305	3,120	6,800	6,100
Rs.50	4,737	5,991	6,800	2,36,850	2,99,550	3,40,000
Rs.100	1,61,797	1,04,590	68,741	1,61,79,700	1,04,59,000	68,74,100
Rs.500	14,400	12,014	25,636	72,00,000	60,07,000	1,28,18,000
Rs.1000	759	902	3,151	7,59,000	9,02,000	31,51,000
Total	**1,81,928**	**1,23,917**	**1,04,743**	**2,43,79,460**	**1,76,75,150**	**2,31,90,300**

Note: Data are exclusive of the counterfeit notes seized by police and other enforcement agencies.

Computerisation of Currency Management

VII.18 The Reserve Bank has taken up the task of putting in place an Integrated Computerised Currency Operations and Management System (ICCOMS) in the Issue Departments in regional offices and in the central office. The project also 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 and seamless flow of information between Issue Departments and the Central Office in a secure manner with proactive monitoring. All offices of the Reserve Bank commenced 'live-run' on the Currency Chest Reporting System (CCRS) and the Chest Accounting Module (CAM) of ICCOMS-ID component. Once these two components are completed, the Currency Management Information System (CMIS) Module at the Department of Currency Management (DCM) at the Central Office of the Reserve Bank will be taken up for implementation, the testing for which has already begun.

Customer Service

VII.19 As a part of its efforts to improve customer service in matters relating to issue/acceptance of coins from public and exchange of soiled and mutilated banknotes, the Reserve Bank reiterated its directions to all scheduled commercial banks to issue/ accept coins and soiled banknotes in transactions or for exchange without any restriction. Offices where demand for coins has picked up were advised to arrange for coin camps at identified locations in consultation with banks. Efforts were continued to provide timely and efficient customer service not only at the Reserve Bank offices but also at the bank branches.

ISO 9001:2000 Certification

VII.20 Apart from DCM, the two Issue offices at Kolkata and Hyderabad were ISO (9001:2000) Certified in May 2006. Four more Issue offices, *viz.*, New Delhi, Jaipur, Chennai and Bangalore have been taken up for ISO Certification.

Bharatiya Reserve Bank Note Mudran Pvt. Ltd.

VII.21 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. The BRBNMPL prints Bank Note Forms at its two note presses at Mysore (Karnataka) and Salboni (West Bengal). The total supply of banknotes by BRBNMPL during 2006-07 was 6,830 million pieces.

Outlook

VII.22 The Reserve Bank would continue to conduct its currency management operations with a view to ensuring efficient customer service through an adequate supply of good quality banknotes and coins in the country. The Reserve Bank will continue with its efforts to explore various options for increasing the circulation life of banknotes. Rationalisation of systems and procedures with a view to increasing the efficiency of operations and to strive towards setting international benchmarks in currency management would also be pursued.

VIII PAYMENT AND SETTLEMENT SYSTEMS AND INFORMATION TECHNOLOGY

VIII.1 Rapid and ongoing innovations in technology and communication infrastructure and its integration with the various modes of payments have led to significant changes in the payment and settlement systems. While leading to greater efficiency in the payment and settlement systems, these innovations have also necessitated increased emphasis on integrity of the various systems to maintain financial stability. The Reserve Bank, therefore, continued to take measures to provide efficient and integrated payment and settlement systems in the country during 2006-07 while simultaneously taking steps to mitigate risks. Furthermore, the use of information technology (IT) in various banking activities has witnessed a rapid expansion in recent years, both in the Reserve Bank and the commercial banking sector. Developments in IT are facilitating the processing of large volumes of transactions in an efficient and reliable manner.

VIII.2 This Chapter profiles the initiatives taken by the Reserve Bank during 2006-07 to provide safe, secure, efficient and sound payment and settlement systems. It also covers the measures taken to promote the efficient use of IT within the Reserve Bank as well as the banking sector. The main thrust of the various initiatives relating to payment and settlement systems was on electronification of the payment systems and building of appropriate legal and technological infrastructure. The turnover of the RTGS system has expanded rapidly on account of movement of large value time critical payments to this system and the widening of the RTGS network to cover more bank branches. In order to enhance the efficiency of the paper based clearing system, the Reserve Bank has also undertaken a cheque truncation system (CTS). The Payment and Settlement Systems Bill has been placed in the Parliament. Once enacted, it would vest the Reserve Bank with the formal power to conduct oversight of the payment and settlement systems. As regards IT related initiatives in the Reserve Bank during 2006-07, an enterprise-wide approach continued to be adopted. In order to use the IT systems efficiently and to provide for business continuity, state-of-the-art data centres are being set up. The Institute for Development and Research in Banking Technology (IDRBT) continued to discharge its Certification Authority related functions for the banking sector, apart from managing the Indian Financial Network (INFINET) and the National Financial Switch (NFS) during the year.

PAYMENT AND SETTLEMENT SYSTEMS

Board for Regulation and Supervision of Payment and Settlement Systems

VIII.3 The Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), constituted in March 2005, as a Committee of the Central Board of the Reserve Bank, is entrusted with the responsibility for the smooth development and functioning of the payment and settlement systems in the country. The Board gives directions, sets standards for operations of the payment systems and reviews the membership criteria for each of the systems. During 2006-07, the main thrust of the BPSS directions was on electronification of the payment systems and building of appropriate legal, procedural and technological infrastructure. Specific directions of the Board included (i) preparing a roadmap for migration from paper-based funds transfer to electronic payment systems; (ii) bringing all real time gross settlement (RTGS) enabled branches under the national electronic funds transfer (NEFT); (iii) exploring the feasibility of setting up a low cost cross-border remittance system with neighbouring countries, especially Nepal; (iv) studying the feasibility of a couple of large banks providing associate membership to the smaller banks to participate in the cheque truncation system; (v) proposal to conduct an assessment of the RTGS system; (vi) studying payment systems in select countries to draw relevant lessons for India; and (vii) promoting credit/debit/pre-paid cards as one of the strategies for the increased use of electronic payments.

VIII.4 Following the directions of the BPSS, the frequently asked questions (FAQs) on payment systems (RTGS, NEFT, ECS) and a list of branches offering various payment services operated by the Reserve Bank were placed in the public domain. The Report of the Study Group on Migration from Paper Based Funds Movement to Electronic Funds Transfer was released in April 2007 for public comments.

DEVELOPMENTS IN PAYMENT AND SETTLEMENT SYSTEMS

VIII.5 In value terms, the annual turnover in the various payment and settlement systems rose by 37.5 per cent during 2006-07 (44.2 per cent during 2005-06). As a ratio to GDP, the annual turnover in terms of value increased from 6.0 in 2003-04 to 10.3 by 2006-07. The rise in the turnover could be attributed mainly to increased activity in financial markets which, in turn, reflects various measures to widen and deepen the various segments of the financial markets. The expansion in the turnover during 2006-07 was led by the systemically important payments systems (SIPS); the turnover in the SIPS segment now constitutes more than four-fifths of the total turnover. Amongst the various constituents of the SIPS, the RTGS constituted the largest segment in terms of value (over 50 per cent), followed by foreign exchange clearing and high value clearing (Table 8.1). The turnover of the RTGS system continued to expand rapidly, both in terms of volume and value (60 per cent growth in the latter during 2006-07 on top of an increase of 183 per cent during 2005-06). The growth in RTGS can be attributed largely to the movement of large value time critical payments to this system and the widening of the RTGS network to cover more bank branches.

Retail Payment Systems

VIII.6 The growth in turnover (in value terms) of the various retail payment systems - cheque clearing, electronic clearing service and the card based

Table 8.1: Payment System Indicators

	Volume (000s)				Value (Rupees crore)			
	2003-04	2004-05	2005-06	2006-07	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
Systemically Important Payment Systems (SIPS)								
1. Inter-bank Clearing	1,142	808	–	–	30,46,666	9,91,436	–	–
2. High Value Clearing	13,172	13,077	15,924	18,730	30,23,290	46,07,208	49,81,428	50,34,007
3. Government Securities Clearing	265	185	151	167	25,18,322	26,92,129	25,59,260	35,78,037
4. Forex Clearing	331	466	490	606	23,18,531	40,42,435	52,39,674	80,23,078
5. RTGS	0.07	460	1,767	3,876	1,965	40,66,184	1,15,40,836	1,84,81,155
Total SIPS (1 to 5)	**14,910**	**14,996**	**18,332**	**23,379**	**1,09,08,774 (3.9)**	**1,63,99,392 (5.2)**	**2,43,21,198 (6.8)**	**3,51,16,277 (8.5)**
Others								
6. MICR Clearing	609,786	927,571	1,015,912	1,128,656	31,08,795	37,57,608	44,92,943	54,15,103
7. Non-MICR Clearing	398,700	225,392	254,922	223,177	24,17,209	11,02,643	18,54,763	16,06,990
8. Electronic Clearings	29,016	57,900	83,241	148,997	29,607	77,702	1,06,598	1,86,160
9. Cards	137,936	171,004	201,772	229,713	22,537	31,047	39,783	49,533
Total Others (6 to 9)	**1,175,438**	**1,381,867**	**1,555,847**	**1,730,543**	**55,78,148 (2.0)**	**49,69,000 (1.6)**	**64,94,087 (1.8)**	**72,57,786 (1.8)**
Grand Total (1 to 9)	**1,190,348**	**1,396,863**	**1,574,179**	**1,753,922**	**1,64,86,922 (6.0)**	**2,13,68,392 (6.8)**	**3,08,15,285 (8.6)**	**4,23,74,063 (10.3)**

Note :
1. Paper-based inter-bank clearing was closed at Mumbai with effect from November 1, 2004 and was phased out at other centres by June 2005. Inter-bank transactions are now settled through RTGS system, which became operational on March 26, 2004.
2. High value clearing refers to cheques of Rs.1 lakh and above.
3. Settlement of Government securities clearing and forex clearing is through Clearing Corporation of India Ltd.
4. At end-March 2007, the MICR clearing was at 59 centres (53 centres a year ago). Non- MICR clearing refers to paper-based clearings at the centres where MICR cheque processing centres have not been set up.
5. Electronic clearings comprise Electronic Clearing Services (ECS), Electronic Funds Transfer (EFT), Special Electronic Funds Transfer (SEFT) (between April 2003 and February 2006) and National Electronic Fund Transfer Systems (NEFT) (since November 2005).
6. Cards include credit and debit cards. Data for debit cards for 2003-04 and 2004-05 are estimated based on 2005-06 figures.
7. Figures in parentheses are ratios to GDP at current market prices.

Table 8.2: Retail Electronic Funds Transfer Systems

Type	Volume (000s)				Value (Rupees crore)			
	2003-04	2004-05	2005-06	2006-07	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
ECS-Credit	20,300	40,051	44,216	69,019	10,228	20,180	32,324	83,273
ECS-Debit	7,897	15,300	35,958	75,202	2,254	2,921	12,986	25,441
EFT	819	2,549	3,067	4,776	17,125	54,601	61,288	77,446

payment system - was 11.8 per cent in 2006-07 on top of a growth of 30.7 per cent in 2005-06. There was an increase in turnover in absolute terms in all retail payments except for cheque clearing through non-MICR cheque processing centres (CPCs). The retail payment systems are dominated by the conventional cheque payment systems, comprising the clearing at both the magnetic ink character recognition (MICR) CPCs as well as non-MICR CPCs. The turnover of clearing at non-MICR CPCs witnessed a decline of 13.4 per cent, partly attributable to the ongoing conversion of the non-MICR CPCs into MICR CPCs. The turnover of the clearing at MICR CPCs increased by 20.5 per cent in 2006-07 on top of the growth of 19.6 per cent in 2005-06. The volume and value of cheques processed at the MICR CPCs continued to grow, with the turnover being more than three times that of the non-MICR CPCs during 2006-07. Nonetheless, growth in the combined turnover of the cheque clearing systems - MICR and the non-MICR centres - witnessed a deceleration from 30.6 per cent in 2005-06 to 10.6 per cent in 2006-07.

VIII.7 Electronic clearings - comprising electronic clearing service (ECS), electronic funds transfer (EFT) and national electronic funds transfer (NEFT) - continued to record a strong growth (74.6 per cent during 2006-07 as compared with 37.2 per cent a year ago) (Table 8.2); nonetheless, the share of electronic clearings remains fairly low in retail payment systems (only 2.6 per cent of the turnover of retail payment systems). The ECS facility was available at 64 centres at end-March 2007. Under the ECS, the pace of growth of debit clearing transactions was much higher than credit clearing, as many utility companies/banks have been utilising the system for collection of monthly payments/EMIs. As ECS-Debit works on the strength of the mandates given by the destination account holders to the user institutions for raising a debit in their accounts, banks were directed to initiate steps for incorporating an appropriate mandate management routine for handling such transactions. In order to commence a robust state-of-the-art nationwide ECS, covering more branches and locations with centralised data submission system, banks were advised in June 2006 to furnish certain information indicating their level of preparedness for the project. The waiver of processing fees on banks for transactions under the ECS, EFT, RTGS and NEFT has been extended up to March 31, 2008 in order to promote electronic transactions.

VIII.8 The use of card based payments rose further during 2006-07, but remains negligible compared to the conventional cheque based payments (Table 8.3).

VIII.9 The coverage of the automated teller machine (ATM) network and the facilities being provided by the banks through the ATMs are increasing. At present, there are around 28,000 ATMs across the country. A host of services are now being provided by banks using the ATMs. The Reserve Bank has been encouraging the banks to use the ATM channel for greater financial inclusion.

Table 8.3: Card Based Payments

Type	Volume of transactions (000s)				Value of transactions (Rupees crore)			
	2003-04	2004-05	2005-06	2006-07	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8	9
Credit Cards	100,179	129,472	156,086	169,536	17,663	25,686	33,886	41,361
Debit Cards	37,757	41,532	45,686	60,177	4,874	5,361	5,897	8,172

Note : Debit Card figures for 2003-04 and 2004-05 are estimated based on 2005-06 figures.

National Financial Switch

VIII.10 National Financial Switch (NFS) was established by the Institute for Development and Research in Banking Technology (IDRBT) to facilitate apex level connectivity among ATM switches of banks to enable banks' customers to access any ATM across the country. CCIL has been designated as the settlement agency for all transactions routed through NFS. The NFS network currently connects 12,940 ATMs of 25 participating banks. On an average, 90,130 transactions of total volume of Rs.11.67 crore are daily settled through the network.

Cheque Clearing

VIII.11 At end-March 2007, the MICR clearing facility was available at all the 59 centres identified for this purpose. These centres accounted for 84 per cent and 87 per cent, respectively, of the total volume and value of cheque clearing. As regards the remaining non-MICR centres, their conversion into MICR CPCs has been examined and found to be non-viable. Accordingly, the focus is on greater computerisation of the major non-MICR CPCs. Based on the volume of cheques processed and number of banks/branches in the centre, a total of 240 clearing houses have been identified; of these, more than 150 clearing houses with more than 15 member banks each have been computerised using the magnetic media based clearing system.

VIII.12 In order to enhance the efficiency of the paper based clearing system, the Reserve Bank has undertaken the implementation of a cheque truncation system (CTS). The pilot project for CTS in the National Capital Region of Delhi is expected to commence in the second half of 2007. The CTS obviates the physical presentation of the cheque to the clearing house; instead, the image of the cheque would be sent to the clearing house. The physical cheque would, thus, be truncated at the branch itself or the service branch. The CTS would enable the realisation of cheques on the same day, and provide a more cost effective mode of settlement than manual and MICR clearing. Smaller banks, which may find it unviable to set up the infrastructure, could utilise the services of service bureaus set up for this purpose by a few larger banks.

National Electronic Funds Transfer (NEFT) System

VIII.13 The National Electronic Funds Transfer (NEFT) System, operationalised in November 2005, is gaining importance with an increase in both the usage and coverage. With the stabilisation of the system, the number of settlements in the NEFT has been increased from the initial two to six on week days (9.30 a.m., 10.30 a.m., 12.00 noon, 1.00 p.m., 3.00 p.m. and 4.00 p.m.). Although the NEFT system is a deferred net settlement system (DNS), the increase in the number of settlements has made it a near real time system. The banks are providing various e-payment services to their customers using the NEFT as a back-end. The NEFT network has increased from 1,755 branches in March 2006 to 22,978 branches in March 2007. Daily average settlement through NEFT is Rs.150 crore.

RTGS System

VIII.14 The real time gross settlement (RTGS) system, in operation since 2004-05, facilitates faster movement of high value transactions. Based on the recommendations of an Internal Group, which examined various aspects of payment systems, particularly relating to switching over to electronic modes, a minimum threshold value of Rs.1 lakh was introduced on January 1, 2007. Transactions below this amount could be routed through NEFT. The RTGS system has gained significance in terms of both coverage and value of transactions. The RTGS connectivity was available in 28,697 bank branches at end-March 2007 (19,187 branches at end-March 2006) and the value of transactions rose by 60 per cent during 2006-07, with customer transactions almost trebling. At end-May 2007, 29,850 branches had RTGS connectivity and had handled transactions valued at Rs.18,08,921 crore (Table 8.4).

VIII.15 The integration of the RTGS with the Integrated Accounting System (IAS) has enabled the provision of online funds transfer facility from current account with the Reserve Bank to the RTGS settlement account and *vicè versa*. The integration also facilitates settlement of various CCIL-operated clearings (inter-bank Government securities, inter-bank foreign exchange, CBLO and National Financial Switch) through multilateral net settlement batch (MNSB) mode in the RTGS in Mumbai. With the integration of the RTGS-IAS with the securities settlement system (SSS), automatic intra-day liquidity (IDL) is available as per the eligibility of the participants.

Centralised Funds Management System (CFMS)

VIII.16 The centralised funds management system (CFMS) has two components - the centralised funds enquiry system (CFES) and the centralised funds transfer system (CFTS). The CFTS, the funds transfer

Table 8.4: Month-wise RTGS Transactions

(Value in Rupees crore)

Year/Month	No. of Participants	No of Branches	Inter-bank		Customer		Total	
			Volume	Value	Volume	Value	Volume (4+6)	Value (5+7)
1	2	3	4	5	6	7	8	9
2004-05			**391,931**	**38,16,522**	**68,492**	**2,49,662**	**460,423**	**40,66,184**
2005-06			**1,053,940**	**89,70,624**	**713,058**	**25,70,212**	**1,766,998**	**1,15,40,836**
2006-07			**1,393,728**	**1,13,13,347**	**2,481,779**	**71,67,808**	**3,875,507**	**1,84,81,155**
Apr-06	110	19,937	91,558	8,00,906	135,856	4,14,833	227,414	12,15,739
May-06	110	20,879	110,385	9,83,348	171,731	5,22,422	282,116	15,05,770
Jun-06	110	21,916	112,529	9,46,691	181,519	4,90,717	294,048	14,37,408
Jul-06	110	23,023	110,728	8,91,473	186,750	4,54,992	297,478	13,46,466
Aug-06	108	23,730	115,697	9,05,577	216,076	4,82,295	331,773	13,87,872
Sep-06	108	24,439	113,432	9,65,023	218,772	5,56,877	332,204	15,21,900
Oct-06	108	24,597	109,497	9,39,938	228,613	4,69,506	338,110	14,09,444
Nov-06	108	25,353	123,938	10,52,419	264,269	6,65,072	388,207	17,17,491
Dec-06	108	25,878	124,389	10,24,691	281,978	7,14,429	406,367	17,39,120
Jan-07	107	26,530	121,781	8,41,163	178,213	5,98,777	299,994	14,39,941
Feb-07	107	27,525	118,748	8,63,898	186,970	7,37,553	305,718	16,01,451
Mar-07	106	28,697	141,046	10,98,219	231,032	10,60,335	372,078	21,58,554
Apr-07	105	29,000	122,776	11,09,958	205,699	8,37,607	328,475	19,47,565
May-07	105	29,850	131,529	8,75,831	236,852	9,33,090	368,381	18,08,921

facility of the CFMS in operation since 2005-06, enables banks to better manage their current account balances with the Reserve Bank by electronically moving funds from one office of the Reserve Bank to another office, *i.e.*, from a surplus centre to a deficit centre. At present, nine Reserve Bank offices (Mumbai, Delhi, Chennai, Kolkata, Ahmedabad, Nagpur, Bangalore, Hyderabad and Chandigarh) have been brought under the system.

International Remittances

VIII.17 The flow of funds from migrant workers to their families in their home country is an important source of income in many developing economies. The total value of remittances has increased steadily over the past decade and the total remittances worldwide were estimated to be around US $ 230 billion in 2005, involving some 175 million migrants. Remittances are the largest source of external financing in many developing countries and for some countries they can account for as much as a third of GDP; moreover, the flow of remittances seems to be significantly more stable than that of other forms of external finance. The importance of remittances, and the difficulties that can be associated with them, have been increasingly recognised in recent years. In order to ensure that the remittance services are safe and efficient, the Committee on Payment and Settlement Systems and the World Bank Task Force have come out with general principles designed to assist countries in improving the market for remittance services (Box VIII.1).

Oversight of the Payments and Settlement Systems

VIII.18 The oversight of payment systems is being increasingly recognised as a core responsibility of central banks since the safe and efficient functioning of these systems is one of the most important pre-requisites for the proper functioning of the financial system and for efficient transmission of monetary policy. The oversight of the payment systems involves putting in place systems and procedures that (a) clearly define the power and capacity of the central bank to carry out oversight responsibility; (b) ensure the smooth and efficient provision of payment services to all participants and users in a fair manner; (c) minimise and control the risk of transmitting shocks through the economy caused by failures of individual participants to settle their payment obligations; and (d) ensure development of technical and institutional infrastructure to meet the growing payment system needs of the country.

VIII.19 The Reserve Bank would derive its formal power for conducting oversight of the payment and

Box VIII.1
General Principles for International Remittance Services

The General Principles recommended by the Committee on Payment and Settlement Systems (Bank for International Settlements) and the World Bank Task Force are aimed at the public policy objectives of achieving safe and efficient international remittance services. These principles aimed at contestable, transparent, accessible and sound markets for remittance services are:

- The market for remittance services should be transparent and have adequate consumer protection.
- Improvements in payment system infrastructure having the potential to increase the efficiency of remittance services should be encouraged.
- Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework.
- Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.
- Remittance services should be supported by appropriate governance and risk management practices.
- Remittance service providers should participate actively in the implementation of the General Principles.
- Public authorities should evaluate actions to be taken to achieve the public policy objectives through implementation of the General Principles.

Reference:

BIS (2007), *Report on General Principles for International Remittance Services*, Committee on Payment and Settlement Systems, Bank for International Settlements, January.

settlement systems on enactment of the Payment and Settlement Systems Bill (see Chapter I). At present, the Reserve Bank exercises this power through regulation and supervision of its regulated entities providing various services. The Reserve Bank has prepared the first Report on Oversight of Payment Systems in India. The Report assessed the various payment systems in operation against the international standards.

INFORMATION TECHNOLOGY

Information Technology in the Reserve Bank

VIII.20 The use of information technology in the day-to-day operations of the Reserve Bank has increased rapidly in the past few years with the objective of reaping efficiency gains. The intensive use of IT in the Reserve Bank is reflected in the setting up of the state-of-the-art data centres. The Reserve Bank is in the process of setting up three data centres which, besides enabling the consolidation of systems and centralised data processing, would also take care of business continuity and disaster recovery in the event of any contingency. With the establishment of the data centres, the process of migration of systems from the existing distributed setup to the centralised backbone at the data centre would commence. The Central Accounts Section (CAS) system and the Document Management Information System (DMIS) are being migrated to the new setup, while work is currently in progress in respect of migration of the Centralised Public Accounts Department System (CPADS); other systems are at various stages of migration.

Technology Implementation within the Reserve Bank

VIII.21 The focus of the IT facilitatory services for the internal users of the Reserve Bank followed a three-pronged approach. This includes (a) adhering to the 'centralisation with decentralised access' approach so as to ensure smooth migration to the data centres (Box VIII.2); (b) aiming at the goal of ‘providing capabilities for on-line transaction processing, analytical and decision support facilities at the desktop of each official of the Bank’; and (c) activating high levels of safety and security in the IT based processing environment.

VIII.22 The current status of the IT based systems for the key operational areas of the Reserve Bank is as follows:

- The Deposit Accounts Department (DAD) at Mumbai migrated to the use of the new integrated accounting system (IAS), replacing the erstwhile BASIS system. Plans are being made to roll out the IAS at other locations as well, in a time bound manner.
- The new Centralised Public Accounts Department System (CPADS) has been made operational at Chennai, Thiruvananthapuram, New Delhi and Hyderabad. This system has stabilised well and provides inputs for the Government departments through the secured website of the Reserve Bank.
- The Centralised Public Debt Office (CPDO) system, in use for more than three years, has been upgraded to meet the changing requirements of debt management policies.

Box VIII.2
Centralised Databases with Decentralised Operations

The operation and functioning of organisations have gradually evolved to more flexible and entrepreneurial designs to cope with the constantly growing complexity of the business landscape. At the same time, technological breakthroughs in storage of information as well as connectivity have enabled organisations to become more centralised or decentralised, according to their strategic orientation, further enhancing the efficiency of managing global business processes. However, centralisation is still the prevalent mode of managing, despite the increased desirability of decentralised operations.

It is in this context that the benefits of centralisation and decentralisation have been uniquely blended and the Reserve Bank has decided to opt for centralised databases with decentralised operations. This approach has many advantages. First, there is a wealth of information stored at a central point for wide usage. Second, there is less dependency on local systems, thus, obviating the need for resources to be available at the local end. Third, centralised administration and maintenance ensures economies of scale. Finally, the efficiency levels get enhanced. With reliable networks in the country, this approach would yield substantial benefits for the organisation.

- The integrated computerised currency operations and management system (ICCOMS) was made operational during 2006-07, with more than 90 per cent of the currency chests in the country and more than 92 per cent of the link offices reporting movement of currency notes through this system. Once the system stabilises and is used by all currency chests throughout India, this would allow near on-line monitoring and managing of the distribution of currency by the Reserve Bank.

VIII.23 Reflecting the various initiatives, there was further progress in the use of IT in the Reserve Bank (Table 8.5).

VIII.24 The year 2006-07 also witnessed the implementation of the IT based systems for two main functional areas of the Reserve Bank's operations. First, a Human Resources Management System (HRMS) is being implemented in the Reserve Bank. The HRMS would be a repository of the profiles of all employees of the Reserve Bank. Second, work relating to the computerisation of the Rural Planning and Credit Department (RPCD) is underway. The Banking Ombudsmen software system, which provides for a web based complaint tracking system with access facilities even to the Finance Minister for monitoring purposes, has stabilised well.

VIII.25 The setting up of the data centres follows the need for consolidation of IT systems to facilitate better management of such systems. The data centres also take care of the needs for business continuity, with recovery time objectives (RTO) surpassing normal standards and recovery process objectives requiring 'zero data loss' levels. To this end, high availability of the systems is being provided for at the data centres which, apart from providing for the state-of-the-art latest technological platforms, would also match the Tier IV Standard of the Uptime Institute.

VIII.26 An important requirement for uninterrupted operations using the IT systems is the availability of networks for secure and continuous operations. The networking requirements of the Reserve Bank have been met by the Indian Financial Network (INFINET)

Table 8.5: Critical IT Implementation Factors in 2006-07

Critical Requirment Factor	Performance Yardstick	Position as at end-March 2006	Position as at end-March 2007
Standardisation	Across all departments	85 per cent completed; 15 per cent under progress	95 per cent completed; 5 per cent under progress
Integrated Application Systems	For all functional units	65 per cent completed; 35 per cent under progress	85 per cent completed; 15 per cent under progress
Server Consolidation	At all locations	70 per cent completed; 30 per cent under progress	90 per cent completed; 10 per cent under progress
Connectivity	Across all offices and all locations	100 per cent completed	100 per cent completed
Productivity Tools	For all critical mainframe applications	100 per cent completed	100 per cent completed
Corporate e-mail	For all users at all locations	100 per cent completed	100 per cent completed
IS Security	For all information systems	90+ per cent completed	95+ per cent completed

of the Institute for Development Research in Banking Technology (IDRBT) for inter-office communication and Local Area Networks (LAN) for intra-office telecommunication. The LANs have been functioning satisfactorily and are subject to regular external audit.

VIII.27 In tune with the developments in the field of network based computing, the move from the Closed User Group network of the INFINET to the Multi-Protocol Label Switching (MPLS) has been initiated by the IDRBT and the finalisation of the service providers for this is at an advanced stage. The MPLS provides for Virtual Private Networks (VPN) to communicate in a secure manner over a private network. This improves efficiency and reduces costs, while ensuring adequate safety and security levels. The complete switch over is expected to be made by early 2008.

VIII.28 The corporate e-mail system of the Reserve Bank continued to function satisfactorily, with access provided for authorised users to access e-mails even from outside the office locations, with adequate safeguards. In order to further enhance this facility, the migration to a single forest-based Mail Messaging System has commenced and this activity is expected to be completed shortly.

VIII.29 The smart card-based access control system at the Central Office has stabilised. Enthused by its success, work is in progress to provide such systems across all locations of the Reserve Bank as well as to all its employees. This system shall be closely inter-twined with the HRMS and the Integrated Establishment System (IES) for exploiting the benefits of synergy.

VIII.30 Most of the offices of the Reserve Bank are now connected by the video conferencing facility. The facility of video/audio is being constantly improved by continuous monitoring/fine-tuning. The use of this facility has been very encouraging across the Reserve Bank.

Reserve Bank and the IDRBT

VIII.31 During 2006-07, IDRBT continued to discharge its Certification Authority related functions for the banking sector, apart from maintaining the INFINET and the NFS. The IDRBT functions as a financial network service provider, besides performing the role of a premier research institute for the benefit of the banking sector. In order to provide for focused operations as per its Memorandum/Articles of Association, a roadmap to hive off the commercially oriented services from the research activities is being drawn up.

IS Audit

VIII.32 In the light of the growing use of IT in the Reserve Bank, IS Audit assumes critical importance. The major IT-based systems are subject to IS Audit. During 2006-07, the PDO-NDS system was subjected to an IS Audit and also a post-audit compliance related audit. Other critical payment systems shall also be subject to such audit in the future. While such audit is conducted by professional external entities, the internal inspection teams perform in-house audit of all the IT systems, whenever regular inspection of offices of the Reserve Bank is taken up by them.

IT for the Financial Sector

VIII.33 The Reserve Bank plays a critical role in facilitating initiatives in the field of IT in the banking industry. To this end, the Financial Sector Technology Vision Document, published by the Reserve Bank in 2005, is being reviewed and the plans for the ensuing medium term are being finalised in consultation with the various stakeholders of the financial system.

VIII.34 The year 2006-07 witnessed the large scale adoption of core banking solutions (CBS) by almost all the banks. The CBS enables the customers of banks to undertake their transactions from any branch of a bank instead of being attached to a particular branch, thereby resulting in better delivery of various customer services by the banks. At end-March 2007, 45 per cent of the branches of the public sector banks were interlinked using the CBS.

VIII.35 The reliance on outsourcing, especially in the use of IT, has increased significantly in the banking sector. This could be attributable to the strategy of these institutions to concentrate and focus on their core competencies for their main lines of business, rather than on providing for IT based services. While providing several benefits, outsourcing also poses a number of challenges (Box VIII.3).

Outlook

VIII.36 The Reserve Bank will persevere with its objectives of ensuring greater efficiency in the payment and settlement systems in a secure manner. The focus in the coming years would be on consolidation of the existing payment systems while promoting electronic means of payment and settlements. Efforts to create infrastructure for

Box VIII.3
Outsourcing: Features and Safeguards

The Indian banking sector has been undergoing radical transformation in view of the ongoing innovations, modernisation and large-scale adoption of newer technology. In the face of rapid technological developments, the reliance on outsourcing has increased due to a variety of factors. First, due to the fast pace of technological advancements, IT infrastructure and in-house expertise get obliterated, unless subjected to continuous upgradation. The costs associated with regular upgradation of infrastructure and skills in a highly dynamic environment tend to be high and thus outsourcing, which provides for latest technology based solutions, is a preferred option. Second, internal expertise can be inward looking, with focus on established and existing processes; outsourcing increases the scope for fresh reviews resulting in improved processes and services. Finally, the benefit of experience from other institutions is not generally available for internal experts; this is available for outsourced solutions. It is possible to fix high performance yardsticks/uptime and functional levels for outsourced projects - even up to 99.9 per cent, which may be difficult in the case of an internal solution.

At the same time, there can be potential and significant threats arising out of outsourcing. Outsourcing is not a trouble free solution; it is only that the nature and types of problems change. Outsourcing requires that the necessary skills to outsource projects are first available in-house. Such skill sets include (i) management of the outsourcing process; (ii) managing vendors and, most often, multiple vendors for the same processes/systems; (iii) managing the conflicting interests of different vendors such as between a hardware vendor and an application software vendor using the same resources; (iv) knowledge of trends and developments in technology to keep pace with the requirements expected out of the vendors; and (v) capability to evaluate the charging pattern of vendors to ensure that the organisation is not at the mercy of the vendor.

remittance facility between some of the neighbouring countries would be pursued. In order to achieve the objective of timely, cheap and dependable service to customers, an annual review of the payment and settlement systems is proposed, beginning with a review for the year ended March 31, 2007. The review would be based on parameters such as timeliness of customer service, cost of operation, service charges and overall impact on the financial system.

VIII.37 The Reserve Bank would intensify steps to achieve greater operational efficiency within the organisation through large scale and holistic IT usage. In this context, the setting up of data centres would enable the functional units to focus more on their business related functions with the IT related aspects being managed centrally out of the data centres. The Financial Sector Technology Vision Document will be reviewed in the light of developments in the financial system.

IX HUMAN RESOURCE DEVELOPMENT AND ORGANISATIONAL MATTERS

IX.1 In view of the fast changing external environment brought about by the growing deregulation, liberalisation and opening up of the Indian economy, human resources management has assumed high significance. The Reserve Bank, therefore, continued with its endeavour of upgrading the skills of its human resources. The focus was on facilitating the transition to a learning environment that lays stress on developing functional, inter-personal and leadership skills, creativity and communication capabilities as well as the ability to work in a cross-cultural work environment and with cross-functional teams. Efforts to benchmark the work processes in the Reserve Bank to the international best practices were carried forward during 2006-07. With a view to reaching out to the common person in the country, the Reserve Bank has also been suitably designing and developing communication strategies for disseminating information on its policies. Speeches by Top Management (Annex 1), reports of the various Working Groups (Annex II), and regular publications, an important part of the communication policy, are all placed on the Reserve Bank's website.

IX.2 This Chapter details the various initiatives undertaken by the Reserve Bank for upgrading the human resources skills through appropriate training facilities at its own as well as external training institutes in areas of relevance to its working and operations. It also covers various measures taken for improving the customer service in the areas of banking, currency, foreign exchange and clearing mechanism including evaluation of customer satisfaction, financial inclusion and financial education. A Customer Service Department was set up in July 2006 by bringing in various customer service activities handled by different departments of the bank under a single roof for improving the quality of services to the members of public, banks, Central and State Governments and financial institutions.

IX. 3 The Reserve Bank's research departments continued to provide analytical research on various aspects of the Indian economy in the conduct and formulation of its monetary and financial policies. In order to explain the rationale and the analytics of its policy initiatives to the public, the Reserve Bank disseminated wide ranging information through press releases, notifications, master circulars, publications, speeches, frequently asked questions and advertisements.

IX.4 Finally, the Chapter presents an overview of the meetings of the Central Board and its Committees. Seven meetings of the Central Board were held during the year ended June 30, 2007 wherein there were discussions on the areas of currency management, banking regulation and supervision, monetary and credit policy, accounting policy, and internal debt management policy. The deliberations of the Board also focused on the critical issue of ensuring the benefits of growth to the poorer sections of society and increasing the flow of credit to agriculture and rural areas.

HUMAN RESOURCE INITIATIVES

Training and Skills Enhancement

IX.5 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 continued to cater to the training needs of the officers of the Reserve Bank and the banking industry. The four Zonal Training Centres (ZTCs) focused on training of Class III and IV staff of the Reserve Bank (Table 9.1).

Banker' Training College/Centre for Advanced Financial Learning, Mumbai

IX.6 The Bankers' Training College (BTC) was established to train the personnel of commercial banks and other financial institutions in India. Recognising the many changes that have taken place in the financial sector and to provide a broad-based intellectual platform for research, training and discussion for senior executives and professionals in the financial sector, both Indian and foreign, the Bankers' Training College was relaunched as "Centre for Advanced Financial Learning" by the Honourable Prime Minister of India in 2006. The Centre conducted two high-end programmes on Advanced Derivatives and Financial Risk Management by outside experts for senior officers of the Reserve Bank. It also conducted 12 programmes in areas such as asset liability management, risk management, human resources development,

Table 9.1: Training Establishments of the Reserve Bank – Programmes Conducted

Training Establishment	2002-03 (July-June)		2003-04 (July-June)		2004-05 (July-June)		2005-06 (July-June)		2006-07 (July-June)	
	Number of Programmes	Number of Participants	Number of Programmes	Number of Participants	Number of Programmes	Number of Participants	Number of Programmes	Number of Participants	Number of Programmes	Number of Participants
1	2	3	4	5	6	7	8	9	10	11
BTC, Mumbai	160	3,735	171	3,204	153	3,287	85	1,908	89	2,148
RBSC, Chennai	139	3,013	144	2,874	133	2,895	127	2,633	138	2,941
CAB, Pune	173	3,461	147 *	3,138 *	146	3,364	152 #	3,812 #	146	4,279
ZTCs (Class III)	153	2,991	187	3,652	245	5,442	230	4,710	215	4,069
ZTCs (Class IV)	31	535	56	958	40	1,295	76	1,592	78	1,605

* : Includes 10 outstation programmes conducted at the initiative of Regional Offices involving 384 participants.
\# : Includes 13 offsite programmes involving 437 participants.
BTC : Bankers' Training College. RBSC : Reserve Bank Staff College.
CAB : College of Agricultural Banking. ZTC : Zonal Training Centre.

customer services and emerging issues in banking (Table 9.2).

Reserve Bank Staff College, Chennai

IX.7 The Reserve Bank Staff College (RBSC), 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, continues to contribute to the upgradation of skills of all the cadres of the officers. In line with the changing environment, it has been consistently endeavouring to modernise the

Table 9.2: New Programmes/Seminar/Workshops Conducted by Training Colleges during 2006-07

Bankers Training College (BTC)/Centre for Advanced Financial Learning (CAFL)	Reserve Bank Staff College (RBSC)	College of Agricultural Banking (CAB)
1	2	3
1. Credit, Forex and Risk Management (for Canara Bank)	1. Credit Management and Quantitative Techniques	1. National Symposium on Farm Credit for Inclusive Growth
2. Executive Development Programme for Promotees to Executive Cadre (for Canara Bank)	2. Rainwater Harvesting and Energy Conservation	2. National Workshop on ICT for Rural Financial Services
3. Human Resource Development Challenges for Indian Banks	3. Organisational Culture Building	3. National Seminar on Micro Finance (in Hindi)
4. Disaster Recovery Management	4. Financial Crimes and Market Intelligence	4. National Seminar on Organic Agriculture
5. Seminar on Issues in Customer Service in Banks	5. International Seminar on Basel II Implementation Issues	5. Workshop on Commodities Futures and Agricultural Produce Marketing
6. Asset Liability Management with Duration Gap Analysis Framework	6. Programme for Police Officials from National Police Academy, Hyderabad	6. Management Development Programmes for the Chief Executive Officers of the Urban Cooperative Banks and Micro Finance Institutions
7. Seminar on Credit Delivery, Culture and Pricing		7. International Programme on Restructuring and Strengthening Agricultural / Rural Financial Institutions
8. Compliance Risk Management		8. Customised Programmes on Micro Finance Delivery Systems for Participants from Sri Lanka.
9. Internal Credit Risk Modelling under Basel II		
10. Seminar on Emerging Issues in Banking		
11. Advanced Derivatives Programme		
12. Financial Risk Management		

techniques of training as well as the coverage of inputs. Ethical issues, communication techniques as well as human values are being included in most of the programmes.

IX.8 Four e-learning modules have been prepared and kept on the website of the RBSC for perusal, while two are under preparation. A number of topical programmes relating to Basel II, credit management, rain water harvesting, organisational culture building and financial crimes were organised in the College during the year (see Table 9.2). The College conducted off-site programmes at various centres. In order to provide an intellectual platform on financial and central banking issues for the Afro-Asian region, the College conducted "International Seminar on Basel II-Implementation Issues". The seminar attended by 24 central bankers from 14 countries deliberated on various issues and options based on individual country experiences.

College of Agricultural Banking, Pune

IX.9 The College of Agricultural Banking (CAB), originally set up with a focus on training the senior and middle level officers of rural and co-operative credit sectors, has, in recent years, diversified into areas relating to non-banking financial companies, human resource management and information technology (IT). Keeping in view the emerging training needs, the College organised 45 new programmes such as farm credit for inclusive growth, IT for rural financial services, micro finance, commodities futures and management development (see Table 9.2). The College also organised four international programmes, *viz.,* the International Programme on Restructuring and Strengthening of Agricultural/Rural Financial Institutions (sponsored by the Centre for Co-operative Training in Agriculture and Banking) and three customised programmes on Micro Finance Delivery Systems for participants from Sri Lanka. The College conducted 31 customised programmes for the Central Bank of Sri Lanka, Dena Bank, Union Bank of India, Corporation Bank, Canara Bank, Indian Overseas Bank, National Housing Bank, and Indian Banks' Association. The Planning Commission/ United Nations Development Programme (UNDP) sponsored programme for the senior State/Central Government officials was also organised. Furthermore, 19 off-campus programmes were organised at various centres. 128 participants from Sri Lanka, Nepal and Bangladesh attended training programmes conducted by the College during the year. The College continued to provide faculty support to a number of other institutions.

IX.10 The College also undertook a study on 'Costs and Margins of Micro Finance Institutions' in association with some regional offices. The College has been regularly bringing out a quarterly journal "CAB Calling", focused on developmental banking. Two out of the three issues of the magazine published during 2006-07 focused on "SME Financing" and "Organic Agriculture". The College has initiated the process of obtaining ISO certification in a time-bound manner to improve the quality management systems in its academic activities.

Deputation of Officers for Training in India and Abroad

IX.11 In order to upgrade the skills of its human resources, the Reserve Bank also deputes its officers to various external training institutes, conferences, seminars and workshops, both in India and abroad. During 2006-07, 871 officers were deputed for various programmes in India while 352 officers were sent abroad. The areas covered in such programmes included banking supervision, derivatives, risk management, financial programming and policies, central bank accounting, monetary policy and operations, macroeconomic management, debt management, reserve management, finance for agriculture, rural development, micro finance, human resources, international banking, foreign trade and labour laws (Table 9.3).

IX.12 With a view to enhancing the level of knowledge and sharpening executive skills, the Reserve Bank has decided to depute Senior Officers in Grade 'F' for advanced management programmes of about two to three weeks' duration at leading business schools abroad. Four Senior Officers in Grade 'F' have been chosen for deputation to pursue such courses in 2007 at internationally renowned business schools such as the Harvard Business School, the Columbia Business School and the London Business School.

Table 9.3: Number of Officers Trained in External Training Institutions in India and Abroad

Year	Number of officers trained in India	Number of officers trained abroad
1	2	3
2001-02	355	137
2002-03	452	208
2003-04	433	242
2004-05	521	171
2005-06	625	273
2006-07	871	352

IX.13 In order to hone the technical and management skills of the Reserve Bank's officers, a need was felt for greater coordination with leading central banks as well as other key regulatory and supranational agencies. With this objective, an inter-institutional exchange of human resources in the form of a Short-term Secondment Scheme has been put in place; under the first such exchange, one officer has taken up a secondment with the Financial Stability Division at the Bank of England effective April 2007. Discussions are on with the *Banque de France* on designing a similar short-term Secondment Scheme.

IX.14 A scheme of sponsoring officers in Grades A and B below the age of 35 years for pursuing Post-Graduate Programme in Banking & Finance (PGPBF) conducted by the National Institute of Bank Management (NIBM), Pune has been instituted and one officer has been selected to pursue the course during the academic year 2007-08.

IX.15 Four officers were selected during 2006-07 under the Reserve Bank's Golden Jubilee Scholarship Scheme for higher studies abroad. In all, 87 officers have been selected under this scheme since its inception in 1986.

IX.16 Ten officers were allowed to pursue higher studies during the year. Besides, one officer completed research under the Bank for International Settlements (BIS) Visiting Fellowship Programme. One officer has been deputed for the post of India Analyst in a project being jointly run by Bank of Tokyo and Waseda University, Japan.

Zonal Training Centres

IX.17 Zonal Training Centres (ZTCs) of the Reserve Bank conducted programmes on functional areas, information technology and behavioural areas for employees in the Class III and IV cadres of the Reserve Bank. Apart from regular programmes at their premises, the ZTCs also conducted offsite programmes. Four pre-Integrated Officer Development Programme (IODP) courses were conducted at ZTC, Kolkata. Pre-examination trainings for Assistant Managers (for SC/ST and physically handicapped candidates) and Managers as well as preparatory training programmes for promotion of Class IV to Class III were also conducted at ZTCs.

IX.18 ZTC, Belapur conducted an exclusive training programme on Inventory Management and Accounts for the employees of the Royal Monetary Authority of Bhutan. The National Bank for Agriculture and Rural Development (NABARD) has been deputing its Class III and IV employees for investment and retirement planning programme conducted by ZTCs on a cost basis.

Deputation of Class III and IV Staff to External Institutions in India

IX.19 Under the scheme for deputation of Class III and IV staff for training in external institutions in India in human resource development, 182 Class III and 21 Class IV employees were deputed during the calendar year 2006. Four in-company programmes for Class III employees and for Class IV employees were conducted at external training institutions, *viz*., V. V. Giri National Labour Institute, Noida and National Productivity Council, New Delhi, respectively, during the year 2006-07.

Training in Computer Technology

IX.20 During 2006-07, 130 officers were deputed for advanced training programmes in computers and information technology to leading training institutions such as the National Institute of Bank Management (NIBM), Pune and the Institute for Development and Research in Banking Technology (IDRBT), Hyderabad. The Reserve Bank contributed Rs.9 crore towards training fees and membership subscriptions of various institutions.

Other Initiatives

IX.21 During July-June 2007, 555 employees availed benefits under the incentive scheme for pursuing part time and distance education courses. The major areas of the study were management, information technology, financial analyst and post-graduation in commerce and economics.

IX.22 In order to provide its staff an additional avenue of skill enhancement, the Reserve Bank has obtained an e-learning module designed by the Indian Institute of Banking and Finance (an affiliate of the Indian Institute of Bankers) exclusively for its employees covering different facets of central banking such as treasury and risk management, and international banking and foreign exchange.

IX.23 FSI-Connect, an innovative web-based information resource and learning tool for bank supervision introduced by Financial Stability Institute of Bank for International Settlement has been subscribed by the Reserve Bank since 2005. The Reserve Bank is the largest subscriber having 1,213 connections. This e-learning facility contains modules like Capital and Basel II, Market Risk, Credit Risk, Operational Risk and Payment Systems.

IX.24 At the Reserve Bank's Regional Directors' Conference for the year 2006 held in informal settings at Mumbai from November 23 to 26, 2006, Governor/ Deputy Governors shared their vision on the way forward for the Reserve Bank and set out the broad goals for the organisation. At this annual forum, organisational strategies were also discussed with the heads of the Regional Offices and Central Office departments with a view to enhancing efficiency through internal re-engineering. Deliberations also laid emphasis on outcomes as against processes, given the changes in the external environment. In order to provide the Regional Directors a first-hand idea of the issues engaging the Reserve Bank, presentations were made by heads of the various Central Office departments. Presentations were also made by the Regional Directors on notable initiatives taken by the offices under their jurisdictions. An interactive Strategy Conversation Session discussed internal issues such as HR ownership, execution and delivery and leadership building. A galaxy of eminent guest speakers also addressed the Conference on a range of interesting and evolving issues.

IX.25 With a view to imparting more transparency and objectivity in the Performance Rating System, a new Performance Appraisal Reporting (PAR) System for the members of staff in the Class III cadre was introduced during 2006-07. The revised arrangement replacing the erstwhile Annual Confidential Reporting (ACR) System incorporates self-assessment by the employees and has been received favourably as a step forward towards a fairer and more objective system of employee appraisal.

IX.26 As part of its capacity building and knowledge management initiatives, the Reserve Bank signed a Memorandum of Understanding with the London School of Economics and Political Science (LSE) for creating a LSE India Observatory and IG Patel Chair to be based at the Asia Research Centre at the LSE. The LSE India Observatory will co-ordinate India-related research, policy development and teaching at the LSE and is expected to emerge as a hub for academic collaboration with academic institutions in India, government agencies and corporate bodies. The IG Patel Chair, which is being set up in honour of the late Dr. I.G. Patel, a former Governor of the Reserve Bank, who also later held the post of Director at the LSE, will be a fully endowed permanent professorship and its holder will lead the LSE India Observatory. The LSE proposes to invite an eminent scholar with an established reputation in development economics, political economy or a closely related field to hold this post. The Reserve Bank, as part of a sponsor consortium, will provide a funding of £100,000 per annum to the LSE for a period of ten years beginning January 2007. The Memorandum of Understanding in this regard was signed on December 7, 2006 in New Delhi in the presence of the Honourable Prime Minister of India.

IX.27 With a view to positioning India as a global training provider in the field of banking and finance, the Joint India-International Monetary Fund (IMF) Training Programme (ITP) has been established at the National Institute of Bank Management (NIBM) campus in Pune. This is the seventh such facility of the IMF Institute in the world. The ITP will impart policy-oriented training to nominees of Governments and central banks of the participating SAARC and East African countries, apart from India, in areas such as macroeconomic management and policies, financial programming, monetary policy, bank supervision, financial sector issues, public finance, exchange rate policy and foreign exchange operations and statistics. The ITP will also include seminars on topical issues for high-level officials. Faculty support for these courses will be provided by the IMF Institute, Washington. The inaugural course at the ITP was held from July 24 to August 4, 2006. In all, six courses were held at the ITP during 2006-07 (July-June).

IX.28 The Reserve Bank organised an interface on the broad theme of "Capacity Building in Central Banks : Creating Synergies" with the Heads of the Human Resource Department(s)/Training Establishments of central banks of the countries participating in the courses run at the ITP Centre at Pune. The interface, aimed at building up the synergy with other key central banks on human resource issues, afforded an opportunity to learn from cross-country experiences in aligning human resource management with the strategic objectives. The event coincided with the formal inauguration of the Joint India-IMF training facility in Pune.

IX.29 Twelve officials from the central banks of Zambia, Tanzania and Nigeria were provided study attachments at the Reserve Bank's Central Office departments during 2006-07. Interface sessions were held for students of Pace University, University of Texas at Austin, and University of Manchester; such sessions were also held for senior civil servants of Singapore, participants from Higher Defence Management Course, Secunderabad, and College of Naval Warfare.

Summer Placement

IX.30 The Reserve Bank has in place a Summer Placement scheme which affords an opportunity to domestic and foreign students to expose themselves to an actual managerial environment and apply their knowledge to operational issues in the central bank while doing their internship. During the year 2006-07, 30 students selected under the scheme from management institutes/colleges of India undertook their internship in the Reserve Bank. Furthermore, 13 students pursuing higher studies abroad have also been selected to undertake internship with the Reserve Bank during the year 2006-07.

Industrial Relations

IX.31 Industrial relations in the Reserve Bank remained, by and large, peaceful during 2006-07. Periodical meetings were held with the recognised Associations/Federations of workmen employees/ officers on various matters related to service conditions and welfare measures in the Reserve Bank.

Recruitment

IX.32 During 2006 (January-December), the Reserve Bank recruited 360 employees. Of this, 105 belonged to Scheduled Castes (SCs) and Scheduled Tribes (STs) categories, constituting 29.1 per cent of total recruitment (Table 9.4).

Table 9.4: Recruitment by the Reserve Bank – 2006*

Category	Total Recruitment	*of which* SC	*of which* ST	Percentage SC	Percentage ST
1	2	3	4	5	6
Class I	140	33	15	23.6	10.7
Class III	8	–	–	–	–
Class IV					
(a) Maintenance Attendants	187	31	23	16.6	12.3
(b) Others	25	3	–	12.0	–
Total	**360**	**67**	**38**	**18.6**	**10.5**

* : January-December.
SC : Scheduled Castes. ST : Scheduled Tribes.

Staff Strength

IX.33 The total staff strength as on December 31, 2006 was 21,910 as compared with 22,192 a year ago. Of the total staff, 21.2 per cent belonged to Scheduled Castes and 8.9 per cent belonged to Scheduled Tribes as on December 31, 2006 (Table 9.5 and Chart IX.1).

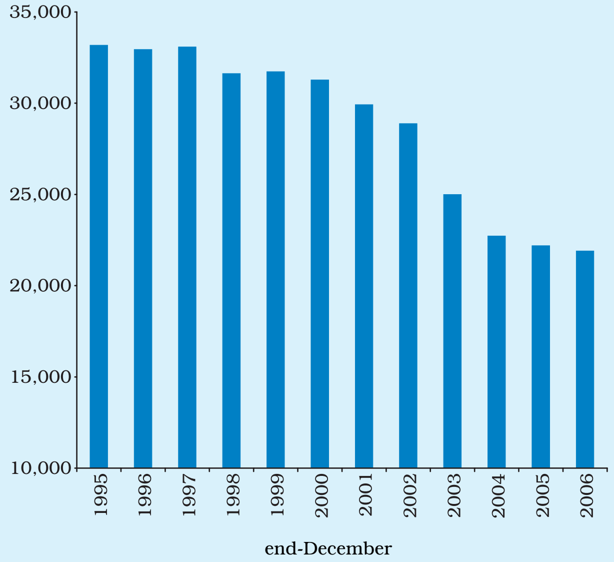
IX.34 During 2006 (January-December), the Reserve Bank's Liaison Officer for Scheduled Caste/ Scheduled Tribe employees conducted inspection of reservation rosters maintained at six offices, *viz.*, Guwahati, Thiruvananthapuram, Kochi, Jaipur, Jammu and Hyderabad. Meetings between the management and the representatives of the All India Reserve Bank Scheduled Castes/Scheduled Tribes and the Buddhist Federation were held on four 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 has provided reservation to Other Backward Classes (OBCs) effective September 8, 1993. The representation of the OBCs (recruited after September 1993) in the Reserve Bank as on December 31, 2006 was 820. Of these, 217 were in Class I, 110 in Class III and 493 in Class IV. Two meetings were held with the All India Reserve Bank OBC Employees' Welfare

Table 9.5: Staff Strength of the Reserve Bank

Category	Category-wise Strength: Total Strength December 31, 2005	Total Strength December 31, 2006	SC December 31, 2005	SC December 31, 2006	ST December 31, 2005	ST December 31, 2006	Per cent to Total Strength December 31, 2006: SC	ST
1	2	3	4	5	6	7	8	9
Class I	5,885	6,819	870	993	367	458	14.6	6.7
Class III	8,773	7,522	1,341	1,183	845	744	15.7	9.9
Class IV	7,534	7,569	2,459	2,465	731	752	32.6	9.9
Total	**22,192**	**21,910**	**4,670**	**4,641**	**1,943**	**1,954**	**21.2**	**8.9**

SC : Scheduled Castes. ST : Scheduled Tribes.

Chart IX.1: Total Staff Strength of the Reserve Bank



Association to discuss issues relating to implementation of the reservation policy in the Reserve Bank.

IX.35 The total strength of ex-servicemen in the Reserve Bank at end-December 2006 was 1,273 comprising 165 in Class I, 288 in Class III and 820 in Class IV. The number of physically handicapped employees in Class I, Class III and Class IV cadres was 113, 218 and 133, respectively, at end-December 2006.

IX.36 Of the total staff, 31.1 per cent was in Class I, 34.3 per cent in Class III and the remaining 34.6 per cent in Class IV (Table 9.6).

IX.37 Almost one-fourth of the total staff is involved in the work related to currency management (Table 9.7).

IX.38 Mumbai (including the Central Office Departments) continued to have the maximum number of staff – 29 per cent of total staff strength – followed by Kolkata (10 per cent), Chennai and Delhi (7 per cent each) (Table 9.8).

Contract Appointments

IX.39 In view of the ongoing innovations, new developments and work processes getting increasingly technology-driven, induction of appropriate technical manpower in the Reserve Bank was considered imperative. Accordingly, during the year, the Reserve Bank took Information Technology (IT) resources personnel on a contract appointment basis.

Table 9.6: Category-wise Actual Staff Strength

(As on December 31, 2006)

Class	Actual Strength
1	2
Class I	**6,819**
1. Senior Officers in Grade F	89
2. Senior Officers in Grade E	231
3. Senior Officers in Grade D	359
4. Officers in Grade C	856
5. Officers in Grade B	1,476
6. Officers in Grade A	3,482
7. Treasurers	19
8. Deputy Treasurers	60
9. Assistant Treasurers	247
Class III	**7,522**
1. Clerks Grade I	2,494
2. Clerks Grade II	3,201
3. Stenographers	229
4. Typists	538
5. Tellers	459
6. Others	601
Class IV	**7,569**
1. Peons	1,505
2. Mazdoors	1,796
3. Others	4,268
Total Strength in the Reserve Bank	**21,910**

Opening of New Offices/Departments

IX.40 The Reserve Bank opened sub-offices at Dehradun and Raipur on June 30, 2006 and January 2, 2007 for the States of Uttaranchal (since renamed as Uttarakhand) and Chhattisgarh, respectively. The sub-offices will focus on issues relating to rural credit and co-operative banks in the respective States. The sub-offices will initially have two departments, namely, the Rural Planning and Credit Department (RPCD) and the Urban Banks Department (UBD).

IX.41 In July 2006, a new department called 'Customer Service Department' was set up in order to bring together all activities relating to customer service in the Reserve Bank under one roof (see Box V.5).

IX.42 In October 2006, the Lucknow Sub-office was granted the status of an independent office of the Reserve Bank with the creation of an independent jurisdiction of the Issue Circle at Lucknow and clear demarcation of functional jurisdiction between Kanpur and Lucknow offices.

Table 9.7: Reserve Bank's Department-wise Strength of Staff as on December 31, 2006

Sr. No.	Department/Office	Class I			Class III			Class IV			Grand Total
		C.O	R.O	Total	C.O	R.O	Total	C.O	R.O	Total	
1	2	3	4	5	6	7	8	9	10	11	12
1.	Department of Administration and Personnel Management (DAPM)	88	764	852	83	1,007	1,090	47	2,691	2,738	4,680
2.	Department of Banking Operations and Development (DBOD)	143	5	148	90	4	94	84	4	88	330
3.	Department of Banking Supervision (DBS)	120	571	691	25	193	218	18	110	128	1,037
4.	Department of Currency Management (DCM)	35	1,075	1,110	24	2,068	2,092	17	2,059	2,076	5,278
5.	Department of Economic Analysis and Policy (DEAP)	195	38	233	152	35	187	71	22	93	513
6.	Department of Expenditure and Budgetary Control (DEBC)	63	302	365	86	499	585	31	135	166	1,116
7.	Department of External Investment and Operations (DEIO)	54	–	54	27	–	27	11	–	11	92
8.	Department of Statistical Analysis and Computer Services (DESACS)	172	19	191	119	35	154	80	13	93	438
9.	Department of Government and Bank Accounts (DGBA)	59	816	875	56	1,466	1 ,522	19	528	547	2,944
10.	Department of Information Technology (DIT)	76	49	125	11	16	27	14	2	16	168
11.	Department of Non-Banking Supervision (DNBS)	45	227	272	10	101	111	7	66	73	456
12.	Foreign Exchange Department (FED)	77	189	266	101	312	413	50	177	227	906
13.	Financial Markets Department (FMD)	21	–	21	4	–	4	3	–	3	28
14.	Human Resources Development Department (HRDD)	50	5	55	46	5	51	27	1	28	134
14A.	Bankers' Training College, Mumbai	0	37	37	–	30	30	–	86	86	153
14B.	Reserve Bank Staff College, Chennai	0	38	38	–	21	21	–	37	37	96
14C.	Zonal Training Colleges	0	17	17	–	9	9	–	5	5	31
14D.	College of Agricultural Banking, Pune	0	55	55	–	35	35	–	91	91	181
15.	Internal Debt Management Department (IDMD)	26	–	26	11	–	11	7	–	7	44
16.	Inspection Department (ID)	48	–	48	16	–	16	11	–	11	75
17.	Legal Department (LD)	34	9	43	14	7	21	13	3	16	80
18.	Press Relations Division (PRD)	8	–	8	6	–	6	6	–	6	20
19.	Premises Department (PD)	44	248	292	39	300	339	45	667	712	1,343
20.	Rural Planning and Credit Department (RPCD)	108	330	438	34	141	175	37	101	138	751
21.	Secretary's Department	39	0	39	19	–	19	38	–	38	96
22.	Urban Banks Department (UBD)	71	364	435	27	152	179	37	57	94	708
23.	Rajbhasha Department	–	27	27	–	37	37	–	9	9	73
24.	Deposit Insurance and Credit Guarantee Corporation (DICGC)	–	46	46	–	37	37	–	25	25	108
25.	Reserve Bank Services Board (RBSB)	12	–	12	12	–	12	7	–	7	31
	Total	**1,588**	**5,231**	**6,819**	**1,012**	**6,510**	**7,522**	**680**	**6,889**	**7,569**	**21,910**

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 other Departments, *viz.*, DEAP, DESACS, DBOD, RPCD and DAPM. The staff strength of MPD in different categories as on December 31, 2006 was 37 in Class I, 17 in Class III and 16 in Class IV.
3. The Department of Payment and Settlement Systems (DPSS) is not shown separately as their staff forms a part of staff strength of DIT.
4. The Banking Codes and Standard Board of India (BCSBI) and Customer Service Department (CSD) have not been shown separately as their staff forms part of RPCD.
5. The staff shown against DCM is inclusive of staff employed in Issue Department.
6. The staff shown against DGBA is inclusive of staff employed in Banking Department, Public Accounts Department and Public Debt Offices.

Table 9.8: Office-wise Strength of Staff
(As on December 31, 2006)

	Office	Class I	Class III	Class IV	Total
	1	2	3	4	5
1.	Ahmedabad	316	334	310	960
2.	Bangalore	385	349	315	1,049
3.	Belapur	88	180	236	504
4.	Bhopal #	145	51	100	296
5.	Bhubaneswar	141	161	221	523
6.	Chandigarh	187	57	115	359
7.	Chennai	416	599	597	1,612
8.	Guwahati	163	262	218	643
9.	Hyderabad	279	277	331	887
10.	Jaipur	225	246	258	729
11.	Jammu	81	18	56	155
12.	Kanpur *	188	406	432	1,026
13.	Kochi	21	68	49	138
14.	Kolkata	561	857	797	2,215
15.	Lucknow	145	157	123	425
16.	Mumbai	746	966	1,373	3,085
17.	Nagpur	204	428	314	946
18.	New Delhi	453	632	481	1,566
19.	Panaji, Goa	6	6	2	14
20.	Patna	246	252	288	786
21.	Pune (CAB and CRDC)	54	33	89	176
22.	Thiruvananthapuram	181	171	184	536
A.	**Total (1 to 22)**	**5,231**	**6,510**	**6,889**	**18,630**
B.	Mumbai Central Office Departments	1,588	1,012	680	3,280
Grand Total (A+B)		**6,819**	**7,522**	**7,569**	**21,910**

: Includes staff of the sub-office opened at Raipur on January 2, 2007.
* : Includes staff of the sub-office opened at Dehradun on June 30, 2006.
CRDC : Central Records and Documentation Centre.

Promotion of Hindi

IX.43 During the year 2006-07, the Reserve Bank persevered with its efforts to promote the use of Hindi in its working. In fulfilling the statutory requirements of Rajbhasha Policy, involving implementation of the provisions of the Official Languages Act, 1963, the Official Language Rules, 1976 and the Annual Programme issued by the Government of India, Hindi training programmes and other promotional activities such as shield competitions, inter-bank Hindi essay competitions and inter-bank/financial institutions Hindi/ bilingual house journal competitions were conducted. Many programmes were conducted at the time of Hindi fortnight observed from September 14, 2006.

IX.44 In order to promote Hindi, the Reserve Bank continued to bring out its various publications in bilingual form, *i.e.*, both in Hindi and English. The Reserve Bank's Central office publishes a bilingual house journal 'Without Reserve'. The publication 'Banking Glossary' has been revised with the co-operation of the representatives of the public sector banks to enhance its usefulness. The Reserve Bank through its Rajbhasha Department further strengthened the use of Hindi in computerisation. The Reserve Bank's training colleges bring out books in Hindi which featured useful articles on current topics on banking and other related topics. The Bankers' Training College continued its prestigious Hindi publication named '*Banking Chintan Anuchintan*' which is quite popular in the banking sector in India. The regional offices also made attempts to publish regular magazines in Hindi during the year.

IX.45 The Reserve Bank has prepared a 3-year action plan for effective use of Hindi. The action plan includes computer bilingualisation, translation, training in Hindi medium, dissemination of information related to Rajbhasha and initiatives to motivate the Reserve Bank's staff for the use of Hindi. The Reserve Bank's main website has been linked with the Hindi section. The intranet site of Rajbhasha Department is in Hindi only. The intranet sites of various offices/ departments are also provided with Hindi section; the intranet site of Department of Economic Analysis and Policy is fully bilingual. An 'Expert Group on Bilingualisation of Computers' has been set up in order to ensure bilingualisation. A translation workshop was conducted for Rajbhasha officers from the Reserve Bank as well as from public sector banks so as to encourage the assimilation of translation work. To make the translation work easy, simple and perceptible, a 'Translation Review Committee' has been constituted. Guidelines regarding the use of Hindi in Banking Ombudsman offices were issued in November 2006. Training programmes 'Intensive Course in Hindi Correspondence in Networking Environment' for officers and 'Entire Work in Hindi through MS Office' for staff members are conducted regularly to enable them to work in Hindi on computers. A special training programme for senior officers was also conducted during 2006-07.

IX.46 The Committee of Parliament for Official Language visited Thiruvananthapuram Regional Office on January 17, 2007 and expressed satisfaction with progress on the use of Hindi in the Office.

Customer Service and Grievance Redressal System in the Reserve Bank

IX.47 The Reserve Bank renders services to members of public, banks, Central and State

Governments and financial institutions in areas covering currency management, Government receipts and payments including tax collections, public debt management, clearing and remittance of funds and foreign exchange. In order to further improve the delivery of customer services, a Customer Service Department was set up in July 2006 by bringing in various customer service activities handled by different departments of the bank under a single roof. Customer Service Department oversees the functioning of the Complaints Redressal Cells (CRCs) functioning in Regional Offices. CRCs cover all service-oriented departments of the Reserve Bank such as the Banking Departments [Public Accounts Department (PAD), Deposit Accounts Department (DAD), and Public Debt Office (PDO)], Foreign Exchange Department and Issue Department. In order to achieve optimum awareness and improvement of customer service in the Reserve Bank, the CRC uses a variety of tools like release of advertisements, Citizens' Charter, branch level meetings, status reports and reviews by the Local Board. All the full-fledged Reserve Bank offices issue advertisements on the first Sunday of January and July every year, giving wide publicity about the functioning of the CRCs at various centers and also at the Central Office. The advertisement also gives the names and contact details of the Grievance Redressal Officers at the Regional Office and Central Office. The Citizens' Charter specifies the timeframe for each of the customer related activity of the Banking Department. The Citizens' Charter is prominently displayed in the Banking Departments for the benefit of the members of the public visiting the Bank's premises for availing various kinds of services. As per the recommendations of the Committee on Procedures and Performance Audit on Public Services (CPPAPS), the Regional Offices assess the level of their customer service every quarter. The shortcomings/exceptions observed during this process are rectified in consultation with the Central Office departments. *Incognito* visits are conducted by the Chief General Managers on their visits to Regional Offices to assess the level of customer service at the ground level. The issues relating to the customer service and redressal of complaints are discussed in the monthly meetings of the Branch Level Management Committees. The status of receipt/ redressal of complaints is reviewed in the quarterly meetings of the Local Boards of the Reserve Bank. During 2006-07 (July-March), 157 complaints were received against the Reserve Bank of which, 111 pertained to Issue/Cash Department. The largest number of complaints was received at Mumbai and Bhopal offices.

IX.48 During 2006-07, various innovative measures were taken for improving customer service in the areas of banking, currency, foreign exchange and clearing mechanism. These included evaluation of customer satisfaction, financial inclusion and financial education. Training programmes/workshops/meetings were conducted to educate officials of various banking and non-banking organisations, such as, State and Central Government undertakings, authorised foreign exchange dealers, rural and urban money lenders, representatives of major NGOs, professors and farmers' organisations. The Regional Offices held informal meetings with controlling heads of banks and impressed upon them the need to take effective steps for financial inclusion. Bhubaneswar and Lucknow offices achieved 100 per cent financial inclusion in select districts in their States with the help of banks, district magistrates, chief development officers and NABARD. Officers of some Regional Offices made *incognito* visits to bank branches to assess, *inter alia*, the level of customer service, foreign exchange business conducted, exchange of defective notes, display of service charges, interest rates on deposits and cheque drop box facility. The deficiencies found were taken up with the controlling offices for corrective action.

IX.49 As part of its efforts to spread awareness about electronic clearing products, Thiruvananthapuram office invited a large number of users – corporates, college students, State and Central Government undertakings – for a detailed presentation on various electronic funds transfer products, *viz*., electronic clearing service (ECS), national electronic funds transfer (NEFT) and real time gross settlement (RTGS). A pamphlet prepared on the ECS was released on the occasion.

IX.50 Chennai office set up a pavilion in the 33rd India Tourism and Industrial Fair 2007 to create awareness among the public on issues such as the Reserve Bank's role as a central bank, Clean Note Policy, security features of new series notes, and Star series notes. Banners and posters on detection of forged notes, foreign exchange facilities for residents, guidance on investment in NBFCs and key features of the new Banking Ombudsman Scheme, 2006 were displayed in the pavilion. Hyderabad Office participated in the "Hyderabad Coins and Notes Fair – 2007" organised by the Philatelic and Hobbies Society, Secunderabad in which the officers interacted with visitors. The features of genuine banknotes and ways to identify forged notes were explained with the aid of posters, power point presentations, film shows, and pamphlets. Patna office set up a 'Help Desk' at the venue of the "Global Meet for a Resurgent Bihar" and also distributed FAQs on various foreign exchange matters among the delegates.

Complaints Redressal Mechanism – Prevention of Sexual Harassment of Women at Workplace

IX.51 Pursuant to the guidelines laid down in the Supreme Court Judgment [Vishaka and Others *vs.* State of Rajasthan (1997) SCC 241], a Complaints Redressal Mechanism for prevention of incidence 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. In order to provide an easy access to the complaints redressal mechanism for the lady staff working in offices located at various other places, additional Complaints Committees have been formed at six locations in the Reserve Bank's offices at Mumbai and 20 Regional Offices. These Committees are also headed by senior woman officers. The CCC and the Regional Complaints Committees (RCCs), besides having a NGO member each, have more than 50 per cent women members. The CCC acts as the focal point for all the Complaints Committees constituted at 20 centres of the Reserve Bank as well as for the six Committees formed in various premises of the Reserve Bank in Mumbai. During 2006-07 (July-May), four complaints of the alleged harassment were received by the Complaints Committees from aggrieved women employees. Of these, one complaint did not fall under the purview of the Committee and in another case, no sexual harassment, as alleged, was involved; the third complaint is being investigated, whereas in the fourth case, the CCC has submitted its report for further action.

IX.52 A survey conducted in the Reserve Bank to ascertain the level of awareness among the lady staff members about the Supreme Court guidelines and the remedies available in the system found that (i) a majority of women staff – three out of four surveyed – believed that the complaints committees could settle the issues of sexual harassment; (ii) 94.5 per cent of the surveyed lady staff felt that the working environment in the Reserve Bank was healthy/ conducive; (iii) a majority of the respondents felt that it was the responsibility of both men and women employees to keep work environment healthy in the Reserve Bank; and (iv) 10.5 per cent of women employees reported having faced some form of sexual harassment in the office; however, they did not report the instances and preferred to remain quiet or handle the situation themselves and some expressed having undergone extreme anguish under such circumstances.

IX.53 A two day seminar was arranged on September 6 and 7, 2006 at Zonal Training Centre, Kharghar to impart training to the Chairpersons of the RCCs on the issues relating to prevention and redressal of sexual harassment of women at workplaces. The seminar, inaugurated by Smt. Shyamala Gopinath, Deputy Governor was conducted by Dr. H. S. Rana, Additional Director, National Institute of Public Administration, Bangalore. In all, 23 Chairpersons/members of complaints committees participated in the seminar. The seminar covered topics such as Supreme Court guidelines, facts and figures of sexual harassment, constitutional safeguards and sexual harassment, constitution of complaints committees, preventive measures, redressal mechanism, and background of the latest guidelines. This was the first occasion when all the Chairpersons could meet, interact and exchange their views on the subject after the formation of the RCCs.

Premises Department

IX.54 In order to provide better all-around ambience at work and residential colonies, the Premises Department focused on ensuring better services and maintenance standards at the Reserve Bank's offices and residential premises. Older electrical/ electromechanical installations are being upgraded to ensure energy efficiency and environmental protection. A special thrust is also being given to upgrading the residential premises owned by the Reserve Bank. Efforts were made during the year to decentralise and simplify procedures to increase the level of outsourcing of activities and to improve overall efficiency in delivery of services.

IX.55 As a result of business planning and property strategies and rationalisation/consolidation of work-space and living space, in the context of changes in the functions and manpower requirements of the Reserve Bank, three surplus properties were identified and disposed off during 2006-07. A documented policy for disposal of surplus property, duly approved by the Central Board of the Reserve Bank, is in place. The Reserve Bank is making efforts towards further consolidation of its properties across the country.

Inspection of Offices/Departments in the Reserve Bank

IX.56 In order to enhance the effectiveness of the internal inspection/audit process, Management Audit & Systems Inspection (MA&SI), Information Systems Audit (ISA), Concurrent Audit (CA) and Control Self-Assessment Audit (CSAA) of the offices/departments of the Reserve Bank are undertaken at prescribed intervals. The focus of the MA&SI is on three 'E's, *i.e.*, efficiency, economy and effectiveness of the system. The MA&SI evaluates the adequacy and reliability of existing systems and procedures to ensure that laws, regulations, internal policy guidelines and instructions are meticulously followed. Apart from conducting systems inspection, the inspection teams also conduct the management audit under which aspects relating to organisational goals, delegation of power, customer service in the department/office and management efficacy are also looked into. During 2006-07, systems inspections, including information systems audits of 15 Regional Offices (ROs), 10 Central Office departments and two training establishments were completed. In addition, six special scrutinies were carried out. Compliance Audit of PDO-NDS was also completed during this period. The compliance position in respect of major findings of MA&SI 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 2006-07, four meetings of the IASC, three meetings of the Executive Directors' Committee and twelve meetings of CGMs' Committee were held.

IX.57 During 2006-07, snap audits of 16 Regional Offices, 24 Central Office departments and three training establishment were conducted. The functions relating to monitoring and guidance of CA and CSAA for ensuring comprehensive coverage of work areas/activities were undertaken under Audit Monitoring Arrangement. The functioning of the system of CA and CSAA was reviewed and measures to improve upon areas found deficient were advised to the auditee departments/offices concerned. The Inspection Department also extended faculty support for conducting training programmes/workshops on CSAA.

IX.58 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. ISO 9001-2000 is a generic management standard providing an internationally accepted framework for establishing quality management systems with customer focus and continual improvement as the key elements. During the first phase, the ISO 9001-2000 certification was obtained for Department of Government and Bank Accounts (DGBA) and Department of Currency Management (DCM) at the Central Office and Issue and Banking Departments at Hyderabad and Kolkata offices. In the second phase, Issue and Banking Departments at New Delhi, Jaipur, Chennai and Bangalore offices were taken up for ISO 9001-2000 implementation and are in readiness to achieve Certification shortly. In the third phase, the process of implementing the Standards at Issue and Banking Departments at Ahmedabad, Nagpur, Bhopal and Thiruvananthapuram offices has been initiated. Furthermore, action has also been initiated to cover Department of Administration and Personnel Management (DAPM), Human Resource Development Department (HRDD) and Department of Economic Analysis and Policy (DEAP) under such Certification.

IX.59 As a part of the Reserve Bank's continuing initiatives to adopt and adhere to international best practices and standards, BS7799 certification (Information Security Management System Certification) was obtained for two of its important work areas, *viz.*, internal debt management and external investments and operations handled by Internal Debt Management Department (IDMD) and Department of External Investments and Operations (DEIO), respectively. The BS7799 certification at IDMD and DEIO has been upgraded to ISO27001 – a new Standard having more clauses/features *vis-à-vis* BS 7799. The ISO27001 standards are internationally recognised information security management standards, which define the desired methods of controlling the confidentiality, integrity and availability of information. The certification under these standards implies establishment/existence of requisite policies for information security management, their effective implementation and suitable mechanism for improvement in the domain, in tandem with the functional information security requirements. In the second phase of certification, two more departments, *viz.*, Department of Banking Supervision (DBS) and Department of Banking Operations and Development (DBOD) have been taken up for ISO 27001 Certification.

Department of Expenditure and Budgetary Control

IX.60 The Department of Expenditure and Budgetary Control (DEBC) prepares the Reserve Bank's Annual Budget and also provides services to the Reserve Bank's own staff. As regards the Annual Budget, initiatives were taken during 2006-07 to improve/simplify the budgetary process. These included permitting (i) interchangeability between sub-heads (ii) deviations in seasonal expenditures like Leave Fare Concession (LFC) in the quarterly reports, and (iii) overall budget utilisation within the range of 5 per cent of the budgeted amount.

Dissemination Policy

IX.61 In order to explain the rationale and the analytics of its policies to the public, the Reserve Bank disseminates a wide range of information through press releases, notifications, master circulars, publications, speeches, frequently asked questions and advertisements. During the year ended June 30, 2007, the Reserve Bank issued 1,826 press releases, 79 master circulars and 447 notifications. It organised meetings, workshops and seminars to interact with special audiences. The e-mail helpdesks continued to furnish replies to the queries raised by the general public. Members of the public continued to send their queries relating to various services provided by the Reserve Bank through e-mail/telephone/fax to the helpdesks set up in various departments and Regional Offices. These queries are over and above the queries received under the Right to Information Act.

IX.62 With accent on transparency and accountability the Reserve Bank has been making increasing use of its website (URL: *http://ww.rbi.org.in*) in communicating with external audiences. As against adding an average 10 MB material in a year, the material added to the site now is close to 2.5 GB. The total size of the website in about 10 years has increased to 13.5 GBs. In keeping with its two-way communication policy, the Reserve Bank also uses the site to seek feedback on draft reports and recommendations of expert groups. During 2006-07, three draft reports and 10 draft guidelines were placed on the website for feedback. Having revamped its English website in 2005 with the intention of making it more attractive and customer-friendly, the Reserve Bank undertook a similar task for its Hindi website. The number of users registering themselves for receiving information available on the Reserve Bank's website through email went up to 7,399 during the year from 5,630 during 2005-06.

IX.63 Making use of the available technology, the Reserve Bank extended its communication relating to monetary policy to six of its Regional Offices - Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata and New Delhi, apart from Mumbai. This was enabled through the video conferencing facility. It gave an opportunity to the regional press to interact with the Governor. The webcast of the Governor's press conferences on monetary policy has further strengthened the communication framework of the Reserve Bank. The webcast of the press conference held at the time of the Mid-term Review on October 31, 2006 was accessed by 465 persons while that of the Annual Policy Statement on April 24, 2007 was accessed by 1,803 persons.

IX.64 The Reserve Bank arranges, from time to time, interactive seminars for press persons with the objective of familiarising them with the basic concepts in banking/finance/central banking. Such seminars have now become a part of the Reserve Bank's media outreach programme. Five such seminars were held during the year. A first-ever interactive seminar for senior journalists was also arranged in May 2007 with the objective of facilitating interaction between the top executives of the Reserve Bank and senior presspersons on relevant issues under the Reserve Bank's purview.

IX.65 To give an insight into its role and functions, the Reserve Bank, in 2006, embarked on a programme of encouraging school/college students and other interest groups of the public to visit the Reserve Bank. The programme includes interactive session between students and the Reserve Bank officials on issues relating to central banking and economy, a tour of the Monetary Museum and a visit to the National Clearing Cell where cheques are processed. During the year, 496 visitors from 10 schools and others organisations visited the Reserve Bank under this arrangement.

IX.66 Given the current focus of the Reserve Bank on financial education and literacy, a massive effort for preparing material on subjects of interest to the common person has been undertaken. As a precursor to this effort, a multi-lingual website was released in June 2007. Aimed at giving information to the common person that he can use in his own language the site has instructions issued by the Reserve Bank on banking matters, customer grievance redressal mechanism and the Right to Information Act. The site also has a section explaining the role and functions of the Reserve Bank, interesting aspects about currency and the Reserve

Bank's history. The site is available in 11 regional languages apart from Hindi and English.

The Right to Information Act, 2005

IX.67 The Government of India enacted the Right to Information Act, 2005 on June 15, 2005. The Act, which came into effect from October 12, 2005, aims at providing the right to information to citizens in order to promote transparency and accountability in the working of every public authority. The Reserve Bank, as a public authority, as defined in the Right to Information Act, 2005 is obliged to provide information to the members of public. Central Assistant Public Information Officers (CAPIOs) have been designated to receive the applications for information or appeals under the Act at all Regional Offices and Central Office departments. The Reserve Bank has designated Shri V.S. Das, Executive Director, as the Chief Public Information Officer (CPIO) and Shri H.N. Prasad, Principal Chief General Manager as the Alternate CPIO in the absence of regular CPIO. Dr. Rakesh Mohan, Deputy Governor, has been designated as the Appellate Authority (AA) and Shri V. Leeladhar, Deputy Governor, as the Alternate AA in the absence of regular AA.

IX.68 Increased awareness of the Act resulted in a rise in the number of requests for information received from 796 (October 2005 to June 2006) to 2,163 (July 2006 to June 2007). Almost 95 per cent of the requests received during the period were resolved. Furthermore, 393 appeals against non-disclosure of information were received by the Bank's Appellate Authority. In 53 such cases, the appellants approached the Central Information Commission(CIC) (Table 9.9). Some of the major decisions of the Central Information Commission are in Box IX.1.

Table 9.9: Right to Information Act – Requests Received and Resolved

Item	2006-07 (July to June)
1	2
A. i) Requests Received	**2,163**
ii) Requests Resolved	**2,050**
of which:	
a) Requests met fully	1,062
b) Requests met partly	329
c) Requests declined	270
d) Resolved in other manner	389
iii) Under Consideration	**113**
B. Appeals received by the Bank's Appellate Authority (AA)	**393**
of which:	
i) Appeals under consideration	96
ii) Number of appeals disposed of	297
a) Number of appeals allowed/partially allowed by AA with direction to furnish additional information	118
b) Appeals where CPIO's decisions were upheld	179
C. Appeals Referred to Central Information Commission	**53**
of which:	
i) Orders issued	24
a) Appeals partially allowed	7
b) Appeals where CPIO/AA's decisions were upheld	17
ii) Under Consideration	29

Risk Management

IX.69 The Reserve Bank performs several functions of a diverse nature. These functions expose the Reserve Bank to various risks such as market risk, credit risk, liquidity risk and operational risk. Market risk is one of the critical sources of risk faced by the Reserve Bank which arises from revaluation of its financial assets due to exchange rate and interest rate changes both in India and abroad. The balance sheet of the Reserve Bank has become very sensitive to exchange rate changes due to increase in the share of foreign currency assets in its balance sheet in recent years. Since foreign currency assets are invested in fixed income instruments, they are also subject to interest rate changes. Deployment of foreign currency assets and gold in deposits and debt instruments, lending or refinancing operations of the Reserve Bank expose it to credit risk. Liquidity risk arises when foreign currency assets are to be converted into cash for intervening in the markets or meeting any other cash obligations. The Reserve Bank is also exposed to operational risk which may result in direct or indirect loss on account of inadequate or failed internal process, people and systems or from external events.

IX.70 These risks are managed in line with the laid down policy. Market risk is periodically monitored. Credit risk is managed by placing limits for counterparties and entering into transactions through delivery *versus* payment systems. Liquidity risk is effectively managed by deploying a considerable proportion of foreign currency assets in highly liquid assets.

IX.71 Adequate measures have also been taken to mitigate operational risk by ensuring sound internal control systems/inspection/audit arrangements and

Box IX.1
Major Decisions of Central Information Commission (CIC)

1) Inspection Reports of the Reserve Bank: The Central Information Commission, while examining the validity of the exemption claim made by the Reserve Bank in relation to its Inspection Reports, granted absolute discretion to the Reserve Bank to assess the desirability of disclosure of Inspection Report in individual cases. The Full Bench of the CIC observed as under: "…the RBI is entitled to claim exemption from disclosure under section 8(1) (a) of the Act if it is satisfied that the disclosure of such report would adversely affect the economic interests of the State. The RBI is an expert body appointed to oversee this matter and we may therefore rely on its assessment. The issue is decided accordingly." *Decision of the CIC in Shri Ravin Ranchchodlal Patel and Shri Madhav Balwant Karmarkar vs. Reserve Bank of India (December 7, 2006).*

2) File notings on the basis of information received in a fiduciary capacity exempt from disclosure: On a complaint filed before the Chief Public Information Officer (CPIO) of the Reserve Bank on the issue of unauthorised withdrawal of money from an account in the *Gurgaon Gramin* Bank (GGB), the CPIO furnished copies of the correspondence between the Reserve Bank and GGB and advised the appellant the action taken on her complaint. On the basis of office notings, replies obtained from the GGB were furnished to the appellant. However, a copy of the office notings was denied, since these were confidential and privileged documents containing information furnished by the bank in fiduciary capacity, claiming exemption from disclosure under section 8(1) (e) and (j) of the RTI Act. The appellate authority upheld the decision of the CPIO and the CIC ruled: "there is as such no question of denial of information from RBI as all the information asked for has already been provided to the appellant except copies of the notings from the concerned file of the Bank. In the instant case, file notings in possession of RBI are furnished by the Gramin Bank (third party) in fiduciary capacity. Therefore, the exemption under section 8(1) (e) has been correctly applied by the public authority". *Decision of the CIC in Mrs. Sunita vs. Reserve Bank of India (June 19, 2006).*

3) Only citizens entitled for information: "An Association or a Company is not and cannot be treated as a citizen even though it may have been registered or incorporated in the country. A natural born person can only be a citizen of India under the provisions of Part II of the Constitution. Section 3 of the Right to Information Act, 2005 gives the right to information to all citizens. Thus, it is quite clear that a person who is not a citizen cannot claim this right." *Decision of the CIC in D.N. Sahu vs. Ministry of Urban Development (May 9, 2006).*

4) RTI Act cannot be used for redressal of grievances: "The RTI Act cannot be confused with an instrument for grievance redress *albeit* the information obtained through it can be so used with telling effect." *Decision of the CIC in Pratap Singh Gandas vs. Delhi Electricity Regulatory Commission (January 11, 2006).*

5) RTI application cannot be used to enquire into why, how and in what manner a decision was taken: "In terms of the provisions of the RTI Act, the mandate for the CIC is to make available to a citizen, the information in possession of a public authority, by giving appropriate directions. It has no powers to either enquire into why, how and in what manner a decision was taken or to direct how and in what manner the affairs of a public authority are to be conducted." *Decision of the CIC in Ms. Nita Arya, UDC, Department of Health and Family Welfare vs. Ministry of Health and Family Welfare (June 19, 2006).*

6) Details of annual immovable property returns of an officer exempt from disclosure: "The information requested for is in the nature of personal information, the disclosure of which may cause unwarranted invasion of privacy of an individual officer. The exemption from disclosure of information under Section 8(1)(j) of the Act has therefore been correctly applied by the appellate authority." *Decision of the CIC in Mukesh Kumar vs. Department of Revenue, Ministry of Finance (February 22, 2006).*

7) PAN/TAN are personal information: "PAN is a statutory number, which functions as a unique identification for each tax payers. Making PAN public can result in misuse of this information by other persons to quote wrong PAN while entering into financial transactions and also could compromise the privacy of the personal financial transactions linked with PAN. This also holds true for TAN. Information relating to PAN and TAN, including the date of issue of these numbers, are composite and confidential in nature under Section 138 of the Income Tax Act." *Decision of the CIC in Arun Verma vs. Director General of Income Tax (Systems), New Delhi (March 3, 2006).*

well laid down procedures and policies, business continuity plan for systems, insurance and physical safety of assets, process control and validation checks for data integrity. For managing the operational risk, increased emphasis is being placed on promoting human integrity and alertness. Since operational risk is unquantifiable, the Reserve Bank has also initiated measures for developing a database of past losses/operational risks to analyse and control the same.

IX.72 As a part of its traditional central banking function, the Reserve Bank has been acting as a banker to the Central Government as also to the State Governments. Over the years, commercial banks have also been involved as agents of the Reserve Bank to carry out such functions. Government business carried out by the Reserve Bank and by agency banks is subject to many operational and reputational risks. In order to better manage these risks, the Reserve Bank has taken a number of measures such as ensuring multiple banking arrangements, nominating alternate clearing banks and putting in place back-up arrangements. Furthermore, with a view to controlling and mitigating the operational risk in general and human risk in particular, the Reserve Bank undertakes periodic reviews and revisions of operational manuals and work procedure.

IX.73 The Reserve Bank has taken up the task of introducing Risk-based Internal Inspection across the Bank. An internal Task Force was constituted in the Inspection Department with the objective of evolving a framework for a Risk-based Internal Inspection by profiling activities undertaken, as per inherent perceived risk, in the various offices/departments, training establishments and subsidiaries. The Reserve Bank has also consulted the Institute of Internal Auditors (IIA), Mumbai and M/s Ernst & Young in the matter. A ‘pilot’ on risk assessment has been undertaken by the Inspection Department with assistance from M/s Ernst & Young at Chandigarh, Kolkata and Mumbai Regional Offices of the Bank, besides Urban Banks Department (MRO).

IX.74 The Reserve Bank as the central bank manages the payment and settlement systems of the country, which also entail counterparty and operational risks. In the recent past several measures have been taken to manage the risks in the payment and settlement systems. The Reserve Bank has introduced the real time gross settlement (RTGS) system, under which processing of payment instructions or messages is required to be undertaken on a real time basis separately for individual transactions. Thus, the counterparty risk in the RTGS is obviated. The attendant problem of excess liquidity requirement under the RTGS is also effectively managed through liquidity saving features such as queuing, prioritisation, gridlock resolution mechanism and intra-day liquidity support from the Reserve Bank. The RTGS is now the core payment system in India and recognising its risk mitigating features, the netting based inter-bank clearings (where the settlement of payables and receivables of participants in clearing is done on a net basis) have almost been closed down.

IX.75 All other payment systems (other than RTGS) function on a deferred net settlement systems (DNS) basis. This comprises both large-value payment systems [inter-bank government securities clearing system, inter-bank foreign exchange clearing system and collateralised borrowing and lending operations (CBLO)] and retail payment systems [paper-based MICR and non-MICR clearing systems and high value clearing system; and electronic systems such as electronic clearing service (ECS-credit and debit), electronic funds transfer (EFT) system and national electronic fund transfer system (NEFT)]. These are operated by the Reserve Bank, State Bank of India and other public sector banks. For large value netting systems, clearing is now settled on a central counterparty arrangement basis, where Clearing Corporation of India Limited (CCIL) acts as a counterparty. The central counterparty arrangement has since stabilised and has enabled better management of risks. In respect of cheque clearing and other low value electronic clearing systems, India has a modified version of 'unwind' (the system of excluding the defaulting participant and reworking the settlement as if it never participated in the clearing on that particular day) which is known as 'partial unwind'. Under this system, in the case of a default by one or more participants in a DNS system, the instruments drawn on the defaulter and presented to it are taken back by other participants, while the value of instruments drawn on other participants and presented by the defaulter are put in a suspense account.

IX.76 One of the key driving factors in all the IT initiatives is the need to ensure business continuity in the event of a contingency. Therefore, in all the systems implemented, particularly the critical payment system application systems (such as the RTGS, CFMS, Public Debt Office-Negotiated Dealing System (PDO-NDS) and SFMS), high importance has been given to uninterrupted availability. Periodical disaster recovery (DR) drills are conducted for all participating members for these systems. During April 2007, a hardware failure – the first of its kind during the course of live operations on a regular day since the installation of these systems in 2001 – pertaining to the mainframe computer system necessitated a live switchover to the disaster recovery site for the payment system applications. The recovery from the DR site was done within 4 hours, matching international standards.

Research Activities

IX.77 In view of the ongoing structural changes in the Indian economy brought out by the forces of deregulation, liberalisation and growing external integration of the economy, the importance of timely and adequate analytical inputs for the formulation of the Reserve Bank's policies has assumed greater importance. Like other major central banks, the Reserve Bank has developed its own research capabilities in the field of economics and statistics, which contribute to a better understanding of the functioning of the economy and the ongoing changes in the transmission mechanism. Against this backdrop, the Reserve Bank's research departments - Department of Economic Analysis and Policy (DEAP) and Department of Statistical Analysis and Computer Services (DESACS) - continued to provide analytical research on various aspects of the Indian economy in the conduct and formulation of policies by the Reserve Bank.

Department of Economic Analysis and Policy

IX.78 The Department of Economic Analysis and Policy provided policy research relating to various aspects of the economy. The Department also contributed to the Reserve Bank's efforts to disseminate information to the public about its policies and assessments through major publications. The statutory reports prepared in the Department and released during the year were the Reserve Bank's Annual Report, 2005-06, and the Report on Trend and Progress of Banking in India, 2005-06. The Report on Currency and Finance, 2005-06 covering the theme "Development of Financial Markets and Role of the Central Bank" was released during the year. The Report assessed the various aspects of the development of the different segments of the financial market and also provided a way forward for each market segment for further development of financial markets in India. The publication "State Finances: A Study of Budgets of 2006-07", providing a comprehensive assessment of the evolving developments and trends in consolidated finances of the State Governments, was released during the year.

IX.79 The document 'Macroeconomic and Monetary Developments' continued to be released on a quarterly basis during 2006-07 along with the Governor's Annual Policy Statement/Mid-term/ Quarterly Reviews. Presentations on macroeconomic and monetary developments were made before the Technical Advisory Committee on Monetary Policy at each of its quarterly meetings during the year.

IX.80 The Department is entrusted with the responsibility of compiling the major macroeconomic aggregates such as data on monetary aggregates, balance of payments, consolidated State finances, and household financial savings. Detailed time-series statistical information covering various sectors of the Indian economy – real, monetary, fiscal, external and financial markets – continued to be released through the publication "Handbook of Statistics on Indian Economy, 2005-06" for the use of researchers. The publication provides annual data (in many cases from 1950-51 onwards), quarterly/monthly data (from 1990-91 onwards) as well as daily data in the case of many financial variables for the last few years. The Department also disseminated information on key parameters of the Indian economy in the Reserve Bank's Monthly Bulletin and its Weekly Statistical Supplement. The Reserve Bank of India Occasional Papers continued to publish analytical studies in the areas concerning the Indian economy. 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 organised a series of seminars/ lectures by foreign dignitaries and experts from India.

IX.81 The Department provided secretarial support to the Working Group on Savings for the Eleventh Five Year Plan (2007-08 to 2011-12) (Chairman: Dr. Rakesh Mohan). The Department organised the 2nd P.R. Brahmananda Memorial Lecture. The lecture "Governance Institutions and Development" was delivered by Professor Avinash K. Dixit, John J.F. Sherrerd '52 University Professor of Economics, Princeton University on June 28, 2007.

IX.82 The Development Research Group (DRG), constituted in the Reserve Bank in November 1991, serves as a forum for collaborative research efforts between professional economists and officers of the Bank. The DRG has published 25 studies since its inception on a wide range of subjects relating to real, monetary, fiscal, banking, external and social sectors. During 2006-07, two more studies were initiated: (i) An Inquiry into the Trends and Pattern of Deposit Growth; and (ii) GDP Indexed Bonds. The ongoing studies include, *inter alia*, (i) Municipal Finances in India; (ii) Dutch Disease Phenomenon in Brazil, Nigeria, Malaysia and Russia with Lessons for India's Trade Policy; and (iii) Inequalities in Cooperative Agricultural Credit: A Case Study of Maharashtra.

IX.83 Since 2001, the DRG has been entrusted with the work related to the Reserve Bank's Endowment Scheme. Under the scheme, financial support is provided to various institutions for the purpose of research and training in areas of interest to the Reserve Bank. The financial support is provided through corpus funds. At present, there are 21 corpus funds with a total corpus of around Rs.25 crore. The various institutes receiving support under the scheme are: University of Mumbai, Mumbai; Centre for Development Studies, Thiruvanathapuram; Institute of Economic Growth, New Delhi; Institute for Social and Economic Change, Bangalore; National Institute of Public Finance and Policy, New Delhi; Council for Social Development, Hyderabad; Centre for Studies in Social Sciences, Calcutta; Indian Council for Research on International Economic Relations, New Delhi; Utkal University, Bhubaneswar; Madras Institute of Development Studies, Chennai; Institute of Rural Management, Anand; Gokhale Institute of Politics and Economics, Pune; Indian Institute of Management, Ahmedabad; M.S.University of Baroda,Vadodara; Jawaharlal Nehru University, New Delhi; Indian Institute of Management, Bangalore; National Council of Applied Economic Research, New Delhi; Centre for Economic and Social Studies, Hyderabad; Sameeksha Trust, Mumbai; and National Law University, Jodhpur.

Library

IX.84 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 database 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 4,000 journals), Elsevier Science Direct online, DATASTREAM, ISI Emerging Markets Online, Lexis-Nexis Online, and Springer Online Journals, and discussion papers and special papers of major international research organisations. Other online services provided by the Library include PROWESS, CAPEX, and World Bank eLibrary. The Library database has 104,483 records which cover books and other documents. The Library receives 344 technical journals. The Library also provides information services and support to training colleges and libraries in other offices of the Reserve Bank.

Department of Statistical Analysis and Computer Services

IX.85 The Department of Statistical Analysis and Computer Services (DESACS) provides high quality statistical service which encompasses collection, compilation, analysis and dissemination of information relating to various sectors of the economy. The Department is also entrusted with managing electronic data dissemination platforms, *viz*., Central Database Management System (CDBMS) and Database on Indian Economy (DBIE) (Box IX.2). Providing technical support to other departments in statistical analysis and large-scale data management in specific areas also form the core activities of the Department.

Box IX.2
Coverage of Database on Indian Economy (DBIE)

The Reserve Bank of India provides time series data to the researchers through a number of channels. One such channel is web-based access through the Database on Indian Economy (DBIE) introduced on November 1, 2004. It is accessible from the 'Database' page of the Reserve Bank website *(www.rbi.org.in)* or, alternatively, through the URL *https://cdbmsi.reservebank.org.in*. Time series data relating to the areas of financial sector, real sector, financial markets, external sector, public finance and corporate finance are made available through the DBIE. The coverage of the DBIE is being progressively enlarged on the basis of feedback received from users and timely availability of data series. As of now, there are 182 static reports, arranged according to subject area as well as frequency. In addition, 72 subject area-wise data query reports and 53 frequency-wise data query templates have been provided, which help users to create their own reports.

A "Standing Advisory Group on DBIE" was constituted under the chairmanship of Dr. R.B. Barman, Executive Director, Reserve Bank to review the contents and formats of the DBIE. The Advisory Group also reviewed metadata, *i.e.*, data definitions and concepts relating to data series in the database. The users can navigate from metadata to the related data/reports. They can also navigate from data/reports to the relevant metadata.

IX.86 During 2006-07, the Department conducted the following surveys: (a) quarterly *Industrial Outlook Survey*, providing insight into the performance and prospects of the private corporate sector engaged in manufacturing activities; (b) quarterly *Inflation Expectation Surveys* covering 4000 households in 12 cities to gauge inflation expectations; (c) Survey of *Small Borrowal Accounts* (each with credit limit of Rs.2 lakh or below) with March 31, 2006 as the reference period; (d) *Survey of Inventories, Order Books and Capacity Utilization*, 2006-07 (re-launched in April 2007). The Department also extended help in conducting a study on services to depositors and small borrowers in rural and semi-urban areas.

IX.87 In collaboration with concerned official statistics agencies, the Department is developing methodologies for the Banking Service Price Index (both direct and intermediation), Housing Price Index, integration of Consumer Price Index [Urban Non Manual Employees (UNME)] and CPI (Urban), estimation of GDP and Financial Intermediation Services Indirectly Measured (FISIM) in respect of mutual funds, and Housing Starts Index. Besides, the Department is engaged in developing leading economic indicators under the aegis of a Technical Advisory Group (TAG) for tracking future movements of the Indian economy.

IX.88 In order to streamline the process of receiving data from commercial banks, the Reserve Bank has initiated action to implement an on-line returns filing system (ORFS). The system is expected to: (a) rationalise the data submission process between banks and the Reserve Bank; (b) standardise exchange of data and metadata in the banking system; and (c) reduce delays in data receipt and improve its quality. During 2006-07, the system has been implemented in the case of 17 returns. Phase II of the project would cover 42 returns and work is on towards implementation of the system for all data submitted by commercial banks and other financial entities to the Reserve Bank and other concerned agencies.

IX.89 The Reserve Bank has joined the Bank for International Settlements (BIS) databank since February 2006 and, on the principle of reciprocity, is providing 57 Indian data series and receiving more than 35,000 data series from the BIS databank member countries. Effective February 2007, these data have made available to the users in the Reserve Bank through the CDBMS platform to facilitate cross-country analysis.

IX.90 The BIS system of quarterly compilation of International Banking Statistics (IBS) was implemented by the Reserve Bank in December 1999. The data on IBS of India comprising 18 statements on Locational Banking Statistics (LBS) and 5 statements on Consolidated Banking Statistics (CBS) have been supplied to the BIS since March 2001 and the BIS has been including the IBS of India in their publications since December 2001. During the year, LBS and CBS statements, in the revised format, based on IBS data for the five quarters end-March 2006 to end-March 2007 were supplied to the BIS.

IX.91 In order to ensure improvement in quality/ coverage of Basis Statistical Returns (BSR) system, IBS data, external sector returns and other returns, the Department conducted workshops/training programs for officials of participating banks at the colleges and various centres of the Reserve Bank.

IX.92 The Reserve Bank released the ‘Manual on Financial and Banking Statistics’ based on the recommendation of the Steering Committee set up by the Ministry of Statistics and Programme Implementation, Government of India. The Manual is a reference guide and provides a methodological framework for compilation of statistical indicators encompassing various sectors, *viz.*, monetary statistics, banking statistics, external sector statistics and fiscal sector statistics, and is expected to facilitate better understanding of conceptual issues and their measurement.

IX.93 To commemorate the birth anniversary of Professor P.C. Mahalanobis which has been designated as ‘Statistics Day’ by the Government of India, the Department organised the first ‘Annual Conference on Financial Statistics’ on June 29, 2007. The programme was inaugurated by Dr. Rakesh Mohan, Deputy Governor, Reserve Bank. Eminent speakers, including Professor Kirit Parikh, Member, Planning Commission and Professor Kaushik Basu, Director, Program on Comparative Economic Development, Cornell University delivered lectures during the conference.

CENTRAL BOARD AND ITS COMMITTEES

IX.94 Seven meetings of the Central Board were held during the year ended June 30, 2007. Of these, four meetings were held at traditional centres (New Delhi, Kolkata, Chennai and Mumbai) and three were held at non-traditional centres (Raipur, Hyderabad and Shimla). Forty-six weekly meetings of the

Committee of the Central Board were held during the year at Mumbai. Three Committees (Committee of the Central Board, Board for Financial Supervision and Board for Payment and Settlement Systems) and three sub-Committees (Inspection and Audit Sub-Committee, Staff Sub-Committee and Building Sub-Committee) have been constituted to assist the Central Board in direction of the affairs of the Reserve Bank. The Committee of the Central Board, as usual, attended to the current business of the Reserve 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, in which the Directors, with their vast experience in diverse fields, actively contributed to important decisions pertaining to currency management, information technology, human resource development, banking regulation and supervision, monetary and credit policy, the Reserve Bank's accounting policy, internal debt management policy, among others. The deliberations of the Board also focused on the critical assessment of the percolation of benefits of growth to the poorer sections of society and on agriculture and rural areas in general.

IX.95 As a follow-up of the decision taken in the Central Board meeting held on October 12, 2006 at Raipur, a sub-office was opened at Raipur on January 2, 2007. It was also decided to have a Working Group with the Regional Director, Bhopal as chairman to look into the improvement of banking services in Chhattisgarh. Following the presentation of Union Budget, 2007-08 in the Parliament, the Union Finance Minister met the Directors during the Central Board meeting held at New Delhi on March 9, 2007 and discussed the budget proposals. The Central Board at the meeting held on May 10, 2007 decided to open a Sub-office at Shimla.

IX.96 Four meetings of the Inspection and Audit Sub-Committee (IASC), three meetings of the Building Sub-Committee and one meeting of the Staff Sub-Committee were held during the year. The Building Sub-Committee advised the Bank on various matters including construction of staff quarters, renovation of office and residential buildings and also reviewed the utilisation of capital budget for the year 2006-07. The Inspection and Audit Sub-Committee examined the critical areas emanating from the Management and System Inspections of Central Office departments and Regional Offices of the Reserve Bank. The Staff Sub-Committee reviewed manpower planning in the Reserve Bank.

Directors/Members of the Central Board/Local Boards

IX.97 Shri Sanjay Labroo was nominated as Director of the Central Board of the Reserve Bank with effect from January 2, 2007 under Section 8(1)(c) of the Reserve Bank of India Act, 1934 in place of Shri D.S. Brar who ceased to be a Director of the Central Board with effect from January 2, 2007. Shri Labroo was nominated on the Inspection and Audit Sub-Committee (IASC) of the Central Board.

IX.98 Dr. D. Subbarao, 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 May 10, 2007 *vice* Shri Ashok K. Jha. Dr. Subbarao has been designated as Finance Secretary and Secretary, Department of Economic Affairs with effect from July 2, 2007.

IX.99 Prof. Mahendra Singh Sodha, resigned from the Local Board (Western Area) with effect from May 10, 2007 for personal reasons.

Parliamentary Committee

IX.100 The Parliamentary Standing Committee on Finance visited Mumbai on July 4, 2006. The Committee, headed by Major General (Retd.) B.C.Khanduri, Member of Parliament, held discussions with the top management.

Central Bank Governance

IX.101 Issues relating to governance have assumed increased significance in the past few years. The Reserve Bank has also been striving to align its governance practices with the best international practices over the years. As a step in this direction, an internal Working Group was constituted by the Reserve Bank to examine the structure and practices of governance *vis-à-vis* best international practices. While suggesting options to enhance governance, the Group noted that the Reserve Bank already follows best international practices in a number of areas. The findings of the Group with appropriate editing/elaboration are given in Box IX.3.

Box IX.3
Central Bank Governance: Global Best Practices and the Reserve Bank

	International Best Practices	Practices in the Reserve Bank
1.	There should be a conflict resolution mechanism in connection with foreign exchange reserves and exchange rate issues.	The Reserve Bank has arrangements for co-ordinating with the Government of India in matters relating to deployment of foreign exchange reserves and the Governor has half yearly meetings with the Finance Secretary.
2.	Direct credit to the Government should be prohibited or carefully limited to what is consistent with the monetary policy objectives and targets.	Under the Fiscal Responsibility and Budget Management Act, 2003, the Reserve Bank has been prohibited, effective April 1, 2006, from participating in primary auctions of Government paper.
3.	Central bank should be required to report at regular intervals on its past performance and future plans for monetary policy in accordance with the objectives.	The Reserve Bank reviews monetary policy on a quarterly basis. The quarterly reviews by the Reserve Bank encompass review of past performance and the stance of monetary policy for the next quarter. The Reserve Bank at its discretion could also announce monetary policy measures any time in between the quarterly reviews.
4.	There should be a management board comprising Governor, Deputy Governors and Directors of Departments to attend to the operational issues.	In the Reserve Bank, important operational issues are discussed in the Deputy Governors' Committee meetings to which concerned Executive Directors and the Departmental heads are invited.
5.	The central bank should not be subjected to directions from any other body and should act only according to central bank laws and pertinent regulations.	The Reserve Bank is not subject to directions from any other body in carrying out its functions. Only Central Government may give directions to the Reserve Bank after consultations with the Governor, if considered necessary in the public interest.
6.	The members of the Central Board should not be members/officials of a political party.	The Reserve Bank of India Act, 1934 stipulates that a Member of Parliament or the Legislature cannot become a Director of the Central Board or a Member of the Local Board.
7.	Central banks have one or more boards and the management responsibilities are solely delegated to the Governor in most of the central banks.	The Reserve Bank has one Board. Management responsibilities are entirely vested with the Governor.
8.	The implementation board should consist primarily of management representatives and a few qualified external members to implement the target(s). Implementation by Governor dilutes the responsibilities and increases accountability.	The Reserve Bank's Central Board monitors the policy implementation. The model adopted by the Reserve Bank regarding implementation is working well. The Committee of the Central Board with a balanced representation of management representatives and directors meets every week to attend to the current business of the Bank to assist the Central Board in the monitoring of implementation of various policy decisions.
9.	There should be advisory boards wherever there are policy boards.	The Reserve Bank has set up a number of Technical Advisory Committees, besides drawing technical help from separate groups set up for the specific purposes.
10.	There should be a Supervisory Board to oversee achievement of objectives/tasks/functions, financial condition of the Bank, effective internal controls, efficient use of its resources and to approve the annual report, budget and financial statements before such information is published.	In the Reserve Bank, the Central Board carries out this function through its various committees and sub-committees. A Board for Financial Supervision, which is a Committee of the Central Board, overseas the regulation and supervision of the banks and financial institutions. Similarly, a Board for Payment and Settlement Systems, which is also a Committee of the Central Board, oversees the regulation and supervision of the payment and settlement systems. There are other sub-committees looking into various other tasks and functions of the Reserve Bank.

Box IX.3
Central Bank Governance: Global Best Practices and the Reserve Bank *(Concld.)*

	International Best Practices	Practices in the Reserve Bank
11.	There should be an Audit Committee having specialised expertise to address issues of internal control and financial disclosures.	An Audit Committee consisting of management representatives and Central Board Directors carries out these functions.
12.	Policy boards are generally smaller with about 7-9 members while the supervisory and management boards are usually larger.	The Reserve Bank's Board has provision for 20 members. It is considered appropriate keeping in view the diverse functions it carries out.
13.	Decisions should be taken by a simple majority with a quorum rule requiring the presence of non-executive directors. The presence of a government representative (without voting right) to ensure co-ordination as well as consensual and collective responsibility is desirable. Individual responsibility by all board members is an essential element of an autonomous and accountable central bank.	Although the Act provides for voting rights to Chairman and non-executive directors, this is rarely resorted to in practice. Decisions are usually taken by consensus. The nominee of the Government participates in the discussion, but he does not have any voting rights.
14.	The frequency of the Board Meetings should be linked to its functions and the Supervisory/ Policy Boards should meet at least once in a quarter and when needed.	The Central Board of the Reserve Bank meets seven times a year (and at least once in a quarter) and the Committee of the Central Board meets every week.
15.	The composition of the board should ensure an informed and balanced view without conflict of interests.	Although there are no qualifications for being considered as members of the Local and Central Boards, the Boards generally represent a wide spectrum of experts representing different streams of specialisation, *viz*., economists, industrialists, scientists, legal experts, accountants, technology experts, retired bureaucrats *etc*. Governor is also the Chairman of the Central Board and the three Committees of the Central Board, *viz*., the Committee of the Central Board (CCB), the Board for Financial Supervision and Board for Payment and Settlement Systems.
16.	Internal control systems in central banks have been toned up with audit committees, strengthening the interface between the board, the internal and external auditors.	The Reserve Bank has an elaborate system of audit functions supervised by the Audit Committees/sub Committees of the Central Board, consisting of Directors and management representatives.
17.	The conceptual underpinnings of financial stability are often not clear while the legal basis for the exercise of the function varies across central banks.	The setting up of the Board for Financial Supervision in 1994 as a Committee of the Central Board has strengthened the oversight of the different segments of the financial sector. In India, there are separate regulators for banks, stock market, insurance, pension and provident funds. The coordination of policy issues involving more than one regulator is facilitated by a High Level Committee headed by Governor, Reserve Bank.
18.	Effective communication is the bedrock of transparency in central bank functioning.	The Reserve Bank has adopted a multi-mode channel for communication by way of: (i) website, (ii) publications, (iii) monetary policy statements, (iv) speeches of Governor/ Deputy Governors, (v) daily/weekly statistical dissemination, and (vi) interaction with media. The recent enactment and implementation of the Right to Information Act has given further impetus to transparency in the functioning of the Reserve Bank.

Foreign Dignitaries

IX.102 A number of foreign delegations visited the Reserve Bank during the year and interacted with the top management. The dignitaries included Governors of central banks of Mexico, Sweden, Russia, France and Germany; Parliamentary delegations from Germany and the US; and ministerial delegations from Japan, Singapore, Norway and Canada. Nobel Peace Prize winner, Prof. Muhammad Yunus and Nobel laureate, Prof. Joseph Stiglitz also visited the Reserve Bank and addressed Directors, staff and other invitees (Annex III).

X THE RESERVE BANK'S ACCOUNTS FOR 2006-07

X.1 The key financial results of the Reserve Bank's operations during the year 2006-07 are presented in this Chapter.

X.2 During the year, Bank's entire equity holding in State Bank of India of 31,43,39,200 shares (Book value Rs.1,222.73 crore) was transferred to the Government of India at market rate, resulting in a profit of Rs.34,308.60 crore (Box X.1). This extraordinary profit item has been accounted under interest and other income which has made the figures non-comparable with earlier years. Therefore, the income figures excluding profit on sale of SBI shares have been indicated separately in the relevant tables.

INCOME AND EXPENDITURE

X.3 The gross income, expenditure, appropriations and net disposable income of the Reserve Bank have been evolving over the last five years (Table 10.1).

Surplus Transferable to Government of India

X.4 The surplus transferable to the Government of India for the year 2006-07 amounted to Rs.45,719.60 crore, inclusive of (i) Rs.1,914.00 crore towards interest differential on special securities converted into marketable securities, intended to compensate the Government for the difference in interest expenditure which the Government had to bear consequent on the conversion of special securities and (ii) Rs.34,308.60 crore pertaining to profit on sale of SBI shares held by the Reserve Bank to the Government of India.

Income

X.5 The gross income of the Reserve Bank for the year 2006-07 was Rs.75,348.33 crore, which includes Rs.34,308.60 crore on account of profit on sale of SBI shares. The gross income (excluding profit on sale of SBI shares) was Rs.41,039.73 crore,

Box X.1
Transfer of Reserve Bank's Share Holding in State Bank of India to Government of India

The State Bank of India (SBI) was established by an Act of Parliament passed on April 30, 1955 on the basis of the recommendations made by the Rural Credit Survey Committee, 1952 to bring the Imperial Bank of India under public ownership and to entrust it with the responsibility of spreading the banking facilities to the remote regions of the country. Accordingly, the Committee recommended the formation of a new bank, to be called State Bank of India by amalgamating the Imperial Bank of India with 10 major banks associated with the former princely states with a view to having effective state control. Even though the Survey Committee was in favour of majority ownership for the Government of India by issuing additional capital without disturbing the ownership of the existing share capital, it was thought prudent that Reserve Bank holds the majority of the shares.Accordingly, the Reserve Bank held the majority of SBI's shares. As at end-March 2007 the Reserve Bank's stake in the SBI was 31,43,39,200 equity shares of Rs.10 (face value) per share aggregating to 59.73 per cent of the SBI's paid-up share capital.

Based on the recommendations of the Narasimham Committee II that the Reserve Bank should not own the institutions it regulates, an internal Group was set up by the Reserve Bank in 2001 to finalise the modalities of transfer of its investment in SBI, NABARD and NHB and the Group's Report was forwarded to Government for necessary action. Government announced in the Union Budget 2007-08 their proposal for acquisition of Reserve Bank's holdings in SBI and an amount of Rs.40,000 crore was provided in the Budget. An ordinance was promulgated on June 21, 2007 for certain amendments in the SBI Act to enable the transfer of shares from Reserve Bank to Government. Accordingly 31,43,39,200 shares of SBI which were held by the Reserve Bank were sold on June 29, 2007 to Government of India at the rate of Rs.1130.35 per share. The sale price was arrived at in accordance with the SEBI (Substantial Acquisitions of shares and Takeover Regulations, 1997) using National Stock Exchange (NSE) prices for the 26 weeks preceding the date of public announcement. The total consideration of Rs.355,31,33,14,720 was received in cash from Government. The Reserve Bank booked a profit on sale of investment to the extent of Rs.343,08,60,37,320.As a result of the Reserve Bank's divestment, the majority ownership of SBI lies with the Government of India.

Table 10.1: Trends in Gross Income, Expenditure and Net Disposable Income

(Rupees crore)

Item	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6
Total Income (Gross)	**23,185.64**	**14,323.70**	**19,028.28**	**26,320.31**	**41,039.73 (75,348.33)** #
Less transfer to:					
(i) Contingency Reserve	6,733.92	969.47	6,125.92	10,936.42	20,488.97
(ii) Asset Development Reserve	890.31	188.09	687.09	1,126.79	1,971.51
Total (i + ii)	7,624.23	1,157.56	6,813.01	12,063.21	22,460.48
Total Income (Net)	15,561.41	13,166.14	12,215.27	14,257.10	18,579.25 (52,887.85)
Total Expenditure	**6,723.41**	**7,762.14**	**6,811.27**	**5,849.10**	**7,164.25**
Net Disposable Income	8,838.00	5,404.00	5,404.00	8,408.00	11,415.00 (45,723.60) #
Less : Transfer to Funds *	4.00	4.00	4.00	4.00	4.00
Surplus transfer to the Government	8,834.00	5,400.00	5,400.00	8404.00	11,411.00 (45,719.60) #

* : 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.
\# : Figures in parentheses indicates amounts including profit on sale of SBI shares.

registering an increase of 55.9 per cent over the previous year. This was mainly on account of increase in income from foreign sources. Income from domestic sources (excluding profit on sale of SBI shares) also increased during the year. (Table 10.2 and Chart X.1).

X.6 The share of transfer to Contingency Reserve, Asset Development Reserve and surplus transferred to the Government as a percentage to total income is given in Table 10.3.

Earnings from Foreign Sources

X.7 The Reserve Bank's earnings from the deployment of foreign currency assets and gold increased by Rs.10,614.96 crore (43.3 per cent) from Rs.24,538.03 crore in 2005-06 to Rs.35,152.99 crore in 2006-07 (Table 10.4). This was mainly on account of increase in the level of foreign currency assets and hardening of global short-term interest rates. Before accounting for mark-to-market depreciation on

Chart X.1: Sources of Income

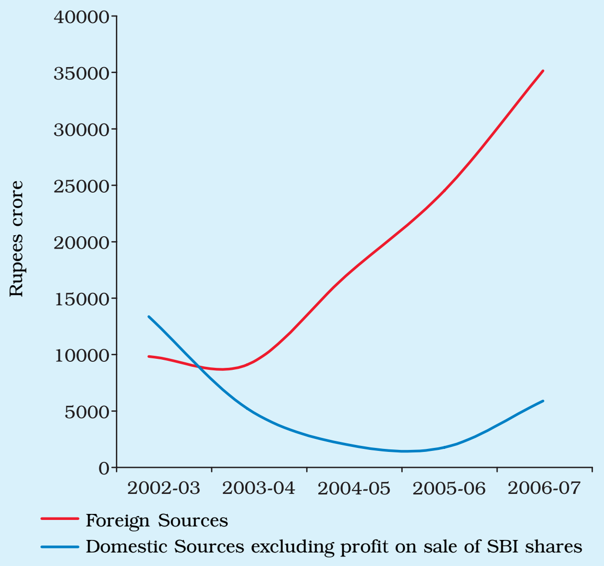


Table 10.2: Gross Income

(Rupees crore)

Item		2002-03	2003-04	2004-05	2005-06	2006-07
1		2	3	4	5	6
A.	**Foreign Sources**					
	Interest, Discount, Exchange	9,826.65	9,103.50	16,979.47	24,538.03	35,152.99
B.	**Domestic Sources**					
	Interest	13,064.77	4,872.41	1,607.34	1,207.04	5,144.52
	Profit on sale of investment in shares of SBI	–	–	–	–	34,308.60
	Other Earnings	294.22	347.79	441.47	575.24	742.22
	Total : Domestic	13,358.99	5,220.20	2,048.81	1,782.28	40,195.34
C.	**Total Income (Gross) (A+B)**	**23,185.64**	**14,323.70**	**19,028.28**	**26,320.31**	**75,348.33**

Table 10.3: Contingency and Asset Development Reserves and Surplus Transfer to the Government

(Rupees crore)

Item	2002-03	2003-04	2004-05	2005-06	2006-07	
					Excluding profit on account of sale of SBI shares	Including profit on account of sale of SBI shares
1	2	3	4	5	6	7
Total Income (Gross)	23,185.64	14,323.70	19,028.28	26,320.31	41,039.73	75,348.33
Transfer to Contingency Reserve	6,733.92	969.47	6,125.92	10,936.42	20,488.97	20,488.97
	(29.0)	(6.8)	(32.2)	(41.6)	(49.9)	(27.2)
Asset Development Reserve	890.31	188.09	687.09	1,126.79	1,971.51	1,971.51
	(3.8)	(1.3)	(3.6)	(4.3)	(4.8)	(2.6)
Surplus transfer to the Government	8,834.00	5,400.00	5,400.00	8,404.00	11,411.00	45,719.60
	(38.1)	(37.7)	(28.4)	(31.9)	(27.8)	(60.7)

Note : Figures in parentheses indicate proportion to total income.

securities, the rate of earnings on foreign currency assets and gold was 4.7 per cent in 2006-07 as against 4.1 per cent in 2005-06.The rate of earnings on foreign currency assets and gold, after accounting for depreciation, increased from 3.9 per cent in 2005-06 to 4.6 per cent in 2006-07.

Income from Domestic Sources

X.8 Domestic income (excluding the profit on sale of SBI shares to the Government of India) for the year 2006-07 increased to Rs.5,886.74 crore as against Rs.1,782.28 crore in the previous year.The increase in domestic income was mainly on account of lower provisioning for depreciation on securities held in the Bank's portfolio. Higher net interest earned under the liquidity adjustment facility (LAF) during 2006-07 also contributed to higher income (Table 10.5). Domestic income including profit on sale of SBI shares increased from Rs.1,782.28 crore during 2005-06 to Rs.40,195.34 crore during 2006-07.

Table 10.4: Earnings from Foreign Sources

(Rupees crore)

Item	As on		Variation	
	June 30, 2006	June 30, 2007	Absolute	Per cent
1	2	3	4	5
Foreign Currency Assets (FCA)	7,18,701.18	8,39,878.79	1,21,177.61	16.9
Gold	28,478.87	27,655.43	(-)823.44	(-)2.9
Special Drawing Rights (SDR)	2.17	5.78	3.61	166.4
Reserve Position in the IMF **	3,518.31	1,875.16	(-)1,643.15	(-)46.7
Total Foreign Exchange Reserves (FER)	7,50,700.53	8,69,415.16	1,18,714.63	15.8
Average FCA	6,29,067.47	7,70,814.47	1,41,747.00	22.5
Earnings (Interest, Discount, Exchange gain/loss, Capital gain / loss on Securities)	25,569.34	36,142.11	10,572.77	41.3
Depreciation on Securities	(-) 1,031.31	(-) 989.12	42.19	4.1
Earnings Net of Depreciation	24,538.03	35,152.99	10,614.96	43.3
Memo:				
Unrealised appreciation on Securities	194.83	312.26	117.43	60.3
Earnings as percentage of Average FCA	4.1	4.7	–	–
Earnings (net of depreciation) as percentage of Average FCA	3.9	4.6	–	–

** : 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, 2006	June 30, 2007	Absolute	Per cent
1	2	3	4	5
Domestic Assets	90,106.99	1,62,058.59	71,951.60	79.9
Weekly Average of Domestic Assets	1,01,303.96	1,10,226.68	8,922.72	8.8
Earnings (including profit on sale of SBI shares)	1,782.28	40,195.34	38,413.06 (7,631.93)	2155.3 (5,570.03)
Earnings (excluding profit on sale of SBI shares)	**1,782.28**	**5,886.74**	**4,104.46**	**230.3**
of which:				
Interest and other income (excluding profit on sale of SBI shares)	1,207.04	5,144.52	3,937.48	326.2
(i) Profit on Sale of Securities	3,776.20	5,059.74	1,283.54	34.0
(ii) Interest on Securities	(-) 2,834.23	(-)335.45	2,498.78	88.2
(iii) Interest on Loans and Advances	219.27	371.41	152.14	69.4
(iv) Other Interest Receipts	45.80	48.82	3.02	6.6
Other earnings	575.24	742.22	166.98	29.0
(i) Discount	–	–	–	–
(ii) Exchange	0.05	0.03	(-) 0.02	(-) 40.0
(iii) Commission	395.20	449.67	54.47	13.8
(iv) Rent realised and others	179.99	292.52	112.53	62.5
Memo Item:				
Earnings (excluding profit on sale of SBI shares) in percentage terms (on average domestic assets)	1.8	5.3		

Note : Figures in parentheses are depreciation on securities.

EXPENDITURE

X.9 Total expenditure of the Reserve Bank increased by Rs.1,315.15 crore (22.5 per cent) from Rs 5,849.10 crore in 2005-06 to Rs.7,164.25 crore in 2006-07 (Table 10.6 and Chart X.2).

Interest Payment

X.10 Interest payment decreased by Rs.389.03 crore (25.5 per cent) from Rs.1,524.41 crore in 2005-06 to Rs.1,135.38 crore in 2006-07. This was mainly on account of lower interest payments on eligible cash reserve ratio (CRR) balances. Further, no interest is payable on eligible CRR balances with effect from March 31, 2007. Hence, interest was paid only for 9 months during the year 2006-07.

Establishment Expenditure

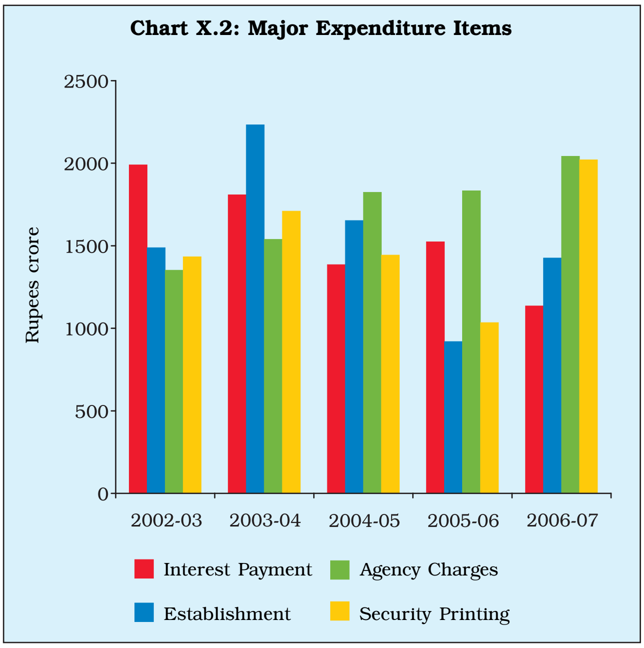
X.11 Establishment expenditure increased from Rs.919.88 crore in 2005-06 to Rs.1,425.81 crore in

Table 10.6: Expenditure

(Rupees crore)

Item	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6
I. Interest Payment	**1,990.09**	**1,808.48**	**1,386.28**	**1,524.41**	**1,135.38**
of which: Scheduled Banks	1,483.02	1,323.23	1,276.83	1,523.72	1,134.85
II. Establishment	**1,488.86**	**2,232.99**	**1,653.17**	**919.88**	**1,425.81 ***
III Non-Establishment	**3,244.46**	**3,720.67**	**3,771.82**	**3,404.81**	**4,603.06**
of which:					
a) Agency charges	1,352.41	1,539.12	1,824.17	1,833.55	2,042.50
b) Security printing	1,433.09	1,709.56	1,443.57	1,034.86	2,020.89
Total [I+II+III]	**6,723.41**	**7,762.14**	**6,811.27**	**5,849.10**	**7,164.25**

*: Includes provision towards Gratuity and Superannuation Fund of Rs.453.01 crore (previous year Rs.19.26 crore).



2006-07 mainly on account of increase in provision towards Gratuity and Superannuation Fund from Rs.19.26 crore in 2005-06 to Rs.453.01 crore in 2006-07, as advised by actuaries. Net of this provision, the increase was Rs.72.18 crore. The establishment expenditure during 2006-07 comprised salary (30.2 per cent), allowances (18.2 per cent), funds (35.1 per cent) and miscellaneous expenditure (16.5 per cent).

Non-Establishment Expenditure

X.12 The expenditure incurred on security printing (cheque, note forms, *etc.*) charges in 2006-07(July-June) increased by Rs.986.03 crore (95.3 per cent) to Rs.2,020.89 crore from Rs.1,034.86 crore in 2005-06. The increase in expenditure was on account of increase in supply of bank notes (63.9 per cent) to 11,473.3 million pieces in 2006-07 from 7,001 million pieces in 2005-06 and introduction of bank notes with additional/new security features.

BALANCE SHEET

LIABILITIES

National Industrial Credit (Long Term Operations) Fund

X.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 2006-07 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

X.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 2006-07.

Deposits - Banks

X.15 'Deposits - Banks' represent balances maintained by banks in current account with the Reserve Bank mainly for maintaining CRR and as working funds for clearing adjustments.

Deposits - Others

X.16 'Deposits - Others' include deposits from financial institutions, employees' provident fund deposits, surplus earmarked pending transfer to the Government and sundry deposits.

Other Liabilities

X.17 'Other Liabilities' include the internal reserves and provisions of the Reserve Bank and net credit balance in the RBI General Account.These liabilities declined by Rs.43,173.78 crore (25.1 per cent) from Rs.1,72,373.80 crore as on June 30, 2006 to Rs.1,29,200.02 crore as on June 30, 2007 mainly on account of decrease in the level of Currency and Gold Revaluation Account (CGRA).

X.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)

X.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 2006-07, there was a depletion of Rs.65,065.66 crore in CGRA, thus decreasing its balance from Rs.86,789.18 crore as on June 30, 2006 to Rs.21,723.52 crore as on June 30, 2007. The balance in CGRA at the end of June

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
2003	51,276.41	567.25
2004	62,283.04	5.65
2005	26,906.21	0.50
2006	86,789.18	3.28
2007	21,723.52	9.68

2007 was equivalent to 2.5 per cent of foreign currency assets and gold holdings of the Reserve Bank, as compared with 11.6 per cent at the end of June 2006. The decrease was on account of depreciation of US dollar against Indian Rupee calculated on an increased level of foreign currency assets during 2006-07. The balance in EEA represents provision made for exchange losses arising out of forward commitments. The balance in the EEA as on June 30, 2007 stood at Rs.9.68 crore. The balances in CGRA and EEA are grouped under 'Other Liabilities' in the balance sheet (Table 10.7).

Contingency Reserve and Asset Development Reserve

X.20 The Reserve Bank maintains a Contingency Reserve (CR) to enable it to absorb unexpected and unforeseen contingencies.The balance in CR increased from Rs.73,281.10 crore as on June 30, 2006 to Rs.93,770.07 crore as on June 30, 2007 with the transfer of Rs.20,488.97 crore made to CR during 2006-07 from the Reserve Bank's income. The balance in CR is sufficient to meet contingent liabilities.

X.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 2006-07, an amount of Rs.1,971.51 crore was transferred from income to ADR raising its level from Rs.7,592.82 crore as on June 30, 2006 to Rs.9,564.33 crore as on June 30, 2007. CR and ADR together constituted 10.3 per cent of total assets of the Bank as on June 30, 2007 (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
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
2006	73,281.10	7,592.82	80,873.92	10.0
2007	93,770.07	9,564.33	103,334.40	10.3

ASSETS

Foreign Currency Assets

X.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.7,18,701.18 crore as on June 30, 2006 to Rs.8,39,878.79 crore as on June 30, 2007. The 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 (Table 10.9 and Chart X.3).

Investment in Government of India Rupee Securities

X.23 Investment in Government of India Rupee Securities, which was Rs.38,934.50 crore as on June 30, 2006, increased by Rs.50,145.16 crore (128.8 per cent) to Rs.89,079.66 crore as on June 30, 2007.The increase is largely attributable to the purchases under RBI LAF operations, as system liquidity changed to deficit mode on June 29, 2007 from a liquidity surplus situation on June 30, 2006.

Table 10.9: Outstanding Foreign Currency and Domestic Assets

(Rupees crore)

As on June 30	Foreign Currency Assets	Domestic Assets
1	2	3
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
2006	7,18,701.18	90,106.99
2007	8,39,878.79	1,62,058.59

Chart X.3: Trends in Foreign Currency and Domestic Assets

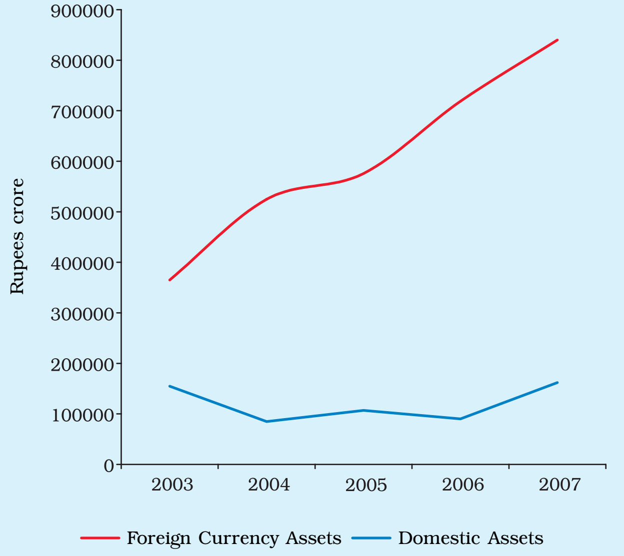


Table 10.10: Investments in Shares of Subsidiaries/Associate Institutions

(Rupees crore)

Institution	Book value of shares held as on	
	June 30, 2006	June 30, 2007
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	0
4. National Housing Bank	450.00	450.00
5. Bharatiya Reserve Bank Note Mudran (Pvt.) Ltd.	800.00	800.00
Total	**3,972.73**	**2,750.00**

Investments in Shares of Subsidiaries and Associate Institutions

X.24. During the year, the Bank's holdings in State Bank of India (Rs.1,222.73 crore) were sold to the Government of India. There was no other change in the Reserve Bank's investments in the shares of its subsidiaries and associate institutions. (Table 10.10).

Other Assets

X.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' increased by Rs.6,620.71 crore (32.1 per cent) from Rs.20,623.80 crore as on June 30, 2006 to Rs.27,244.51 crore as on June 30, 2007.

Auditors

X.26 The accounts of the Reserve Bank for the year 2006-07 were audited by M/s. Ford, Rhodes, Parks & Co., Mumbai and M/s. Kalyaniwalla & Mistry, Mumbai, as statutory central auditors. The branch offices were audited by statutory branch auditors, namely M/s. Walker, Chandiok & Co. New Delhi, M/s. K.K.Mankeshwar & Co., Nagpur, M/s. Karra & Co., Chennai and M/s. K.C. Sarkar & Co., Kolkata. The auditors were appointed by Central Government.

RESERVE BANK OF INDIA
BALANCE SHEET AS AT 30TH JUNE 2007

ISSUE DEPARTMENT

(Rupees Thousands)

2005-06	LIABILITIES		2006-07	2005-06	ASSETS		2006-07
	Notes held in the				**Gold Coin and Bullion:**		
11,60,96	**Banking Department**	**16,99,84**		23265,67,29	(a) Held in India	**22592,97,15**	
440977,00,18	**Notes in circulation**	**506545,30,17**		–	(b) Held outside India	**–**	
				416525,46,17	**Foreign Securities**	**482800,79,66**	
440988,61,14	**Total Notes issued**		**506562,30,01**	439791,13,46	**Total**		**505393,76,81**
				151,04,68	**Rupee Coin**		**122,10,20**
				1046,43,00	**Government of India Rupee Securities**		**1046,43,00**
				–	**Internal Bills of Exchange and other Commercial Paper**		**–**
440988,61,14	**Total Liabilities**		**506562,30,01**	440988,61,14	**Total Assets**		**506562,30,01**

BANKING DEPARTMENT

2005-06	LIABILITIES	2006-07	2005-06	ASSETS	2006-07
5,00,00	**Capital paid-up**	**5,00,00**	11,60,96	**Notes**	**16,99,84**
6500,00,00	**Reserve Fund**	**6500,00,00**	10,32	**Rupee Coin**	**3,84**
	National Industrial Credit		4,16,82	**Small Coin**	**3,82**
15,00,00	**(Long Term Operations) Fund**	**16,00,00**			
	National Housing Credit			**Bills Purchased and Discounted :**	
189,00,00	**(Long Term Operations) Fund**	**190,00,00**	–	(a) Internal	–
			–	(b) External	–
			–	(c) Government Treasury Bills	–
	Deposits		278498,41,58	**Balances Held Abroad**	**329695,08,67**
	(a) Government				
33395,23,29	(i) Central Government	**81236,85,31**			
41,17,69	(ii) State Governments	**41,18,09**			
	(b) Banks		65538,16,23	**Investments**	**118166,19,46**
126129,85,51	(i) Scheduled Commercial Banks	**206613,01,42**			
1827,03,54	(ii) Scheduled State Co-operative Banks	**2620,36,50**			
2207,55,33	(iii) Other Scheduled Co-operative Banks	**3475,30,34**			
50,68,59	(iv) Non-Scheduled State Co-operative Banks	**50,70,07**			
4053,46,63	(v) Other Banks	**5774,86,24**			
20613,91,74	**(c) Others**	**59249,57,87**		**Loans and Advances to :**	
			–	(i) Central Government	**19421,00,00**
			105,74,00	(ii) State Governments	**174,40,00**
429,44,80	**Bills Payable**	**419,19,77**		**Loans and Advances to:**	
			2,06,00	(i) Scheduled Commercial Banks	**580,53,00**
			–	(ii) Scheduled State Co-operative Banks	**10,00,00**
			–	(iii) Other Scheduled Co-operative Banks	–
			–	(iv) Non-Scheduled State Co-operative Banks	–
			2962,87,96	(v) NABARD	**–**
			34,23,00	(vi) Others	**33,28,48**
172373,79,72	**Other Liabilities**	**129200,02,09**		**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	**–**
			20623,79,97	**Other Assets**	**27244,50,59**
367831,16,84	**Total Liabilities**	**495392,07,70**	367831,16,84	**Total Assets**	**495392,07,70**

Significant Accounting Policies and Notes to the Accounts as per Annex.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2007

(Rupees Thousands)

2005-06	INCOME		2006-07
14257,09,61	**Interest, Discount, Exchange, Commission *etc.* [1]**		**52887,85,08**
14257,09,61	**Total**		**52887,85,08**
	EXPENDITURE		
1524,41,09	**Interest**		**1135,38,41**
919,88,29	**Establishment**		**1425,81,16**
1,19,11	**Directors' and Local Board Members' Fees and Expenses**		**1,50,46**
17,01,03	**Remittance of Treasure**		**21,22,84**
1833,55,04	**Agency Charges**		**2042,49,63**
1034,86,21	**Security Printing (Cheque, Note forms *etc.*)**		**2020,89,24**
17,50,64	**Printing and Stationery**		**17,49,52**
46,70,75	**Postage and Telecommunication Charges**		**34,87,24**
59,10,63	**Rent, Taxes, Insurance, Lighting *etc.***		**60,05,12**
1,88,91	**Auditors' Fees and Expenses**		**1,81,82**
2,95,27	**Law Charges**		**1,76,95**
179,25,59	**Depreciation and Repairs to Bank's Property**		**181,40,07**
210,77,05	**Miscellaneous Expenses**		**219,52,25**
5849,09,61	**Total**		**7164,24,71**
8408,00,00	**Available Balance**		**45723,60,37**
	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**
8404,00,00	**Surplus Payable to Central Government**		**45719,60,37**

1. After making the usual or necessary provisions in terms of Section 47 of the Reserve Bank of India Act, 1934 amounting to Rs.22460,47,52 thousands (2005-06 – Rs.12063,21,12 thousands).
2. These funds are maintained by National Bank for Agriculture and Rural Development (NABARD).

Prabal Sen	**Usha Thorat**	**Shyamala Gopinath**	**V. Leeladhar**	**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 Reserve Bank of India (hereinafter referred to as the Bank), do hereby report to the Central Government upon the Balance Sheet of the Bank as at June 30, 2007 and the Profit and Loss Account for the year ended on that date.

We have examined the Balance Sheet of the Bank as at June 30, 2007 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 to our satisfaction.

These financial statements include the accounts of nineteen Accounting Units of the Bank which have been audited by the Statutory Branch Auditors. The branch audit reports have been furnished to us which we have considered in preparing our report.

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.

A. D. Shenoy (M. No. 11549) For Ford, Rhodes, Parks & Co., Chartered Accountants	Daraius Z. Fraser (M. No. 42454) For Kalyaniwalla & Mistry Chartered Accountants

Dated August 9, 2007

ANNEX

RESERVE BANK OF INDIA

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS FOR 2006–07

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 financial 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.

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 income. Claims in this respect are considered and charged against income in the year of payment.

Income and expenditure in foreign currency are recorded at the exchange rates prevailing on the last business day of the preceding week / preceding month / year-end rates as applicable.

3. GOLD AND FOREIGN CURRENCY ASSETS AND LIABILITIES

(a) Gold

Gold is valued at the end of the month at 90 per cent of the daily average price quoted at London for the month. The rupee equivalent is determined on the basis of the exchange rate prevailing on the last business day of the month. 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 as well as 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, are provided for.

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 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.1,914.00 crore (previous year Rs.2,106 crore) representing interest differential pertaining to the period April 1, 2006 – March 31, 2007 on account of conversion of Special Securities into marketable securities.

2. EARMARKED SECURITIES

The Reserve Bank has earmarked certain Government securities amounting to Rs.7,287.41 crore (previous year Rs.6,509.99 crore) from its Investments Account in order to cover the liabilities in Provident Fund, Superannuation Fund and encashment of ordinary leave.

3. RESERVE FUND

Reserve Fund comprises initial contribution of Rs.5.00 crore made by the Government of India and appreciation of Rs.6,495.00 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 include Rs.81,136.77 crore (previous year Rs.33,294.50 crore) on account of operations under Market Stabilisation Scheme (MSS).

4.2 **Details of Deposits – Others:**

(Rupees crore)

Particulars	As on June 30	
	2006	2007
1	2	3
I. Rupee Deposits from Foreign Central Banks and Foreign Financial Institutions	4,810.03	4,682.19
II. Deposits from Indian Financial Institutions	198.25	1,327.36
III. Accumulated Retirement Benefits	6,254.61	6,950.57
IV. Surplus transferable to Government of India	8,404.00	45,719.60
V. Miscellaneous	947.03	569.86
Total	**20,613.92**	**59,249.58**

5. DETAILS OF OTHER LIABILITIES

(Rupees crore)

Particulars	As on June 30	
	2006	2007
1	2	3
I. Contingency Reserve		
Balance at the beginning of the year	62,344.68	73,281.10
Add: Accretion during the year	10,936.42	20,488.97
Balance at the end of the year	**73,281.10**	**93,770.07**
II. Asset Development Reserve		
Balance at the beginning of the year	6,466.03	7,592.82
Add: Accretion during the year	1,126.79	1,971.51
Balance at the end of the year	**7,592.82**	**9,564.33**
III. Currency and Gold Revaluation Account		
Balance at the beginning of the year	26,906.21	86,789.18
Add: Net Accretion (+)/	59,882.97	–
Net Depletion (-) during the year	–	(-)65,065.66
Balance at the end of the year	**86,789.18**	**21,723.52**
IV. Exchange Equalisation Account		
Balance at the beginning of the year	0.50	3.28
Transfer from Exchange Account	3.28	14.86
Add: Net Accretion (+)/		
Net Utilisation (-) during the year	(-) 0.50	(-) 8.46
Balance at the end of the year	3.28	9.68
V. Provision for Outstanding Expenses	**1,914.87**	**1,558.32**
VI. Miscellaneous	**2,792.55**	**2,574.10**
Total (I to VI)	**1,72,373.80**	**1,29,200.02**

6. RBI GENERAL ACCOUNT

Other Liabilities include Rs.922.45 crore (previous year Rs.607.81 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 Repo) under Liquidity Adjustment Facility (LAF) are reduced from 'Investments'. As at the year end, the outstanding Repos and Reverse Repos amounted to Rs.9,895.00 crore (previous year Rs. nil) and Rs.1,000.00 crore (previous year Rs.42,565.00 crore), respectively.

8. DETAILS OF FOREIGN CURRENCY ASSETS

(Rupees crore)

Particulars	As on June 30	
	2006	2007
1	2	3
I. Held in Issue Department	4,16,525.46	4,82,800.80
II. Held in Banking Department -		
a) Included in Investments	23,677.31	27,382.90
b) Balances Held Abroad	2,78,498.41	3,29,695.09
Total	**7,18,701.18**	**8,39,878.79**

Note : Uncalled amount on partly paid shares of the Bank for International Settlements as at June 30, 2007 was Rs.74.37 crore (SDR 1,20,41,250). The amount was Rs.82.08 crore (SDR 1,20,41,250) in the previous year.

9. DETAILS OF OTHER ASSETS

(Rupees crore)

Particulars	As on June 30	
	2006	2007
1	2	3
I. Fixed Assets (net of accumulated depreciation)	476.36	430.67
II. Gold	5,213.19	5,062.46
III. Income accrued but not received	11,424.51	15,781.73
IV. Miscellaneous	3,509.74	5,969.65
Total	**20,623.80**	**27,244.51**

10. INTEREST, DISCOUNT, EXCHANGE, COMMISSION, *etc.*

Interest, Discount, Exchange, Commission, *etc.* include the following:

(Rupees crore)

Particulars	Year ended	
	June 30, 2006	June 30, 2007
1	2	3
I. Profit on sale of Foreign and Rupee Securities	3,959.29	5,314.24
II. Net profit on sale of Bank's property	6.46	9.43
III. Dividend from subsidiaries & associate institutions	393.60	440.07
IV. Profit on sale of investment in shares of SBI*	–	34,308.60

*: Bank's entire equity holding in State Bank of India of 31,43,39,200 shares (Book value Rs.1,222.73 crore) was transferred to Government of India on June 29, 2007.

ANNEX I

LIST OF SPEECHES BY GOVERNOR AND DEPUTY GOVERNORS: APRIL 2006 TO AUGUST 2007

Sr. No.	Title of Speech	Speech by	Month*
1	2	3	4
1.	Financial Sector Reform and Financial Stability	Dr. Y.V. Reddy, Governor	April 2006
2.	Recent Trends in the Indian Debt Market and Current Initiatives	Dr. Rakesh Mohan, Deputy Governor	April 2006
3.	Coping with Liquidity Management in India: A Practitioner's View	Dr. Rakesh Mohan, Deputy Governor	April 2006
4.	Statement at the IMFC Meeting.	Dr. Y.V. Reddy, Governor	May 2006
5.	Challenges and Implications of Basel II for Asia	Dr. Y.V. Reddy, Governor	June 2006
6.	Reforming India's Financial Sector: Changing Dimensions and Emerging Issues	Dr. Y.V. Reddy, Governor	June 2006
7.	Global Imbalances - An Indian Perspective	Dr. Y.V. Reddy, Governor	June 2006
8.	Reflections on India's Economic Development	Dr. Y.V. Reddy, Governor	June 2006
9.	Discussions on "Reflections on India's Economic Development" (Governor Dr. Y.V. Reddy's Discussion at the Council on Foreign Relations, New York on May 12, 2006.)	Dr. Y.V. Reddy, Governor	June 2006
10.	India in Emerging Asia	Dr. Y.V. Reddy, Governor	June 2006
11.	Evolution of Central Banking in India	Dr. Rakesh Mohan, Deputy Governor	June 2006
12.	Monetary Policy and Exchange Rate Frameworks: The Indian Experience	Dr. Rakesh Mohan, Deputy Governor	June 2006
13.	Approach to Basel II	Smt. Shyamala Gopinath, Deputy Governor	June 2006
14.	Treating Bank Customers Fairly - Regulatory Initiatives	Smt. Usha Thorat, Deputy Governor	June 2006
15.	On the Sources of Central Banker's Influence over the Economy: Comments	Dr. Y.V. Reddy, Governor	July 2006
16.	Financial Sector Competition and Monetary Policy: Comments	Dr. Y.V. Reddy, Governor	July 2006
17.	Financial Sector Reforms and Monetary Policy: The Indian Experience	Dr. Rakesh Mohan, Deputy Governor	July 2006
18.	Asia's Urban Century: Emerging Trends	Dr. Rakesh Mohan, Deputy Governor	July 2006
19.	Banks and Service to the Common Person	Dr. Y.V. Reddy, Governor	August 2006
20.	Avian Influenza Pandemic: Preparedness within the Financial Sector	Dr. Rakesh Mohan, Deputy Governor	August 2006
21.	Use of Technology in the Financial Sector: Significance of Concerted Efforts	Dr. Y.V. Reddy, Governor	October 2006
22.	Credit Counselling: An Indian Perspective	Dr. Y.V. Reddy, Governor	October 2006
23.	Asian Perspective on Growth: Outlook for India	Dr. Y.V. Reddy, Governor	October 2006
24.	Foreign Exchange Reserves: New Realities	Dr. Y.V. Reddy, Governor	October 2006
25.	The Role of Financial Education: The Indian Case	Dr. Y.V. Reddy, Governor	October 2006
26.	Globalisation, Money and Finance - Uncertainties and Dilemmas	Dr. Y.V. Reddy, Governor	October 2006
27.	New Economic Geography and Monetary Policy in a Flattening World	Dr. Rakesh Mohan, Deputy Governor	October 2006
28.	IT for Business Excellence	Shri. V. Leeladhar, Deputy Governor	October 2006
29.	Demystifying Basel II	Shri. V. Leeladhar, Deputy Governor	October 2006
30.	Changing Paradigms in Risk Management	Smt. Shyamala Gopinath, Deputy Governor	October 2006
31.	Banking and Financial Sector Reforms: Status and Prospects	Dr. Y.V. Reddy, Governor	November 2006
32.	Payment and Settlement Systems: Select Issues	Dr. Y.V. Reddy, Governor	November 2006
33.	Reserve Bank of India Archives: Some Reflections and the Way Forward	Dr. Rakesh Mohan, Deputy Governor	November 2006
34.	Economic Growth, Financial Deepening and Financial Inclusion	Dr. Rakesh Mohan, Deputy Governor	November 2006
35.	State of the Indian Economy	Dr. Rakesh Mohan, Deputy Governor	November 2006

Sr. No.	Title of Speech	Speech by	Month*
1	2	3	4
36.	Economic Reforms in India: Where are We and Where do We go?	Dr. Rakesh Mohan, Deputy Governor	December 2006
37.	Monetary and Financial Policy Responses to Global Imbalances	Dr. Rakesh Mohan, Deputy Governor	December 2006
38.	Central Banks and Risk Management: Pursuing Financial Stability	Dr. Rakesh Mohan, Deputy Governor	December 2006
39.	Inclusive Growth: Role of Financial Education	Smt. Shyamala Gopinath, Deputy Governor	December 2006
40.	Financial Inclusion for Sustainable Development: Role of IT and Intermediaries	Smt. Usha Thorat, Deputy Governor	December 2006
41.	Rural Banking: Review and Prospects	Dr. Y.V. Reddy, Governor	January 2007
42.	Dynamics of Balance of Payments in India	Dr. Y.V. Reddy, Governor	January 2007
43.	Urban Cooperative Banks - Evolution of the Banks, Current Issues in Corporate Governance and Challenges in their Regulation and Supervision	Smt. Usha Thorat, Deputy Governor	January 2007
44.	Risks Associated with Macroeconomic Adjustments: Global Perspective	Dr. Rakesh Mohan, Deputy Governor	February 2007
45.	Overseas Investments by Indian Companies - Evolution of Policy and Trends	Smt. Shyamala Gopinath, Deputy Governor	February 2007
46.	What RBI means to the Common Person	Dr. Y.V. Reddy, Governor	March 2007
47.	Current Challenges to Monetary Policy Making in India	Dr. Rakesh Mohan, Deputy Governor	March 2007
48.	Banking in the Hinterland	Smt. Usha Thorat, Deputy Governor	March 2007
49.	Regulator's Eyes on Financial Institutions	Dr. Y.V. Reddy, Governor	April 2007
50.	Globalisation and Monetary Policy: Some Emerging Issues	Dr. Y.V. Reddy, Governor	April 2007
51.	Economic Outlook: Some Thoughts on Asia and India	Dr. Y.V. Reddy, Governor	April 2007
52.	Monetary Policy Transmission in India	Dr. Rakesh Mohan, Deputy Governor	April 2007
53.	Indian Financial Sector reforms	Shri. V. Leeladhar, Deputy Governor	April 2007
54.	Role of Monetary Policy in Attaining Growth with Stability: The Indian Experience	Dr. Y.V. Reddy, Governor	May 2007
55.	Statement at the IMF	Dr. Rakesh Mohan, Deputy Governor	May 2007
56.	Special Features of Financial Sector Reforms in India	Smt. Shyamala Gopinath, Deputy Governor	May 2007
57.	The Indian Economy : Review and Prospects	Dr. Y.V. Reddy, Governor	June 2007
58.	Select Aspects of the Indian Economy	Dr. Y.V. Reddy, Governor	June 2007
59.	India - Perspective for Growth with Stability	Dr. Y.V. Reddy, Governor	June 2007
60.	Development of Financial Markets in India	Dr. Rakesh Mohan, Deputy Governor	June 2007
61.	The Growing Influence of the Emerging World	Dr. Y.V. Reddy, Governor	July 2007
62.	Indian Economy: Review, Prospects and Select Issues	Dr. Y.V. Reddy, Governor	July 2007
63.	Random Thoughts on Statistics and Surveys	Dr. Y.V. Reddy, Governor	July 2007
64.	Risk Management in an Open Market Economy	Dr. Rakesh Mohan, Deputy Governor	July 2007
65.	Capital Account Liberalisation and Conduct of Monetary Policy: The Indian Experience	Dr. Rakesh Mohan, Deputy Governor	July 2007
66.	Statistical System of India: Some Reflections	Dr. Rakesh Mohan, Deputy Governor	July 2007
67.	Financial Inclusion - The Indian Experience	Smt. Usha Thorat, Deputy Governor	July 2007
68.	Glimpses of Indian Economy and its Financial Sector	Dr. Y. V. Reddy, Governor	August 2007
69.	First Quarter Review of Monetary Policy : Underlying Macroeconomics	Dr. Rakesh Mohan, Deputy Governor	August 2007

* : The issue of the Reserve Bank of India Monthly Bulletin in which the speech is published.

ANNEX II

LIST OF REPORTS OF GROUPS/COMMITTEES SUBMITTED: APRIL 2006 TO JULY 2007

Sr. No.	Title	Chairperson / Convenor	Date
1	2	3	4
1.	Report of the Working Group on Cost of NRI Remittances	Shri. P.K. Pain	May 2006
2.	Report of the Committee for Rationalisation of Overseas Office of Indian Banks	Shri. V. Leeladhar	May 2006
3.	Report of the Inter-Departmental Committee on IMGC - To Discuss the Proposal of India Mortgage Guarantee Corporation (IMGC) and the Various Regulatory Issues with it	Shri. P. Vijaya Bhaskar	May 2006
4.	Report of the Internal Working Group on Special Relief Measures by Banks in Areas Affected by Natural Calamities	Shri. G. Srinivasan	June 2006
5.	Report on the Survey on Impact of Trade Related Measures on Transaction Costs of Exports	Dr. Balwant Singh	June 2006
6.	Report of the Committee on Fuller Capital Account Convertibility	Shri. S.S. Tarapore	July 2006
7.	Report of the Committee on Financial Sector Plan for North Eastern Region	Smt. Usha Thorat	July 2006
8.	Report of the Working Group on Improvement of Banking Services in Uttaranchal	Shri. V.S. Das	August 2006
9.	Study of Currency Logistics at RBI	Prof. T.T. Narendran, IIT Madras	August 2006
10.	Report of the Working Group to Look into the Problems Faced by Bankers and Borrowers in Bihar	Shri. V. S. Das	August 2006
11.	Report of the Working Group to Formulate a Scheme for Ensuring Reasonableness of Bank Charges	Shri. N. Sadasivan	September 2006
12.	Report of the Working Group on Currency Management	Shri. R. Gandhi	September 2006
13.	Report of the Working Group to Examine Issues Relating to Augmenting Capital of UCBs	Shri. N.S. Vishwanathan	November 2006
14.	Report of the Working Group to Review the Existing Guidelines on Restructuring of Advances and Align them with the Guidelines on CDR Mechanism.	Shri. P. Saran	November 2006
15.	Report of the Internal Working Group on Refinancing Institutions	Shri. P. Vijaya Bhaskar	November 2006
16.	Report of the Working Group on Savings for the Eleventh Five Year Plan (2007-08 to 2011-12)	Dr. Rakesh Mohan	December 2006
17.	Report of the Working Group to Evolve a Framework for Investment of State Governments' Balances	Shri. G. Mahalingam	December 2006
18.	Report of the Task Force on Empowering RRB Boards for Operational Efficiency	Dr. K.G. Karmakar	January 2007
19.	Report of the Technical Advisory Group on Development of Leading Economic Indicators for Indian Economy	Dr. R.B. Barman	January 2007
20.	Report of the Working Group for Improvement of Banking Services in the State of Chattisgarh	Dr. K. V. Rajan	February 2007
21.	Report of the Group to Formulate Regulatory Guidelines for Mortgage Guarantee Companies	Shri. P. Vijaya Bhaskar	March 2007
22.	Report of the Study Group on Migration of Paper Based Funds Movement to Electronic Funds Transfer	Reserve Bank of India	April 2007
23.	Working Group Report on Modalities for Implementation of Credit Information Companies (Regulation) Act, 2005	Shri. P. Saran	April 2007
24.	Report of the Technical Group on Statistics for International Trade in Banking Services	Dr. K.S.R. Rao	June 2007
25.	Report of the Working Group on Standards for Raw Images of fingerprints for Public Comments	Dr. A.M. Pedgaonkar	July 2007
26.	Report of the Technical Group Set up to Review Legislations on Money Lending	Shri. S.C. Gupta	July 2007
27.	Report of the Working Group to Suggest Measures to Assist Distressed Farmers	Shri. S. S. Johl	July 2007

ANNEX III

VISITS OF FOREIGN DELEGATIONS TO THE RESERVE BANK

Sr. No.	Date of Meeting	Delegation led by	Officials met
1	2	3	4
1.	July 12, 2006	Mr. John Adams, Senior Vice President of the Export Finance Group of Export Import Bank of United States	Smt. Shyamala Gopinath, Deputy Governor & senior officials
2.	July 25, 2006	Mr. Yasuhisa Shiozaki, Senior Vice-Minister for Foreign affairs of Japan	Dr. Rakesh Mohan, Deputy Governor
3.	July 26, 2006	Mr. Timothy Geithner, President, Federal Reserve Bank of New York	Dr.Y.V.Reddy, Governor, Deputy Governors and Executive Directors
4.	October 06, 2006	Mrs. Jane Hemstritch, Managing Director, Asia Pacific, Accenture, The Global Foundation India Mission -2006	Dr. Rakesh Mohan, Deputy Governor, Shri. Anand Sinha, Executive Director, and senior officials
5.	Nov. 10, 2006	Dr. Guillermo Ortiz, Governor, Banco de Mexico.	Dr.Y. V. Reddy, Governor, Smt. Usha Thorat, Deputy Governor, Executive Directors and other senior officials
6.	Nov. 15, 2006	Mr. Leonardo Giangreco, Senior Managing Director, Bear Sterns International Ltd.	Smt. Shyamala Gopinath, Deputy Governor, Executive Directors and senior officials
7.	Nov. 15, 2006	Dr. Stefan Ingves, Governor, Sveriges Riksbank.	Dr. Y. V. Reddy, Governor, Deputy Governors and Executive Directors
8.	Nov. 27, 2006	Mr. Antonio Ambrosetti, Managing Director, Ambrosetti S.p.A. (Italy)	Dr. Rakesh Mohan, Deputy Governor and other senior officials
9.	Nov. 29, 2006	Mr. Zang Jingfan, Director General, Co-operative Finance Supervision, Chinese Banks Regulatory Commission (CBRC)	Dr. Rakesh Mohan, Shri. V.Leeladhar and Smt.Usha Thorat, Deputy Governors, Executive Directors and other senior officers
10.	Dec. 28, 2006	Prof. Joseph Stiglitz, Nobel prize-winning economist delivered a talk on common economic policies and global imbalances.	Dr. Y.V. Reddy, Governor, Deputy Governors, Executive Director and other senior officials
11.	January 03 to 05, 2007	Mr. Sergey M. Ignatiev, Chairman, Central Bank of Russian Federation and Mrs. Marina V.Ignatiev	Dr.Y.V. Reddy, Governor. Deputy Governors and Executive Directors
12.	January 10, 2007	Dr. Balaji Sadasivan, Senior Minister of State of Foreign Affairs, Singapore	Dr. Rakesh Mohan, Deputy Governor, Executive Directors and senior officials
13.	January 16, 2007	Mr. Samuel J. Marshall, Chairman, Singapore Business Federation	Dr. Rakesh Mohan, Deputy Governor, Executive Directors and senior officials
14.	January 18, 2007	Ms Sandra Pupatello, Minister of Economic Development and Trade,Ontario, Canada	Smt. Shyamala Gopinath, Deputy Governor, Executive Directors and senior officials
15.	January 21, 2007	American Chambers Singapore Business Mission to India led by Mr. Herbold, Patricia Louise, Ambassador, US Embassy, Singapore.	Smt. Shyamala Gopinath, Deputy Governor, Executive Directors and senior officials
16.	January 23, 2007	Mr. John Lipsky, First Deputy Managing Director, IMF	Dr.Y.V. Reddy, Governor
17.	Feb. 02, 2007	Prof. Muhammad Yunus, Nobel Peace Prize Winner-2006, Executive Trustee, Grameen Trust, Bangladesh	Dr.Y.V. Reddy, Governor
18.	Feb. 05, 2007	Mr. Eduard Oswald, German Federal Parliament's (Bundestag) Finance Committee	Dr.Y.V. Reddy, Governor, Deputy Governors, Executive Directors, and senior officials
19.	Feb. 06, 2007	Mr. David Horsfield, Managing Director, Securities and Derivatives Industry Association of Australia	Shri. V.K. Sharma, Executive Director and senior officials

VISITS OF FOREIGN DELEGATIONS TO THE RESERVE BANK

Sr. No.	Date of Meeting	Delegation led by	Officials met
1	2	3	4
20.	Feb 15, 2007	Mr. Paul Volcker, former Chairman of the Federal Reserve accompanied by Ms Anke Dening.	Dr.Y.V. Reddy, Governor
21.	Feb 19, 2007	Mr. Latifur Rahman, President, Bangladesh Metropolitan Chamber of Commerce and Industry	Dr.Y.V. Reddy, Governor, Dr. Rakesh Mohan, Deputy Governor, Shri. Anand Sinha, Executive Director and senior officials
22.	Feb 19, 2007	Mr. R. Randall Rollins, Chairman, Morgan Creek Capital Management, LLC, USA	Shri. V.K. Sharma, Executive Director and senior officials
23.	Feb 23, 2007	Mr. David Fite, Professional Staff Member of US House Committee on Foreign Affairs	Shri. V.K. Sharma, Executive Director and senior officials
24.	March 02, 2007	Mr. Arnaud de Bresson, Managing Director, Paris Europlace	Smt. Grace Koshie, Chief General Manager & Secretary
25.	March 08, 2007	Mr. Marshall M.Bouton, President of Chicago Council on Global Affairs and other delegates	Dr. Rakesh Mohan, Deputy Governor, Executive Directors and senior officials
26.	March 16, 2007	Dr. Axel A.Weber, President, Deutsche Bundesbank	Dr.Y.V. Reddy, Governor, Deputy Governors and Executive Directors
27.	March 16, 2007	Ms. Rachel Lomax, Deputy Governor, Bank of England	Dr.Y.V. Reddy, Governor and Deputy Governors
28.	March 31, 2007	Ms.Kristen Halvorsen, Finance Minister of Norway	Smt. Shyamala Gopinath, Deputy Governor, Shri. Anand Sinha, Executive Director and senior officials
29.	April 05, 2007	Madame WU Xiaoling, Deputy Governor, The People's Bank of China	Dr.Rakesh Mohan, Deputy Governor, Executive Directors and senior officials
30.	May 14, 2007	Mr.Christian Noyer, Governor, Banque de France	Dr.Y.V. Reddy, Governor, Deputy Governors and Executive Directors
31.	May 16, 2007	Ms. Nguyen Thi Kim Phung, Deputy Governor, State Bank of Vietnam	Smt. Usha Thorat, Deputy Governor, Shri. C. Krishnan, Executive Director and senior officials
32.	May 18, 2007	High level Delegation from Kenya and Tanzania - Mr. Juma Reli, Deputy Governor, Bank of Tanzania and Mr. M.M. Gatimu, Accountant General, Kenya.	Smt. Shyamala Gopinath, Deputy Governor, Shri. C.Krishnan, Executive Director and senior officials
33.	May 24, 2007	Alderman John Stuttard, Lord Mayor of London with Senior Business Delegation	Dr.Y.V. Reddy, Governor, Deputy Governors, Executive Directors and senior officials
34.	June 28, 2007	Mr. Sawanit Kongsiri, Deputy Minister of Foreign Affairs, Thailand and High level business delegation	Smt. Shyamala Gopinath, Deputy Governor, Executive Directors and senior officials
35.	June 28, 2007	Prof. Avinash K. Dixit, Professor of Economics at Princeton University visited the Bank and delivered the 2nd P.R. Brahmananda Memorial Lecture on 'Governance Institutions and Development'	Dr.Y.V. Reddy, Governor

ANNEX IV

CHRONOLOGY OF MAJOR POLICY ANNOUNCEMENTS: APRIL 2006 – JULY 2007

Date of Announcement		POLICY ANNOUNCEMENTS
		I. MONETARY POLICY MEASURES
2006		
April	**18**	• Ceiling interest rate on NR(E)RA deposits raised by 25 basis points to 100 basis points above LIBOR/SWAP rates for US dollar of corresponding maturity.
		• Ceiling interest rate on export credit in foreign currency raised by 25 basis points to LIBOR plus 100 basis points.
June	**9**	• Fixed reverse repo rate and repo rate under LAF raised by 25 basis points to 5.75 per cent and 6.75 per cent, respectively.
July	**25**	• Fixed reverse repo rate and repo rate under LAF raised by 25 basis points to 6.00 per cent and 7.00 per cent, respectively.
Oct.	**31**	• Fixed repo rate under the LAF raised by 25 basis points to 7.25 per cent, while reverse repo rate left unchanged at 6.0 per cent.
Dec.	**8**	• CRR raised by 50 basis points in two stages (25 basis points each) effective from the fortnights beginning from December 23, 2006 (to 5.25 per cent) and January 6, 2007 (to 5.5 per cent).
2007		
Jan.	**31**	• Fixed repo rate under the LAF raised by 25 basis points to 7.50 per cent, while reverse repo rate left unchanged at 6.0 per cent.
		• Ceiling interest rates on FCNR (B) and NR(E)RA deposits reduced by 25 basis points and 50 basis points, respectively, to LIBOR/SWAP rates *minus* 25 basis points and LIBOR/SWAP rates for US dollar of corresponding maturity *plus* 50 basis points.
Feb.	**13**	• CRR raised by 50 basis points in two stages (25 basis points each), effective from the fortnights beginning from February 17, 2007 (to 5.75 per cent) and March 3, 2007 (to 6.00 per cent).
March	**30**	• CRR raised by 50 basis points in two stages (25 basis points each), effective from the fortnights beginning from April 14, 2007 (6.25 per cent) and April 28, 2007 (6.50 per cent).
		• Fixed repo rate under the LAF increased by 25 basis points to 7.75 per cent, while reverse repo rate left unchanged at 6.0 per cent.
April	**12**	• Validity of the interest rate ceiling stipulated at BPLR minus 2.5 per cent on pre-shipment Rupee export credit up to 180 days and post-shipment export Rupee credit up to 90 days extended to October 31, 2007.
	24	• Ceiling interest rate on FCNR (B) deposits reduced by 50 basis points to LIBOR/SWAP rates *minus* 75 basis points for respective currency/maturities.
		• Ceiling interest rate on NR(E)RA deposits reduced by 50 basis points to LIBOR/SWAP rates for US dollar of corresponding maturity.
July	**31**	• CRR raised by 50 basis points to 7.00 per cent, effective from the fortnight beginning August 4, 2007.
		• Second LAF, which was introduced from November 28, 2005 was withdrawn with effect from August 6, 2007.
		II. INTERNAL DEBT MANAGEMENT POLICIES
2006		
April	**4**	• Guidelines issued on revised scheme for underwriting commitment and liquidity support to PDs and banks undertaking PD business departmentally. Accordingly, PDs were required to meet an underwriting commitment, replacing the earlier requirement of bidding commitment and voluntary underwriting.
		• Based on the recommendations of the Bezbaruah Committee, a revised Ways and Means Advances (WMA) Scheme for State Governments announced. The aggregate Normal WMA limits were increased by 10.5 per cent to Rs.9,875 crore for 2006-07. The interest rates on WMA and overdraft were linked to the repo rate (as against the Bank Rate earlier).
	18	• Purchase and resale of SDLs by the Reserve Bank proposed to be introduced under the overnight LAF repo operations.

Date of Announcement		POLICY ANNOUNCEMENTS
2006		**II. INTERNAL DEBT MANAGEMENT POLICIES** *(Concld.)*
April	**19**	• The scheme of WMA to the Central Government revised in consultation with the Government. As per the revised arrangement, the WMA limits were fixed on a quarterly basis instead of the existing half-yearly basis. Accordingly, the WMA limits for 2006-07 were placed at Rs.20,000 crore and Rs.10,000 crore for the first and second quarters, respectively, and Rs.6,000 crore each for the third and fourth quarters of the year. The Reserve Bank retained the flexibility to revise the limits in consultation with the Government of India. The interest rates on WMA and overdraft were linked to the repo rate as against the Bank Rate hitherto. Accordingly, the interest rate on WMA to be at the repo rate and that on overdraft to be at repo rate plus two percentage points.
May	**3**	• Guidelines were issued permitting "When Issued" transactions in Central Government securities that have been notified for reissuance.
July	**4**	• Guidelines issued permitting stand-alone PDs to diversify their activities, in addition to existing business of Government securities, subject to limits.
	31	• The NDS-OM system upgraded to handle trading of Treasury Bills from July 31, 2006. Membership to the NDS-OM, which was initially only for the Reserve Bank regulated NDS members (banks and PDs) was expanded to include insurance companies, mutual funds and bigger provident funds. Apart from the direct access of NDS-OM members, indirect access to NDS-OM through the Constituents Subsidiary General Ledger (CSGL) route extended to qualified entities maintaining gilt accounts with the NDS-OM members.
Aug.	**1**	• Accounting Guidelines on "When Issued" trading issued.
	30	• Government securities Act, 2006 received the assent of the President of India.
Oct.	**5**	• Operational guidelines were issued to banks undertaking primary dealer activity.
Nov.	**16**	• "When Issued" trading extended to newly issued securities.
2007		
Jan.	**31**	• Short selling in Government securities extended up to five days. Sale of repoed stock has simultaneously been permitted.
March	**30**	• The aggregate Normal WMA limits of State Governments were retained at Rs.9,875 crore for 2007-08.
May	**21**	• Odd lot trading commenced on NDS-OM with a view to encourage retail trading.
	24	• The limit for WMA for the Government of India was fixed at Rs.20,000 crore for the first half of the year 2007-08 (April - September) and Rs. 6,000 crore for the second half of the year (October - March).
	25	• Qualified CSGL constituents permitted to trade on NDS-OM through their custodians.
June	**29**	• The Reserve Bank transferred its entire share holding in the State Bank of India to the Government of India.
		III. FINANCIAL SECTOR MEASURES
2006		
April	**4**	• Scheduled Commercial Banks (SCBs) were advised that principal and interest due on working capital loans in poultry industry as also instalments and interest on term loans therein which had fallen due for payment on/after the onset of bird flu, *i.e.*, February 1, 2006 and remaining unpaid might be converted into term loans. The converted loans might be recovered in installments based on projected future inflows over a period up to three years with an initial moratorium of up to one year. Similar advice was given to Urban Cooperative Banks (UCBs) on April 20, 2006.
	12	• SCBs [excluding regional rural banks (RRBs)] advised to furnish annual return within one month in respect of non-SSI (sick/weak) industrial units in the revised format from the year March 31, 2006. As a one time measure, the banks were required to furnish data in the revised format for the period ending March 31, 2004 and March 31, 2005 by May 2006.
	13	• UCBs registered in States, which had signed Memorandum of Understanding (MoU) and those registered under the Multi-State Co-operative Societies Act, 2002, permitted to enter into agreements with mutual funds (MFs) for marketing their units subject to certain conditions such as i) the bank should act as an agent of the customers, ii) the purchase of MF units should be at the customers' risk and without the bank guaranteeing any assured return, iii) the bank should not acquire such units of MFs from the secondary market, iv) the bank should not buy back units of MFs from the customers and v) compliance with extant know your customer (KYC)/anti-money laundering (AML) guidelines. Similar guidelines were issued to regional rural banks (RRBs) on May 17, 2006.

Date of Announcement		POLICY ANNOUNCEMENTS
2006		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
April	**28**	• In order to enable better customer service, UCBs permitted to undertake following limited transactions at the extension counters: i) deposit/withdrawal transactions, ii) issue and encashment of drafts, mail transfers, and travellers' cheques, iii) collection of bills, iv) advances against fixed deposits of their customers (within the sanctioning power of the concerned officials at the extension counter), and v) disbursement of other loans (only for individuals) sanctioned by the Head Office / base branch up to the limit of Rs.10 lakh only.
		• UCBs permitted to set up ATMs subject to the following eligibility criteria: i) minimum deposits of Rs.100 crore, ii) compliance with the prescribed CRAR, iii) net NPAs less than 10 per cent, and v) consistent record of profitability and compliance with CRR/SLR. Among others, the requirement of prior Reserve Bank approval for network connectivity and/or sharing of the ATMs instaled by UCBs was dispensed with.
May	**16**	• SCBs (including RRBs) to display and update, on their website, the details of various service charges in the prescribed format. SCBs were also to display the charges relating to certain services as prescribed in their offices/branches (including in the local language). Similar guidelines were issued to UCBs on May 26, 2006 wherein scheduled UCBs were required to place the details of various service charges on their website while all UCBs (including scheduled and non-scheduled) were to display the charges relating to certain services as prescribed in their offices/branches.
	23	• It was clarified that the interest subvention to be provided by the Central Government as a relief measure would be calculated at four percentage points on the term loans and working capital loans provided by banks for all poultry related activities with respect to the outstanding as on March 31, 2006.
	25	• The risk weight on SCBs' exposure to the commercial real estate increased to 150 per cent from 125 per cent. Furthermore, SCBs' total exposure to venture capital funds (VCFs) would form a part of its capital market exposure and, henceforth, a higher risk weight of 150 per cent would be assigned to these exposures.
	29	• The general provisioning requirement for SCBs (excluding RRBs) on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans, increased to 1.0 per cent from 0.40 per cent. In order to ensure that the additional general provisioning on standard advances in the above mentioned sectors are made in a smooth and non-disruptive manner, SCBs were permitted, on July 12, 2006, to phase in the additional general provisioning requirement over the financial year 2006-07 as follows: (a) 0.55 per cent for the quarter ended June 2006; (b) 0.70 per cent for the half-year ended September 2006; (c) 0.85 per cent for the quarter ended December 2006; and (d) 1 per cent for the year ended March 2007.
		• SCBs (excluding RRBs) to disclose in the 'Notes on Account' the information providing detailed break-up of provisions and contingencies shown under 'Expenditure in Profit and Loss Account' as follows: i) provision for depreciation on investment, ii) provision towards NPA, iii) provision towards standard asset, iv) provision made towards income tax, and v) other provision and contingencies (with details).
June	**5**	• Public sector banks (PSBs) and RRBs advised that, in pursuance with the announcement in the Union Budget, 2006-07, the Government would provide interest subvention of 2 per cent per annum to them in respect of short-term production credit up to Rs.3 lakh given to farmers. This amount of subvention would be calculated on the amount of the crop loan disbursed from the date of disbursement/drawal up to the date of payment or up to the date beyond which the outstanding loan became overdue, *i.e.,* March 31, 2007 for *Kharif* and June 30, 2007 for *Rabi*, respectively, whichever was earlier. This subvention would be available to PSBs and RRBs on the condition that they make available short-term credit at ground level at 7 per cent per annum. In case of RRBs, this would be applicable only to short term production credit disbursed out of their own funds and would exclude such credit supported by NABARD refinance. On May 10, 2007, this scheme was extended by one year in accordance with the announcement in the Union Budget 2007-08.
	6	• State Cooperative Banks (StCBs) and District Central Cooperative Banks (DCCBs) permitted to open savings bank accounts in the names of State Government departments/bodies/agencies in respect of grants/subsidies released for implementation of various programmes/schemes sponsored by State Governments on production of an authorisation from the respective Government departments certifying that the concerned Government department or body was permitted to open savings bank account.
	8	• SCBs (excluding RRBs) advised not to enter into swap transactions involving conversion of fixed rate rupee liabilities in respect of innovative Tier I/Tier II bonds into floating rate foreign currency liabilities. Furthermore, with regard to swaps already entered into, banks were to follow certain procedures for accounting gains / losses arising out of such swap transactions.

Date of Announcement		POLICY ANNOUNCEMENTS
2006		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
June	**22**	• Revised prudential norms issued to SCBs (excluding RRBs) on utilisation, creation, accounting and disclosures of floating provisions, *i.e.,* provisions not made in respect of specific non-performing assets or made in excess of regulatory requirement for provisions for standard assets. The floating provisions could be used for contingencies under extra-ordinary circumstances for making specific provisions in impaired accounts after obtaining board's approval and with prior permission of the Reserve Bank. It was clarified on March 13, 2007 that these extra-ordinary circumstances could broadly fall under three categories *viz.,* general (civil unrest collapse of currency), market (melt down in market) and credit (exceptional credit losses).
July	**4**	• SCBs advised to initiate steps for incorporating an appropriate mandate management routine for handling ECS (Debit) transactions.
	14	• SCBs advised not to associate themselves with internet based electronic purse schemes in the nature of acceptance of deposits withdrawable on demand.
	17	• SCBs operating in the Vidarbha Region advised to ensure that all the farmers' loan-accounts, overdue as on July 01, 2006, were rescheduled on the lines of the package of "Relief Measures to the Vidarbha Region in Maharashtra" announced by the Prime Minister and the interest thereon (as on July 01, 2006) was fully waived. Fresh finance may be ensured to such farmers. The total amount of credit of Rs.1,275 crore envisaged to be released by banks would be allocated by Bank of Maharashtra (as SLBC Convenor) among the banks functioning in the districts. Similar guidelines were issued to UCBs on July 21, 2006.
	20	• SCBs to place service charges and fees on the homepage of their website at a prominent place under the title of 'Service Charges and Fees' so as to facilitate easy access to the bank customers. A complaint form, along with the name of the nodal officer for complaint redressal, may be provided in the homepage itself to facilitate complaint submission by customers. The complaint form should also indicate that the first point for redressal of complaints would be the bank itself and that complainants might approach the Banking Ombudsman only if the complaint was not resolved at the bank level within a month. Similar guidelines were issued to UCBs on July 24, 2006.
Aug.	**9**	• Additional guidelines on relief measures to be extended by banks in areas affected by natural calamities issued.
	23	• Prudential guidelines governing banks' exposure to VCFs were issued to banks covering limits, valuation, classification of bank's investment in VCF, and risk weight and capital charge for market risk for exposures in VCFs.
Sept.	**1**	• Banks advised to take sufficient care to ensure that the minority communities also received an equitable portion of the credit, within the overall target for priority sector lending and the sub-target of 10 per cent for the weaker sections. The above requirement should be kept in view by lead banks while preparing district credit plans.
		• In order to improve the quality of service available to customers in branches, banks advised to ensure that the pass books/statement of accounts issued to account holders invariably mentioned the full address/telephone number of the branch. Similar advice was issued to RRBs on September 15, 2006.
	4	• Instructions on moratorium, maximum repayment period, additional collateral for restructured loans and asset classification in respect of fresh finance to be applicable to all affected restructured borrowal accounts, including accounts of industries and trade, besides agriculture. Asset classification of the restructured accounts as on the date of natural calamity will continue if the restructuring is completed within a period of three months from the date of natural calamity.
	20	• The exposure of banks to entities for setting up Special Economic Zones (SEZs) or for acquisition of units in SEZs which includes real estate would be treated as exposure to commercial real estate sector with immediate effect and banks would have to make provisions as also assign appropriate risk weights for such exposures as per the existing guidelines.
		• Securitisation companies (SCs)/reconstruction companies (RCs) advised to invest in security receipts an amount not less than 5 per cent issued under each scheme. In the case of SCs/RCs which had already issued the security receipts, such companies should achieve the minimum subscription limit in security receipts under each scheme, within a period of six months from the date of notification issued in this regard.
		• In order to ensure that banks' recourse to drawing down the Statutory Reserve is done prudently and is not in violation of any of the regulatory prescriptions, banks advised to take Reserve Bank's approval before any appropriation is made from the statutory reserve or any other reserves.
		• NBFCs advised that while calculating the aggregate of funded exposure of a borrower for the purpose of assigning risk weights, they may 'net off' against the total outstanding exposure to the borrower, advances collateralised by cash margins/security deposits/caution money against which right to set off is available.

Date of Announcement		POLICY ANNOUNCEMENTS
2006		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
Sept.	**21**	• NBFCs advised to submit a certificate from their statutory auditors every year to the effect that they continue to undertake the business of NBFI requiring holding of Certificate of Registration (CoR) under Section 45-IA of the Reserve Bank of India Act,1934.
	28	• NBFCs advised to put in place guidelines on fair practices code.
Oct.	**4**	• Banks advised to offer pass book facilities to all their savings bank account holders (individuals) and in case the bank offers the facility of sending statement of account, the banks must issue monthly statements of accounts. The cost of providing pass books/statement of accounts should not be charged to the customer.
	18	• SCBs advised to ensure that all the farmers' loan accounts in the 25 debt stressed districts of Andhra Pradesh, Karnataka and Kerala are rescheduled in the lines of the package announced by the Central Government. Accordingly, the interest thereon (as on July 1, 2006) would be fully waived and such overdue loans would be rescheduled over a period of 3-5 years with a one-year moratorium. Fresh finance may be ensured to such farmers. A credit flow of Rs.13,818 crore, Rs.3,076 crore and Rs.1,945 crore would be ensured in the above debt stressed districts of Andhra Pradesh, Karnakata and Kerala, respectively in 2006-07. The burden of waiver of overdue interest would be shared equally by the State and Central Governments. While apportioning the overdue interest as above, due care should be taken to offset releases if any, already made by the State Government on this count. Similar guidelines were issued to UCBs on December 26, 2006.
	19	• SCs/RCs which have obtained a CoR from the Reserve Bank under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 directed to commence business within six months from the date of grant of CoR, extendable up to 12 months by the Reserve Bank on application to the effect by the SCs/RCs. SCs/RCs which have obtained CoR but have not commenced business should do so within six months from the date of the notification.
	27	• In terms of extant instructions, whenever there is change of management and control of NBFCs, prior public notice should be given 30 days before effecting the sale, or transfer of the ownership by sale of shares, or transfer of control, whether with or without sale of shares or by way of amalgamation/merger of an NBFC with another NBFC or a non-financial company by the NBFC and also by the transferor, or the transferee. On review, NBFCs were advised that such prior public notice shall be given by the NBFC and also by the transferor or the transferee or jointly by the parties concerned.
Nov.	**3**	• Guidelines on managing risks and code of conduct in outsourcing of financial services issued to banks.
	6	• In order to facilitate the expansion of Indian corporates' business abroad, the prudential limit on credit and non-credit facilities extended by banks to Indian Joint Ventures (where the holding by the Indian company is more than 51 per cent)/Wholly Owned Subsidiaries abroad was enhanced from 10 per cent to 20 per cent of their unimpaired capital funds (Tier I and Tier II capital).
	10	• Clarification issued to banks that the period of fortnight for issue of duplicate demand draft would be applicable only in cases where such request is made by the purchaser or the beneficiary and would not be applicable for third party endorsements.
	13	• UCBs, other than those in Grade III and IV, registered in States which have signed the MoU and those registered under Multi-State Cooperative Societies Act, 2002, eligible to convert the extension counters into full-fledged branches on completion of three years of their operation. The shifting/relocation of these branches would be subject to the conditions that: (i) the shifting/relocation of the converted branch is within the city/town limit; (ii) banking services to the existing customers of the extension counter, including the institutional customer, are ensured; (iii) no new extension counter would be set up in the institution in which the extension counter was housed presently.
		• In order to assist distressed farmers whose accounts were earlier rescheduled/converted on account of natural calamities as also farmers defaulting on their loans due to circumstances beyond their control, banks advised that they may frame transparent one time settlement (OTS) policies for such farmers, with the approval of their Boards.
	22	• UCBs advised to strictly comply with the directive issued by the High Court of Delhi relating to housing loans for a) building construction b) purchase of constructed property/built up property c) properties which fall under category of unauthorized colonies and d) properties meant for residential use but which the applicant intends to use for commercial purposes. Similar guidelines were issued to RRBs, StCBs and DCCBs.

Date of Announcement		POLICY ANNOUNCEMENTS
2006		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
Nov.	**28**	• All SCBs (excluding RRBs) advised that loans granted to self help groups (SHGs) engaged in agriculture and allied activities would be classified as direct finance to agriculture, as long as the respective SCB was able to maintain such disaggregated data on the SHGs/microcredit portfolio.
Dec.	**4**	• NBFCs registered with the Reserve Bank allowed, selectively, to issue co-branded credit cards with SCBs without risk sharing, with prior approval of the Reserve Bank for an initial period of two years to be reviewed thereafter. The role of the NBFC under the tie-up arrangement should be limited only to marketing and distribution of the co-branded credit cards. The co-branded credit card issuing bank would be subject to all the instructions/guidelines issued by its concerned regulatory authority. NBFCs were also selectively, allowed to market and distribute mutual fund products as agents of mutual funds, with prior approval of Reserve Bank, for an initial period of two years and a review thereafter.
	6	• NBFCs re-classified as Asset Refinance Company, Investment Company and Loan Company. Companies financing real/physical assets for productive/economic activity would be classified as Asset Finance Company (AFC). The remaining companies would continue to be classified as loan/investment companies. Accordingly, the classification in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1988 was modified.
	12	• In the light of the concerns arising out of the divergent regulatory requirements for various aspects of functioning of banks and NBFCs, prudential norms for regulation of systemically important non-deposit taking NBFCs (NBFCs-ND-SI) revised. All NBFCs-ND with asset size of Rs.100 crore or more to be considered as NBFCs-ND-SI. Such companies have been advised to maintain a minimum CRAR of 10 per cent and single party/group exposure norms have been prescribed. The regulatory framework for bank exposures to all NBFCs and for all NBFCs forming part of a banking group was also modified. Furthermore, banks (including foreign banks) in India cannot hold more than 10 per cent of the paid up equity capital of a deposit taking NBFC other than housing finance companies.
	15	• Revised instructions issued to all SCBs on prudential capital markets norms such as components of capital market exposure and limits on banks' exposure to capital markets.
	18	• SCBs advised that customers should not be compelled to drop the cheques in the drop box. Banks were also advised to display on the cheque drop box, 'Customer can also tender the cheques at the counter and obtain acknowledgement on the pay-in-slips'. No branch should refuse to give an acknowledgement if the customer tenders the cheque at the counters. Similar advices were issued to RRBs, StCBs and DCCBs on December 26, 2006 and to UCBs on December 28, 2006.
2007		
Jan.	**4**	• NBFCs accepting/holding public deposits advised to create floating charge on the statutory liquid assets invested in terms of Section 45-IB of the RBI Act, 1934.
		• With the regulation of Mutual Benefit Financial Companies (MBFCs) and Mutual Benefit Companies (MBCs) taken over by the Ministry of Corporate Affairs, the position regarding submission of returns was reviewed. Accordingly, returns such as Annual Return in First Schedule, audited balance sheet, profit loss account and auditors certificate would not be called for.
		• Guidelines issued to SCBs on formulating policy for valuation of properties, revaluation of bank's own properties and for empanelment of independent valuers. Similar guidelines were issued to UCBs on January 9, 2007.
	9	• SCBs advised that the minimum margin of 50 per cent and minimum cash margin requirement of 25 per cent (within the above margin of 50 per cent) for issue of guarantees by banks on behalf of share and stock brokers, will also be applicable to guarantees issued by banks on behalf of commodity brokers in favour of the national level commodity exchanges, in *lieu* of margin requirements as per the commodity exchange regulations.
	31	• The provisioning requirement in respect of standard assets of SCBs under the categories personal loans (including credit card receivables), loans and advances qualifying as capital market exposure and real estate loans was increased from one per cent to two per cent. Provisioning requirement for loans and advances in the standard assets category to Non-Deposit Taking Systemically Important Non-Banking Finance Companies (NBFC-ND-SI) was increased from 0.40 per cent to two per cent. The risk weight for all exposures to NBFC-ND-SI was increased to 125 per cent from 100 per cent. Similar advice was issued to UCBs on February 19, 2007.
Feb.	**2**	• In order to ensure fair practices in banking services, banks (excluding RRBs) directed to implement the recommendations of the Working Group to formulate a scheme for ensuring reasonableness of bank prices/ charges and deliver basic services outside the scope of the bundled products. Similar guidlines were issued to UCBs on March 9, 2007.

Date of Announcement		POLICY ANNOUNCEMENTS
2007		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
Feb.	**21**	• In order to ensure transparency in respect of the rights and obligations of customers, to bring about uniformity in approach and to clearly delineate the risks involved, guidelines issued to banks for offering "doorstep" services to their customers. Banks were also advised to take suitable steps to educate their agents to enable them to detect forged and mutilated notes so as to avoid frauds and disputes with the customers. On May 24, 2007, banks were allowed delivery of cash/draft at the doorstep of the individual customers, corporate customers and Government Departments/PSUs either against cheques received at the counter or requests received through any secure convenient channel such as phone banking/internet banking, subject to the banks taking adequate safeguards/ precautions in undertaking the above transactions.
	22	• In order to enhance the effectiveness of the grievance redressal mechanism, banks advised to place a statement of complaints before their boards/ customer service committees, along with an analysis of the complaints received. Banks were also advised to disclose the details of the position of pending complaints along with the financial results.
		• NBFCs and RNBCs with total assets of Rs. 100 crore and above required to submit the monthly return on capital market exposure from April 2007. Earlier only deposit taking NBFCs with deposits of Rs 50 crore and above were submitting the return on capital market exposure.
	23	• NBFCs advised to consider a quick scrutiny of the accounts on which they have large exposures and confirm that funds were not diverted for procurement of foodgrains with a view to hoard.
March	**6**	• In order to reduce the extent of concentration risk on the liability side of the banks, the following measures were prescribed for all SCBs (excluding RRBs): (a) Inter-bank Liabilities (IBL) of a bank should not exceed 200 per cent of its net worth as on 31st March of the previous year. However, individual banks may, with the approval of their Boards of Directors, fix a lower limit for their IBL, keeping in view their business model; (b) banks whose CRAR is at least 25 per cent more than the minimum CRAR (9 per cent) *i.e.*, 11.25 per cent as on March 31, of the previous year, were allowed to have a higher limit of up to 300 per cent of the net worth for IBL; (c) the limit prescribed above would include only fund based IBL within India (including IBL in foreign currency to banks operating within India). In other words, the IBL outside India are excluded; (d) the above limits would not include collateralised borrowings under CBLO and refinance from NABARD, SIDBI *etc.* (e) The existing limit on the call money borrowings prescribed by the Reserve Bank will operate as a sub-limit within the above limits; (f) banks having high concentration of wholesale deposits should be aware of potential risk associated with such deposits and may frame suitable policies to contain the liquidity risk arising out of excessive dependence on such deposits.
		• All SCBs/FIs (excluding RRBs) advised that loan application forms in respect of all categories of loans, irrespective of the amount of loan sought, should be comprehensive and should include information about (a) fees/charges, if any, payable for processing; (b) amount of such fees refundable in the case of non-acceptance of application; (c) pre-payment options and (d) any other matter which affects the interest of the borrower, so as to enable the borrower to take an informed decision. SCBs/FIs were also advised that in case of all categories of loans irrespective of any threshold limits, including credit card applications, the lenders should convey in writing, within stipulated time, the main reason/reasons which, in the opinion of the bank/FI have led to rejection of the loan applications.
	14	• Banks advised to ensure that no loans were sanctioned for acquisition of/investing in small savings instruments including *Kisan Vikas Patras*. Similar guidelines were issued to UCBs on March 16, 2007 and to StCBs/DCCBs on March 23, 2007.
	30	• SCBs (excluding RRBs) advised to ensure that cheques/drafts issued by clients containing fractions of a rupee were not rejected or dishonoured by them. Similar advices were issued to StCBs on April 9, 2007, to RRBs on April 11, 2007 and to UCBs on April 17, 2007.
April	**4**	• With the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 and its notification on October 16, 2006, the definition of micro, small and medium enterprises engaged in manufacturing/production or providing/rendering of services was modified and required to be implemented by the banks along with other policy measures. Banks' lending to medium enterprises would not be included for the purpose of reckoning under the priority sector. The boards of banks may review the existing guidelines/instructions and formulate a comprehensive and liberal policy in respect of loans to micro, small and medium sectors and adopt the same at the earliest. Similar guidelines were issued to UCBs on April 18, 2007.
		• NBFCs advised to explicitly state in their advertisements issued in print/ electronic media (including web-sites)/ statement in *lieu* of advertisement that the Reserve Bank does not accept any responsibility or guarantee about the financial soundness of the company or for the correctness of any of the statements or representations made or opinions expressed by the company and for repayment of deposits/discharge of the liabilities by the company.

Date of Announcement		POLICY ANNOUNCEMENTS
2007		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
April	**5**	• SCBs (excluding RRBs) advised to generally insist that the person opening a deposit account makes a nomination. They were also advised to explain the advantages of nomination facility if the person declined to do so. If the person opening the account still did not want to nominate and declined to give a letter to the effect, the bank should record the fact on the account opening form and proceed with opening of the account, if otherwise found eligible. Under no circumstances can a bank refuse to open an account solely on the ground that the person opening the account refused to nominate. Similar guidelines were issued to StCBs on April 12, 2007, to RRBs on April 13, 2007 and to UCBs on April 19, 2007.
	12	• Banks advised to ensure that the date of completion of the infrastructure projects financed by them should be clearly spelt out at the time of financial closure of the project and to treat such accounts as sub-standard if the date of commencement of commercial production extended beyond a period of one year after the date of completion of the project as originally envisaged. The revised instructions came into force with effect from March 31, 2007.
	13	• Guidelines on KYC Norms/AML Standards/Combating of Financing of Terrorism (CFT) – Wire Transfers issued to SCBs. Similar guidelines were issued to RRBs on May 21, 2007 and to UCBs on May 25, 2007.
	17	• Fresh guidelines on various aspects relating to safe deposit lockers/safe custody articles issued to SCBs for easy operation of lockers based on the recommendations of the Committee on Procedures and Performance Audit on Public Services (CPPAPS). Similar guidelines issued to StCBs/DCCBs on May 18, 2007 and to UCBs on June 21, 2007.
	18	• SCBs (excluding RRBs) advised that for the purpose of segment reporting under AS-17, the 'other banking business' segment should be divided into three categories: corporate/wholesale banking, retail banking and other banking operations. Accordingly, banks were required to adopt the following business segments for public reporting purposes, from March 31, 2008: a) treasury; b) corporate/ wholesale banking; c) retail banking; and d) other banking business. The geographical segments would remain unchanged as 'domestic' and 'international'.
	20	• Comprehensive guidelines on derivatives issued to banks enunciating the major requirements for undertaking any derivative transaction from the regulatory perspective. The guidelines also cover extant instructions relating to rupee interest rate derivatives.
		• Final guidelines on compliance function in banks issued to SCBs for implementation. SCBs were advised that as compliance function in banks is one of the key elements in the banks' corporate governance structure, it has to be adequately enabled and made sufficiently independent. Banks should organise their compliance function and set priorities for the management of the compliance risks in their organisation to suit their requirement.
	24	• The maximum interest rate payable on public deposits by NBFCs/ miscellaneous non-banking companies (chit fund companies) revised to 12.5 per cent per annum. The new rate of interest would be applicable to fresh public deposits and renewals of matured public deposits.
	25	• Banks advised to ensure that none of their bank branches/staff refuse to accept lower denomination notes and/or coins. Stern action would have to be taken in the event of refusal/non-compliance by any staff member. Similar guidelines were issued to RRBs on May 10, 2007.
	27	• Prudential guidelines on "Capital Adequacy and Market Discipline – Implementation of the New Capital Adequacy Framework" finalised for implementation.
		• Systemically Important NBFCs – ND advised to put in place a system for submission of an annual statement of capital funds, risk asset ratio *etc.*, as at end-March every year in Form NBS-7. The first such return would be submitted for the year ending March 31, 2007. The return would be submitted within a period of three months from the close of the financial year, every year.
		• SCBs advised to monitor credit flow to minorities in 103 minority concentration districts, which have at least 25 per cent minority population. On July 16, 2007, the number of minority concentrated districts for monitoring credit flow was revised to 121.
	30	• SCBs (including RRBs) to immediately dispense with the requirement of "no due" certificate for small loans up to Rs.50,000 to small and marginal farmers, share-croppers and the like and, instead, obtain self-declaration from the borrower. Furthermore, banks may accept certificates provided by local administration/*Panchayati Raj* Institutions regarding the cultivation of crops in case of loans to landless labourers, share-croppers and oral lessees.

Date of Announcement		POLICY ANNOUNCEMENTS
2007		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
April	**30**	• The risk weight on loans up to Rs.1 lakh against gold and silver ornaments reduced to 50 per cent from 125 per cent in the case of UCBs.
		• Relaxed prudential guidelines on income recognition, asset classification and provisioning norms for UCBs extended by one year.
		• Revised guidelines on lending to priority sector issued to SCBs (excluding RRBs).
May	**3**	• RRBs permitted to take up corporate agency business, without risk participation, for distribution of all types of insurance products, including health and animal insurance, subject to specified guidelines.
		• Risk weight in respect of housing loans extended by banks up to Rs. 20 lakh to individuals against the mortgage of residential housing properties reduced from 75 per cent to 50 per cent. Similarly, the risk weight for banks' investment in mortgage backed securities, which are backed by housing loans and are issued by the housing finance companies regulated by the National Housing Bank, reduced from 75 per cent to 50 per cent. The reduced risk weights would be reviewed after one year keeping in view the default experience and other relevant factors. Similar guidelines were issued to UCBs on May 4, 2007.
	7	• SCBs advised to lay out appropriate internal principles and procedures so that usurious interest, including processing and other charges, were not levied by them on loans and advances. Similar guidelines were issued to RRBs on May 15, 2007, to StCBs/DCCBs on May 16, 2007, to UCBs on May 18, 2007 and to NBFCs on May 24, 2007.
		• SCBs advised to scale up their financial inclusion efforts by utilising appropriate technology. Banks were also advised to ensure that the solutions developed are highly secure, amenable to audit and follow widely accepted open standards to allow inter-operability among the different systems adopted by different banks. Similar guidelines were issued to StCBs/DCCBs on May 18, 2007 and to RRBs on May 21, 2007.
		• UCBs registered in States that have entered into MoUs with the Reserve Bank or registered under the Multi State Co-operative Societies Act, 2002 permitted to undertake insurance agency business as corporate agents without risk participation, provided that the UCB has a minimum networth of Rs. 10 crore and it has not been classified as Grade III or IV bank.
	8	• In order to enable NBFCs to adopt best practices and greater transparency in their operations, guidelines on corporate governance were proposed for consideration of the board of directors of the class of NBFCs.
		• Exemption to RRBs from 'mark to market' norms in respect of their investments in SLR securities extended by one more year, *i.e.,* for the financial year 2007-08. Accordingly, RRBs would have the freedom to classify their entire investment portfolio of SLR securities under 'Held to Maturity' for the financial year 2007-08, with valuation on book value basis and amortisation of premium, if any, over the remaining life of securities.
	10	• Banks in India permitted to extend funded and/or non-funded credit facilities to wholly owned step-down subsidiaries of Indian companies' subsidiaries (where the holding by the Indian company is more than 51 per cent) abroad within the existing prudential limits and some additional safeguards.
	16	• In partial modification of the earlier guidelines on purchase/sale of NPAs dated July 13, 2005, SCBs (excluding RRBs), AIFIs, NBFCs (including RNBCs) advised that at least 10 per cent of the estimated cash flows should be realised in the first year and at least 5 per cent in each half year thereafter, subject to full recovery within three years.
	24	• The Banking Ombudsman Scheme, 2006 amended and all SCBs, RRBs and UCBs were directed to comply with the amended Scheme.
	25	• Concessions/credit relaxations to borrowers/customers in Jammu and Kashmir would continue to be operative for a further period of one year *i.e.* up to 31 March 2008.
	28	• Guidelines issued to all registered Securitisation Companies/Reconstruction Companies on declaration of net asset value of Security Receipts issued by them.
June	**13**	• The limit of loans under the Differential Rate of Interest (DRI) scheme raised from Rs 6,500 to Rs 15,000 and that of the housing loan under the scheme, from Rs 5,000 to Rs 20,000 per beneficiary.
	19	• With a view to providing more business avenues and opportunities to RRBs for lending, RRBs were permitted to participate in consortium lending, within the extant exposure limits, with their sponsor banks as also with other public sector banks and developmental financial institutions (DFIs), subject to the condition that the project to be financed is in the area of operation of the RRB concerned and guidance and appraisal of the project is provided by their sponsor bank.

Date of Announcement		POLICY ANNOUNCEMENTS
2007		**III. FINANCIAL SECTOR MEASURES** *(Concld.)*
June	**22**	• RRBs allowed to set up service branches/central processing centres/back offices exclusively to attend to back office functions such as data processing, verification and processing of documents, issuance of cheque books, demand drafts *etc*., and other functions incidental to their banking business.
	26	• Banks advised to put in place appropriate stress test policies and relevant stress test framework for the various risk factors by September 30, 2007.
	28	• RRBs were permitted to accept FCNR (B) deposits as announced in the Union Budget 2007-08. The eligibility criteria prescribed for authorisation to open /maintain Non-Resident (Ordinary / External) accounts in rupees were also reviewed.
		• Banks permitted to undertake Pension Fund Management (PFM) through their subsidiaries set up for the purpose, subject to their satisfying the eligibility criteria prescribed by PFRDA for Pension Fund Managers and as per guidelines set out by the Reserve Bank. Banks desiring to undertake PFM were advised to obtain prior approval of the Reserve Bank before entering into such business.
July	**2**	• Updated guidelines and directions together with Guidance Notes as on June 30, 2007 were issued to Securitisation Companies and Reconstruction Companies.
	13	• UCBs were advised that they were prohibited from extending any fund based or non-fund based credit facilities whether secured or unsecured to stockbrokers and commodity brokers.
		• Guidelines were issued to UCBs for issuance of ATM-cum-Debit Cards. Banks which were authorised to install on-site /off-site ATMs, could introduce ATM-cum-Debit cards with the approval of their Board.
	31	• All SCBs (except RRBs & LABs)/AIFIs/NBFCs were advised that SEBI had permitted FIMMDA to set up its reporting platform for corporate bonds.
		IV. CAPITAL MARKET POLICIES
2006		**a) Securities and Exchange Board of India (SEBI)**
April	**3**	• SEBI issued listing agreements for India Depository Receipts (IDR).
	4	• SEBI issued norms for rationalising of initial issue expenses and dividend distribution procedure for mutual funds.
	13	• SEBI amended the Clauses 40A and 35 of Equity Listing Agreement dealing with the minimum level of public shareholding of all the listed companies and the reporting format for shareholding pattern.
	21	• New guidelines issued on gold exchange traded funds pertaining to valuation and determination of net asset value.
	24	• The SEBI (Disclosure and Investment Protection) Guidelines, 2000 were amended to permit unlisted companies to opt for grading of Initial Public Offer (IPO) from credit rating agencies and to ensure disclosure of all grades, including unaccepted grades.
May	**8**	• In order to provide an additional route for raising funds in the domestic market, SEBI permitted listed companies to raise funds in the form of “Qualified Institutional Placement” (QIP).
June	**16**	• SEBI asked the stock exchanges to make the existing margining system more stringent in the cash segment. The stock exchanges directed to update risk arrays in the cash market at least five times in a day (as is done in derivative market) and accordingly update applicable margin rates.
July	**5**	• SEBI (Portfolio Managers) Regulations, 1993 defined the role of principal officer, their essential qualifications and experience. The regulation also required that every portfolio manager shall appoint a custodian in respect of securities managed or administered by it.
	13	• SEBI (Foreign Institutional Investors) Regulations, 1995 were amended to: reduce the validity period of registration certificate from five years to three years; increase the registration fee for FIIs from US $ 5,000 to US $ 10,000; and, increase the renewal fee from US $ 1,000 to US $ 2,000.
		• PAN was made mandatory for all the entities/persons, desirous of transacting in cash market with effect from October 1, 2006.
Aug.	**14**	• In case of Capital Protection Oriented Schemes, mutual funds are required to disclose in the offer document, Key Information Memorandum (KIM) and in the advertisements that the scheme offered was “oriented towards protection of capital” and “not with guaranteed returns”.

Date of Announcement		POLICY ANNOUNCEMENTS
2006		**IV. CAPITAL MARKET POLICIES** *(Contd.)*
Sept.	**12**	• The range of international entities that can invest in the stock market in India have been widened by including an institution established as incorporated outside India as a pension fund, MF, investment trust, insurance company and reinsurance company as registered FIIs. The list would also include international or multilateral agencies, foreign governmental agencies or foreign central banks. SEBI also allowed registration by an asset management company, investment manager adviser, banks or institutional portfolio manager, established or incorporated outside India and preparing to make investments in India on behalf of broad based proprietary funds.
	22	• Market wide position limit has been linked to free float market capitalisation. For single stock futures/option contracts, the market wide position limit will be equal to 20 per cent of the number of shares held by non-promoters in the relevant underlying security. The trading member/FII/Mutual Fund position limits in equity index option/futures contracts will be the higher of Rs.500 crore or 15 per cent of the total open interest in the market in equity index option contracts.
	26	• The deadline for the mandatory requirement of submitting a Permanent Account Number (PAN) card for opening a demat account was extended till December 31, 2006.
Oct.	**14**	• The benefit of exemption from lock-in for pre-issue shares of an unlisted company making an IPO is to be restricted to shares held by venture capital funds and foreign venture capital investors registered with SEBI for at least one year as on date of filing draft prospectus with SEBI.
	18	• In order to regulate the pre-issue publicity made by the companies proposing to make a public or rights issue during the period prior to filing, SEBI introduced provisions such as ensuring that publicity made during the period commencing from the date of approval of the issue by the Board of Directors of the issuer company till the allotment of shares in the issue is consistent with the past practices and does not contain projections, estimates or any information extraneous to the offer document. SEBI (DIP) Guidelines, 2000 will be amended to give effect to the above policy.
Dec.	**11**	• DPs are required to submit to their depository the tariff/charge structure every year, latest by April 30. The changes in their tariff/charge structure are also to be submitted, as and when they are effected.
	12	• BSE would be setting up and maintaining corporate bond reporting platform. For that purpose, SEBI made it mandatory for market participants to report all corporate bond deals, aggregating Rs.1 lakh or above to the Bombay Stock Exchange Limited (BSE) from January 1, 2007. All transactions above Rs. 1 lakh shall be reported within 30 minutes of closing the deal. Settlements have to be reported within one trading day from completion of trades. The BSE should ensure operation of the corporate bond reporting platform from 10 a.m. to 5.30 p.m. on all trading days and access shall be given to all market intermediaries for reporting.
	22	Foreign investment up to 49 per cent will be allowed in infrastructure companies in securities market, namely stock exchanges depositories and clearing corporations. Separate cap of FDI of 26 per cent and FII of 23 per cent was also fixed.
2007		
March	**1**	• The National Stock Exchange of India Ltd. (NSE) allowed to set up and maintain a corporate bond reporting platform to capture all information relating to trading in corporate bonds as accurately as close to execution as possible. In this connection, SEBI ruled that trades executed by the members of BSE and NSE shall be reported on the reporting platforms of their respective stock exchanges who would host such information on their websites.
April	**16**	• SEBI stipulated guidelines for parking of funds, pending deployment by mutual funds in short term deposits of scheduled commercial banks.
	20	• SEBI issued guidelines for consent orders and composition of offences. Under the prescribed guidelines, if the party against whom adjudication proceedings are pending, SEBI shall constitute a consent order panel headed by a retired high court judge and two other external experts as members which shall screen applications and forward its recommendations to Adjudication Officer for passing suitable order in line with the consent terms.
	26	• SEBI permitted listed companies to send a statement containing the salient features of the Balance Sheet, Profit and Loss Account and Auditors Report to each shareholder instead of sending a copy of the complete and full balance sheet, profit and loss account and Director's report.
	27	• PAN was made the sole identification number for all transactions in securities market.

Date of Announcement		POLICY ANNOUNCEMENTS
2007		**IV. CAPITAL MARKET POLICIES** *(Concld.)*
April	**30**	• SEBI amended (Disclosure and Investor Protection) Guidelines, 2000 to make grading of IPOs mandatory and permitted companies with listing history of less than six months to raise money through preferential allotment.
May	**11**	• Guidelines on renewal of certificate of registration for portfolio managers have been clarified. If the application for renewal is not received at SEBI by the expiry date of the certificate of registration, the portfolio manger shall cease to be a portfolio manager on the date of such expiry. Furthermore, it shall immediately stop carrying on the portfolio manager activities from the date of expiry and may either transfer its business to another SEBI registered portfolio manager or allow the client to withdraw the securities and funds in its custody at the option of the client. If the portfolio manager fails to comply with the above, it will be considered as a violation of Section 12 and may attract action under the relevant provisions of SEBI Act, 1992.
	14	• SEBI decided that mutual funds can invest in ADRs/GDRs/foreign securities within overall limit of US $ 4 billion. This will be with a sub-ceiling for individual mutual funds which should not exceed 10 per cent of the net assets managed by them as on March 31 of each relevant year and subject to a maximum of US $ 200 million per mutual fund.
June	**25**	• In view of the introduction of Permanent Account Number (PAN) as the sole identification number, SEBI discontinued the Unique Identification Number (UIN) under the SEBI (Central Database of Market Participant's Regulations), 2005 (MAPIN regulations)/circulars.
	27	• SEBI extended the time limit for uploading of net asset value (NAV) for Fund of Funds Schemes on AMFIs website to 10.00 a.m. on the following business day in consideration of the practical difficulties being faced by mutual funds in uploading of NAV of such schemes.
July	**5**	• Filing of bi-monthly compliance test reports (CTR) have been simplified. SEBI decided that instead of filing of complete CTR with the SEBI, Asset Management Companies (AMCs) shall only do exceptional reporting on a bi-monthly basis. While the format and contents of CTR would continue, the AMCs would be required to report to SEBI only the exceptions in the CTR, *i.e.,* the AMCs shall report for only those points in the CTR where it had not complied with the same.
	10	• In order to facilitate government companies/corporations, statutory authorities/corporations or any special purpose vehicle set up by any of them, which are engaged in infrastructure sector, to raise funds in the Indian primary market through IPOs, SEBI decided to amend certain provisions of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 relating to pricing by companies, promoter's contribution, lock in requirements and other issue requirements.
		• To rationalise and simplify the process and formats for submission of financial results to the stock exchange, SEBI decided to replace the existing Clause 41 of the Listing Agreement, *inter alia*, several amendments were made in the revised clause relating to submission of financial results and publication of results.
Aug	**6**	• SEBI decided that companies issuing debentures and the respective debenture trustees/stock exchanges shall disseminate all information regarding debentures to investors and general public.
	9	• SEBI issued guidelines for overseas investments by venture capital funds.
2007		**(ii) Government of India**
Feb.	**28**	• The Union Budget 2007-08 proposed the following measures: i) PAN to be made sole identification number for all participants in securities market with an alpha-numeric prefix or suffix to distinguish a particular kind of account (SEBI implemented it with effect from April 17, 2007), (ii) idea of self regulating organisations (SROs) to be taken forward for different market participants under regulations to be made by SEBI, (iii) MFs to be permitted to launch and operate dedicated infrastructure funds, (iv) Individuals to be permitted to invest in overseas securities through Indian mutual funds, (v) Short selling settled by delivery and securities lending and borrowing to be allowed to institutions to facilitate delivery, (vi) Enabling mechanism to be put in place to permit Indian companies to unlock a part of their holdings in group companies for meeting their financing requirements by issue of exchangeable bonds, (vii) Dividend distribution tax on dividends paid by money market mutual funds and liquid mutual funds to be raised to 25 per cent for all investors, (viii) Expenditure on free samples and on displays to be excluded from the scope of the fringe benefit tax (FBT), (ix) Employees' stock option plans (ESOPs) provided by companies to be brought under the FBT, (x) Pass-through status to be granted to venture capital funds only in respect of investments in venture capital undertakings in biotechnology, information technology, nanotechnology, seed research and development, development of new chemical entities in the pharmaceutical sector and production of bio-fuels.

Date of Announcement		POLICY ANNOUNCEMENTS
		V. EXTERNAL SECTOR POLICIES
2006		**a) Trade Policy**
April	**7**	• Annual Supplement 2006 to the Foreign Trade Policy (2004-09) announced. It substantiated the twin objectives of (Foreign Trade Policy 2004-09), *viz*, (i) putting the country's exports on a trajectory of quantum growth and (ii) to create employment opportunities. The Annual Supplement focuses on making manufacturing sector more competitive through concrete policy measures so as to help Indian companies become globally competitive and simultaneously, give Indian consumers world-class products and services; provides packages for several sectors including agriculture, marine products, export oriented units and service sectors; contains major procedural simplification initiatives to reduce transaction costs; and proposes setting up of an Inter State Trade Council to engage State Governments more actively in export effort.
July	**27**	• Online facility for issue of Importer-Exporter Code (IEC) introduced to boost exports by reducing transaction cost
2007		
April	**4**	• India announced its decision to allow duty free access to India to the Least Developed Countries (LDCs) of SAARC, which includes Bangladesh, Bhutan, Maldives and Nepal, before the end of this year.
	19	• Annual Supplement 2007 to the Foreign Trade Policy (2004-09) announced to impart further momentum to India's exports. The measures adopted for promoting exports *inter alia* included identification of thrust areas and commodities such as agriculture, handlooms, handicraft, gems and jewellery, leather and marine sectors, technological and infrastructural measures, fiscal measures, simplification of procedures and reducing transaction costs.
July	**13**	• To sustain the export growth momentum, the Government announced an export package to neutralise the adverse impact of rupee appreciation, which includes enhancement of Duty Entitlement Pass Book (DEPB) rates by 3 per cent for 9 sectors, *i.e.*, textiles, readymade garments, leather products, handicrafts, engineering products, processed agricultural products, marine products, sport goods and toys. The rate of interest on pre-shipment and post-shipment credit for exporters reduced by 2 per cent. The rates of duty drawback enhanced by 10 per cent to 40 per cent of existing rates.
2006		**b) Foreign Exchange Market**
April	**5**	• AD banks allowed remittances for acquiring shares under ESOP Schemes, irrespective of the method of the operationalisation of the scheme, *i.e.*, whether the shares under the scheme are offered directly by the issuing company or indirectly through a trust/a special purpose vehicle (SPV)/step down subsidiary provided (i) the company issuing the shares effectively, directly or indirectly, holds in the Indian company, whose employees/ directors are being offered shares, not less than 51 per cent of its equity, (ii) the shares under the ESOP Scheme are offered by the issuing company globally on uniform basis, and (iii) an Annual Return is submitted by the Indian company to the Reserve Bank through the AD banks giving details of remittances/beneficiaries. Foreign companies were also granted general permission to repurchase the shares issued to residents in India under any ESOP scheme provided (i) the shares were issued in accordance with the Rules/ Regulations framed under Foreign Exchange Management Act, 1999, (ii) the shares are being repurchased in terms of the initial offer document, and (iii) an annual return is submitted through the AD banks giving details of remittances/beneficiaries/*etc.*
	21	• The limit of invoice value which AD banks are allowed to grant extension of time for realisation of export proceeds beyond prescribed period from the date of export increased from US $ 1,00,000 to US $ 1 million subject to existing terms and conditions.
		• AD banks permitted remittance for expenses of branch offices opened abroad up to 10 per cent for initial (earlier two per cent) and up to five per cent (earlier one per cent) for recurring expenses of the average annual sales/income or turnover during last two accounting years, subject to the existing terms and conditions.
June	**26**	• In view of the difficulties expressed by Authorised Money Changers (AMCs) in implementing some of the Anti-Money Laundering (AML) guidelines issued in December 2005, it was decided to amend certain instructions as follows: (i) for purchase of foreign exchange less than US $ 200 or its equivalent, photocopies of the identification document need not be kept on record; full details of the identification document should be maintained, (ii) for encashment of foreign exchange between US $ 200 and US $ 2,000 or its equivalent, the photocopies of the identification document should be maintained for one year and completion of statutory audit, (iii) for encashment in excess of US $ 2,000 or its equivalent, the photocopies of the identification document should be maintained for a minimum period of five years, and (iv) requests for payment in cash by foreign visitors/non-resident Indians may be acceded to the extent of US $ 2,000 or its equivalent.

Date of Announcement		POLICY ANNOUNCEMENTS
2006		**V. EXTERNAL SECTOR POLICIES** *(Contd.)*
July	**17**	• The requirement of issue of encashment certificate on security paper if the amount of foreign currency encashed exceeds Rs.15,000 in value was dispensed with. Accordingly, AD category-I banks, when requested by the customer, were allowed to issue encashment certificate, duly signed by authorised officials, on their letter head (with their logo printed on it), irrespective of the amount. In cases where the encashment certificate is not issued, unspent local currency held by non-resident visitors will not be allowed to be converted into foreign currency.
	20	FIIs were permitted in consultation with the Central Government and the SEBI to offer foreign sovereign securities with AAA ratings as collateral to the recognised stock exchanges in India for their transactions in derivatives segment.
	26	• To enable the mutual funds to tap a larger investible stock overseas, the requirement of 10 per cent reciprocal share holding in the listed Indian companies by such overseas companies was dispensed with.
		• The aggregate ceiling for overseas investment by MFs, registered with SEBI, increased from US $ 1 billion to US $ 2 billion. It was also decided to allow a limited number of qualified Indian MFs to invest cumulatively up to US $ 1 billion in overseas Exchange Traded Funds, as may be permitted by the SEBI.
Sept.	**6**	• Trading in commodities exchanges overseas and setting up joint venture (JV)/ wholly owned subsidiaries (WOS) for trading in overseas commodities exchanges were reckoned as financial services activity and will require clearance from the Forward Markets Commission (FMC).
Nov.	**16**	• The ceiling on overseas investments by MFs , registered with the SEBI enhanced from US $ 2 billion to US $ 3 billion.
		• Non-resident Indians (NRIs) and Persons of Indian Origin (PIO) permitted to remit up to US $ 1 million per calendar year for any bonafide purpose out of the balances in their Non-Resident Ordinary (NRO) accounts. The balance in the NRO accounts could also include the sale proceeds of immovable property acquired by the non-resident out of her/his resources in India, or sale proceeds of property received by way of inheritance or gift. The remittance of sale proceeds of immovable property was subject to a lock in period of 10 years. With a view to providing greater flexibility, the lock-in period of 10 years for remittance of sale proceeds of immovable property was dispensed with, effective November 2006.
	17	• AD category-I banks permitted to issue guarantee on behalf of their customers importing services up to US $ 1,00,000, subject to conditions.
	28	• AD category-I banks permitted to allow drawal of foreign exchange by a person for purchase of trademark or franchise in India without approval of the Reserve Bank.
	30	• With a view to liberalising the procedure and providing greater flexibility, all categories of foreign exchange earners were allowed to credit up to 100 per cent of their foreign exchange earnings, to their EEFC account.
Dec.	**4**	• Corporates allowed to avail external commercial borrowing (ECB) of an additional amount of US $ 250 million with average maturity of more than 10 years under the approval route, over and above the existing limit of US $ 500 million under the automatic route, during a financial year. Other ECB criteria such as end-use, all-in-cost ceiling, recognised lender, *etc.* need to be complied with. Prepayment and call/put options, however, would not be permissible for such ECB up to a period of 10 years.
		• Corporates allowed prepayment of ECB up to US $ 300 million, as against the existing limit of US $ 200 million, without prior approval of the Reserve Bank subject to compliance with the minimum average maturity period as applicable to the loan.
		• AD category-I banks allowed to remit for initial expenses incurred for establishment offices abroad up to 15 per cent of the average annual sales/income/turnover or up to 25 per cent of the net worth, whichever is higher and up to 10 per cent of the average annual sales/income/turnover in the case of recurring expenses. AD category-I banks allowed remittances by a company incorporated in India having overseas offices, within the above limits for initial and recurring expenses, to acquire immovable property outside India for its business and for residential purpose of its staff.
	13	• AD category-I banks allowed to provide forward cover to hedge the economic (currency indexed) exposure of importers in respect of customs duty payable on imports. Accordingly, importers will be able to book forward contract for the customs duty component of the import. These contracts shall be held till maturity and cash settlement would be made on the maturity date by cancellation of the contracts. Forward contracts covering such transactions once cancelled are not eligible for rebooking. However, in case of changes in the rate of customs duties, importers may be allowed to cancel and/or rebook the forward contracts before maturities.

Date of Announcement		POLICY ANNOUNCEMENTS
2006		**V. EXTERNAL SECTOR POLICIES** *(Contd.)*
Dec.	**13**	• AD category-I banks permitted to allow importers and exporters to book forward contracts on the basis of a declaration of an exposure and based on past performance up to the average of the previous three financial years actual import/export turnover or the previous year's actual import/export turnover, whichever is higher, subject to the specified conditions. Hitherto, forward contracts booked in excess of 25 per cent of the eligible limit were to be on a deliverable basis and could not be cancelled. The limit of 25 per cent was increased to 50 per cent in December 2006 and to 75 per cent in May 2007. All other conditions and reporting requirements prescribed for this facility remain unchanged.
	20	• The Liberalised Remittance Scheme of US $ 25,000 further liberalised by enhancing the limit of US $ 25,000 per calendar year to US $ 50,000 per financial year for any current or capital account transactions or a combination of both. The limit of US $ 50,000 under the Scheme would also include remittances towards gift and donation by a resident individual. Investment by resident individual in overseas companies would be subsumed under the Scheme of US $ 50,000. The requirement of 10 per cent reciprocal holding in the Indian companies by the overseas companies dispensed with.
		• The facility of release of exchange by authorised persons up to US $ 10,000 or its equivalent in one calendar year on a declaration basis for one or more private visits to any country (except Nepal and Bhutan) continued to be available on a self-declaration basis. However, the facility would be now available on a financial year basis (earlier calendar year).
	22	• In consultation with the Government of India, foreign investment was allowed in infrastructure companies in securities market, *viz*., stock exchanges, depositories and clearing corporations, in compliance with the SEBI regulations, subject to the following conditions: i) foreign investment up to 49 per cent will be allowed with a separate FDI cap of 26 per cent and FII cap of 23 per cent; ii) FDI will be allowed with specific prior approval of the Foreign Investment Promotion Board (FIPB); and iii) FII investment will be allowed only through purchases in the secondary market.
2007		
Jan.	**8**	• AD category-I bank(s)/Exim Bank/Working Group allowed to permit exporters to open, maintain and operate one or more foreign currency account/s in currency/currencies of their choice with inter-project transferability of funds in any currency or country. The monitoring of the inter-project transfer of funds will be done by the AD category-I bank(s)/Exim Bank/Working Group .
		• Project/service exporters allowed to deploy their temporary cash surpluses, generated outside India, in the following instruments/products, subject to monitoring by the AD category-I bank(s)/Exim Bank/Working Group: (a) investments in short-term paper abroad including Treasury Bills and other monetary instruments with a maturity or remaining maturity of one year or less, with specified ratings and (b) deposits with branches/subsidiaries outside India of an AD category-I bank in India.
	31	• Banks prohibited from granting fresh loans in excess of Rs. 20 lakh against the NR(E)RA and FCNR(B) deposits, either to depositors or to third parties. They were also advised not to undertake artificial slicing of the loan amount to circumvent the ceiling.
Feb.	**8**	• FIIs allowed to cancel and rebook forward contracts up to a limit of two per cent of the market value of their entire investment in equity and/or debt in India. The limit for calculating the eligibility for rebookings shall be based upon market value of the portfolio as at the beginning of the financial year (April–March). The outstanding contracts shall be duly supported by underlying exposure at all times.
	28	• AD category-I banks allowed to grant extension of time to realise export proceeds beyond the prescribed period of six months, up to a period of six months at a time irrespective of the invoice value of exports, subject to certain conditions.
		• Status holder exporters allowed to write-off outstanding export dues to the extent of (i) five per cent of their average annual realisation during the preceding three financial years or (ii) 10 per cent of the export proceeds due during the financial year, whichever is higher.
		• In order to increase the competitiveness of the Indian IT sector, the requirement of repatriation of 30 per cent of the contract value in respect of on-site contracts by software exporter company/firm was dispensed with. The company should, however, repatriate the profits of on-site contract after the completion of the said contract.
		• AD category-I banks allowed to approve reduction in the invoice value up to 25 per cent of the invoice, subject to certain conditions, against the earlier limit of 10 per cent.

Date of Announcement		POLICY ANNOUNCEMENTS
2007		**V. EXTERNAL SECTOR POLICIES** *(Contd.)*
Feb.	**28**	• The requirement of obtaining credit report on the overseas supplier (where the import documents are received directly) was dispensed with in cases where the invoice value does not exceed US $ 1,00,000, provided that the AD category-I bank is satisfied about the bonafides of the transaction and track record of the importer constituent.
March	**2**	• Based on the recommendations of the Expert Committee on Gems and Jewellery Sector, AD category-I banks permitted to allow advance remittance, without any limit (as against the earlier limit of US $ 1 million) and without bank guarantee or standby letter of credit, by an importer (other than a public sector company or a department/undertaking of the Government of India/State Government/s), for import of rough diamonds into India from the specified mining companies. The advance remittance would be subject to specified guidelines such as good track record of export realisation, the bonafides of the transaction and adherence to the KYC norms. In case of an importer entity in the public sector or a department/undertaking of the Government of India/ State Government/s, AD category-I banks may permit advance remittance subject to the above conditions and a specific waiver of bank guarantee from the Government of India where the advance payment is equivalent to or exceeds US $ 1,00,000. The payment should made directly to the account of the company concerned.
April	**5**	• AD category-I banks, through whom the export proceeds were originally realised, allowed to consider requests for refund of export proceeds of goods exported from India and being re-imported into India on account of poor quality.
	20	Indian parties availing fund / non-fund facilities were allowed to transfer by way of pledged shares held in overseas JV / WOS to an overseas lender, subject to conditions.
	30	• The limit for prepayment of ECB enhanced from US $ 300 million to US $ 400 million without prior approval of the Reserve Bank, subject to compliance with the minimum average maturity period as applicable to the loan.
		• AD category-I banks permitted to make remittances on account of donations by corporates for specified purposes: (i) creation of Chairs in reputed educational institutes outside India; (ii) donations to funds (not being an investment fund) promoted by educational institutes; or (iii) donation to a technical institution or body or association in the field of activity of the donor company. The remittances are subject to a limit of one per cent of the foreign exchange earnings during the previous three financial years or US $ 5 million, whichever is less. The existing facility for remittance up to US $ 5,000 per remitter/per donor per financial year towards donations by Indian corporates would continue as hitherto.
		• The limit for remittance for consultancy service procured from outside India by Indian companies executing infrastructure projects increased from US $ 1 million per project up to US $ 10 million per project. For this purpose, infrastructure sector is defined as (i) power, (ii) telecommunication, (iii) railways, (iv) road including bridges, (v) sea port and airport, (vi) industrial parks, and (vii) urban infrastructure (water supply, sanitation and sewage projects).
		• Remittance of foreign exchange towards reimbursement of pre-incorporation expenses incurred in India allowed up to five per cent of the investment brought into India or US $ 1,00,000 whichever is higher, on the basis of certification from statutory auditors.
		• AD category-I banks permitted to allow ship manning / crew managing agencies, rendering services to shipping companies incorporated outside India, to open foreign currency accounts in India for the purpose of undertaking transactions in the ordinary course of their business provided: (a) credits to such accounts would be only by way of inward remittances through normal banking channels from the overseas principal; b) debits will be towards various expenses in connection with the management of the ships / crew in the ordinary course of its business; (c) no credit facility (fund based or non-fund based) should be granted against security of funds held in the account; (d) the bank should meet the prescribed reserve requirements in respect of such accounts; (e) no EEFC facility should be allowed in respect of the remittances received in the account; and (f) the account will be maintained only during the validity period of the agreement.
		• The Indian VCFs, registered with the SEBI, permitted to invest in equity and equity-linked instruments of off-shore venture capital undertakings, subject to an overall limit of US $ 500 million and compliance with the SEBI regulations issued in this regard.
May	**8**	• The limit of US $ 50,000 per financial year under the Liberalised Remittance Scheme for Resident Individuals enhanced to US $ 1,00,000 per financial year for any permitted current or capital account transactions or a combination of both. All other transactions which are otherwise not permissible under the FEMA and those in the nature of remittance for margins or margin calls to overseas exchanges / overseas counterparty are not allowed under the Scheme. Banks should not extend any kind of credit facilities to resident individuals to facilitate remittances under the Scheme.

Date of Announcement		POLICY ANNOUNCEMENTS
2007		**V. EXTERNAL SECTOR POLICIES** *(Contd.)*
May	**18**	• AD category-I banks and authorised banks allowed to permit remittance of the maturity proceeds of FCNR (B) deposits to third parties outside India, provided the transaction is specifically authorised by the account holder and the authorised dealer is satisfied about the bonafides of the transaction.
		• Resident individuals are required to surrender received/realised/unspent/unused foreign exchange to an authorised person within a period of 180 days from the date of receipt/realisation/ purchase/acquisition/date of return of the traveller, as the case may be.
		• AD category-I banks allowed the remittances by Navaratna PSUs towards investment in the oil sector (*i.e.*, for exploration and drilling for oil and natural gas, *etc.*) in an unincorporated entity overseas after ensuring that the proposal has been approved by the appropriate competent authority, and is duly supported by a certified copy of the Board Resolution approving such investment subject to reporting requirements.
	21	• Based on the review, the ECB policy has been modified as under :
		The exemption accorded to the development of integrated township as a permissible end-use of ECB has been withdrawn. Accordingly, utilisation of ECB proceeds is not permissible in real estate without any exemption.
		With the sovereign credit rating of India enhanced to investment grade, the all-in-cost ceilings for ECB were modified as follows : (i) All-in-cost ceilings over six months LIBOR for average maturity period of three years and up to five years was revised from 200 basis points to 150 basis points, (ii) All-in-cost ceilings over six months LIBOR for more than five years revised from 350 basis points to 250 basis points.
		Above changes are applicable to ECB both under the automatic route as well as approval route.
	24	• AD category-I banks allowed to permit payment towards cash calls to the operator for the purpose of oil exploration in India, either by credit to the foreign currency or rupee account in India as approved by the Reserve Bank wherever applicable, or by remittance overseas, subject to certain conditions.
		• AD category-I banks permitted to open escrow account and special account on behalf of non-resident corporates, without prior approval of the Reserve Bank, for acquisition/transfer of shares/convertible debentures through open offers/delisting/exit offers, subject to the relevant SEBI Regulations/provisions of the Companies Act, 1956 and to the terms and conditions stipulated by the Reserve Bank in this regard.
	25	• AD category-I banks permitted to allow BPO companies in India to make remittances towards the cost of equipment to be imported and installed at their overseas sites, subject to the following conditions: (i) the BPO company should have obtained necessary approval from the Ministry of Communications and Information Technology, Government of India and other authorities concerned for setting up of the International Call Centre (ICC); (ii) the remittance is made directly to the account of the overseas supplier; and (iii) obtain a certificate as evidence of import from the Chief Executive Officer (CEO) or auditor of the importer company that the goods for which remittance was made have actually been imported and installed at overseas sites.
		• The facility of operation of NRO account by Power of Attorney granted in favour of a resident by the non-resident individual account holder provided such operations are restricted to: (i) all local payments in rupees including payments for eligible investments subject to compliance with relevant regulations made by the Reserve Bank; and (ii) remittance outside India of current income in India of the non-resident individual account holder, net of applicable taxes. Furthermore, the resident Power of Attorney holder is not permitted to repatriate outside India funds held in the account other than to the non-resident individual account holder nor to make payment by way of gift to a resident on behalf of the non-resident account holder or transfer funds from the account to another NRO account.
	31	• AD category-I banks permitted remittance out of assets of Indian companies under liquidation under the provisions of the Companies Act, 1956 subject to any order issued by the Court winding up the company or the official liquidator or the liquidator in case of voluntary winding up and also subject to tax compliance and to certain terms and conditions.
		• AD category-I banks, specifically authorised by Reserve Bank allowed to permit domestic producers/users to hedge their price risk on aluminium, copper, lead, nickel and zinc in international commodity exchanges, based on their underlying economic exposures. Hedging may be permitted up to the average of previous three financial years' actual purchases/sales or the previous year's actual purchases/sales turnover, whichever is higher, of the above commodities. Further, only standard exchange traded futures and options (purchases only) may be permitted.

Date of Announcement		POLICY ANNOUNCEMENTS
2007		**V. EXTERNAL SECTOR POLICIES** *(Concld.)*
May	**31**	• AD category-I banks, specifically authorised by Reserve Bank allowed to permit actual users of aviation turbine fuel (ATF) to hedge their economic exposures in the international commodity exchanges based on their domestic purchases. Furthermore, if the risk profile warrants, the actual users of ATF may also use OTC contracts. Permission for hedging ATF would be granted only against firm orders and necessary documentary evidence. The AD category-I banks should ensure that the entities entering into hedging activities should have Board approved policies which define the overall framework within which derivatives activities should be conducted and the risks controlled.
June	**8**	• To enable the MFs to tap a larger investible stock, overseas, they were permitted to invest in (i) overseas mutual funds that make nominal investments (say to the extent of 10 per cent of net asset value) in unlisted overseas securities; (ii) overseas exchange traded funds that invest in securities; and (iii) ADRs/GDRs of foreign companies.
		• Guidelines for foreign investment in preference shares were revised as follows: (a) foreign investment coming as fully convertible preference shares would be treated as part of share capital. This would be included in calculating foreign equity for purposes of sectoral caps on foreign equity, where such caps have been prescribed; (b) foreign investment coming as any other type of preference shares (non- convertible, optionally convertible or partially convertible) would be considered as debt and shall require conforming to ECB guidelines / ECB caps; (c) any foreign investment as non-convertible or optionally convertible or partially convertible preference shares as on and up to April 30, 2007 would continue to be outside the sectoral cap till their current maturity; and (d) issue of preference shares of any type would continue to conform to the guidelines of RBI/SEBI and other statutory bodies and would be subject to all statutory requirements.
	14	• The limit for overseas investments by an Indian party was enhanced from 200 percent to 300 per cent of its net worth. However, the limit for partnership firm for overseas investments remained unchanged at 200 per cent of net worth.
		• The limit for portfolio investment by listed Indian companies in the equity of listed foreign companies was raised from 25 per cent to 35 per cent of the net worth of the investing company.
	19	• AD category-I banks permitted to allow cancellation of forward contracts entered into by residents for overseas direct investments (in equity and loan) for hedging the exchange risk. Further, 50 per cent of the cancelled contracts is allowed to be rebooked.
	29	• It was decided as a sector specific measure to allow Airline companies permitted by the Director General of Civil Aviation to operate as a schedule air transport service to make advance remittances without bank guarantee. Accordingly, AD category-I banks permitted to allow advance remittance, without bank guarantee or an unconditional irrevocable standby Letter of Credit, up to USD 50 million, for direct import of aircraft / helicopter / other aviation related purchases, subject to conditions.
July	**5**	RRBs have been authorised to open and maintain FCNR(B) Deposit accounts by NRIs / PIOs subject to prescribed guidelines.
	19	• SEBI approved clearing corporations of stock exchanges and their clearing members have been permitted to undertake the following transactions subject to the guidelines issued in this regard: (i) to open and maintain demat accounts with foreign depositories and to acquire, hold, pledge and transfer the foreign sovereign securities, offered as collateral by FIIs, (ii) to remit the proceeds arising from corporate action, if any, on such foreign sovereign securities and (iii) to liquidate such foreign sovereign securities if the need arises.
August	**7**	• Based on a review, ECB policy has been modified as under : (i) Henceforth, ECB more than US $ 20 million per borrower company per financial year is permitted only for foreign currency expenditure for permissible end-uses of ECB. Accordingly, borrowers raising ECB more than US $ 20 million shall park the ECB proceeds overseas for use as foreign currency expenditures for permissible end uses and shall not remit the funds to India both under the Automatic Route and the Approval Route. (ii) ECB up to US $ 20 million per borrowing company per financial year would be permitted for foreign currency expenditures for permissible end-uses under the Automatic Route and these funds shall be parked overseas and not be remitted to India. Borrowers proposing to avail ECB up to US $ 20 million for Rupees expenditure for permissible end uses would require prior approval of the Reserve Bank under the Approval Route. (iii) All other aspects of ECB policy such as eligible borrower, US $ 500 million limit per borrower company per financial year under the Automatic Route, recognized lender, average maturity period, all-in-cost-ceiling, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged.

APPENDIX TABLE 1 : SELECT MACROECONOMIC AND FINANCIAL INDICATORS

Item	Average 1990-91 to 1999-2000 (10 years)	Average 2000-01 to 2006-07 (7 years)	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7	8
1. Real GDP (% change)	5.7	6.9	3.8	8.5	7.5 PE	9.0 QE	9.4 RE
a) Agriculture (% change)	3.2	2.5	-7.2	10.0	0.0 PE	6.0 QE	2.7 RE
b) Industry (% change)	5.7	7.0	6.8	6.0	8.4 PE	8.0 QE	11.0 RE
c) Services (% change)	7.1	8.6	7.4	8.9	10.0 PE	10.3 QE	11.0 RE
2. Per capita GDP (% change)	3.6	5.2	1.9	7.0	5.7 PE	7.4 QE	8.4 RE
3. Foodgrains Production (Million tonnes)	188.6	203.0	174.8	213.2	198.4	208.6	216.1 #
4. Gross Domestic Saving Rate (% of GDP)	23.0	27.8 ±	26.4	29.7	31.1 PE	32.4 QE	..
5. Gross Domestic Investment Rate (% of GDP)	24.4	27.6 ±	25.2	28.0	31.5 PE	33.8 QE	..
6. Central Government Finances (% of GDP)							
a) Total Revenue Receipts	9.3	9.5	9.4	9.5	9.8	9.7	10.3 RE
b) Total Expenditure	16.1	15.6	16.8	17.0	15.9	14.2	14.1 RE
c) Revenue Deficit	3.0	3.4	4.4	3.6	2.5	2.6	2.0 RE
d) Fiscal Deficit	5.9	4.9	5.9	4.5	4.0	4.1	3.7 RE
e) Net RBI Credit to Centre	0.7	-0.7	-1.2	-2.8	-1.9	0.8	0.0 RE
f) Interest Payments	4.3	4.3	4.8	4.5	4.1	3.7	3.5 RE
g) Domestic Debt	48.2	59.0	61.0	61.1	61.8	60.7	59.0 RE
7. Monetary Aggregates (% change)							
a) Broad Money (M_3)	17.2	15.8 @	12.7 @	16.7	12.1 @	17.0 £	21.3
b) Narrow Money (M_1)	15.6	15.2	12.0	22.2	11.9	21.1 £	16.8
c) Reserve Money (M_0)	13.9	14.3	9.2	18.3	12.1	17.2	23.7
d) Bank Credit to Commercial Sector (% of GDP)	28.8	39.8	36.6	36.7	40.9	47.5	51.5
8. Scheduled Commercial Banks (% change)							
a) Aggregate Deposits	17.2	16.9	13.4 @	17.5	12.8 @	18.1 £	23.7
b) Bank Credit	15.9	21.4	16.1 @	15.3	27.0 @	30.8 £	28.0
c) Non-Food Credit	15.4	21.9	18.6 @	18.4	27.5 @	31.8 £	28.4
d) Investments in Government Securities	20.9	15.9	27.3	25.1	7.9 @	-2.7 £	10.6
9. Wholesale Price Index (% change)							
a) Point-to-Point	8.7	4.7	6.5	4.6	5.1	4.1	5.9
b) Average	8.1	5.1	3.4	5.4	6.4	4.4	5.4
10. Consumer Price Index - Industrial Workers (% change)							
a) Point-to-Point	9.4	4.4	4.1	3.5	4.2	4.9	6.7
b) Average	9.5	4.4	4.0	3.9	3.8	4.4	6.7
11. BSE Sensitive Index (% change)	37.0	20.8	-12.1	83.4	16.1	73.7	15.9
12. Trade and Balance of Payments							
a) Exports in US $ (% change)	8.6	19.2	20.3	23.3	28.5	23.4	20.9
b) Imports in US $ (% change)	9.7	20.2	14.5	24.1	48.6	32.0	22.3
c) Current Account (% of GDP)	-1.3	0.4	1.2	2.3	-0.4	-1.1	-1.1
d) Capital Account (% of GDP)	2.2	2.6	2.1	2.8	4.0	2.9	4.9
13. Foreign Exchange Reserves* (US $ Million)	..	..	76100	112959	141514	151622	199179
14. External Debt* (US $ Million)	92669	117340	104914	111645	123204	126414	155033
a) Debt-GDP Ratio	29.1	18.7	20.3	17.8	17.3	15.8	16.4
b) Debt-Service Ratio	24.9	11.8	16.0	15.9	6.1	9.9	4.8
15. Exchange Rate (Rupee / US$)							
a) High	..	..	47.51	43.45	43.36	43.30	43.14
b) Low	..	..	49.06	47.46	46.46	46.33	46.97

\# : Fourth Advance Estimates. .. : Not available/Not Applicable. ± : Pertains to 2000-01 to 2005-06. * : As at the end of the period.
@ : Adjusted for the mergers and conversions in the banking system. £ : Variation over April 1, 2005.
PE : Provisional Estimates. QE : Quick Estimates. RE : Revised Estimates.
Note : Data are provisional.

APPENDIX TABLE 2 : GROWTH RATES AND SECTORAL COMPOSITION OF REAL GROSS DOMESTIC PRODUCT

(At 1999-2000 Prices)

(Per cent)

Sector	Growth Rate						Share in real GDP				
	Average 2000-01 to 2006-07	2002-03	2003-04	2004-05@	2005-06*	2006-07#	2002-03	2003-04	2004-05@	2005-06*	2006-07#
1	2	3	4	5	6	7	8	9	10	11	12
1. Agriculture and Allied Activities	**2.5**	**-7.2**	**10.0**	**0.0**	**6.0**	**2.7**	**21.5**	**21.7**	**20.2**	**19.7**	**18.5**
of which :											
Agriculture	2.5	-8.1	10.9	-0.2	6.3	n.a.	19.5	19.9	18.5	18.0	n.a.
2. Industry	**7.0**	**6.8**	**6.0**	**8.4**	**8.0**	**11.0**	**19.9**	**19.4**	**19.6**	**19.4**	**19.7**
of which :											
a) Mining and quarrying	4.6	8.8	3.1	7.5	3.6	5.1	2.3	2.2	2.2	2.1	2.0
b) Manufacturing	7.7	6.8	6.6	8.7	9.1	12.3	15.2	15.0	15.1	15.1	15.5
c) Electricity, gas and water supply	4.8	4.7	4.8	7.5	5.3	7.4	2.4	2.3	2.3	2.2	2.2
3. Services	**8.6**	**7.4**	**8.9**	**10.0**	**10.3**	**11.0**	**58.7**	**58.8**	**60.2**	**60.9**	**61.8**
of which :											
a) Construction	9.9	7.9	12.0	14.1	14.2	10.7	5.9	6.1	6.5	6.8	6.9
b) Trade, hotels and restaurants	8.1 ±	6.9	10.3	8.4	8.2	13.0 $	15.3	15.5	15.7	15.5	27.0 $
c) Transport, storage and communication	12.9 ±	13.6	15.1	15.2	13.9	n.a.	8.9	9.4	10.1	10.6	n.a.
d) Financing, insurance, real estate and business services	7.9	8.0	5.6	8.7	10.9	10.6	13.8	13.4	13.5	13.8	13.9
e) Community, social and personal services	6.0	3.9	5.4	7.9	7.7	7.8	14.8	14.3	14.4	14.2	14.0
4. Gross Domestic Product at Factor Cost	**6.9**	**3.8**	**8.5**	**7.5**	**9.0**	**9.4**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Memo:

(Rupees crore)

Sector	(at current prices)				
	2002-03	2003-04	2004-05	2005-06	2006-07
1. Agriculture and Allied Activities	4,72,679	5,33,642	5,36,629	5,95,058	6,56,051
2. Industry	4,63,302	5,09,106	5,98,674	6,76,207	7,84,883
3. Services	13,29,322	15,06,670	17,20,630	19,79,667	23,02,539
4. Gross Domestic Product at Factor Cost	22,65,304	25,49,418	28,55,933	32,50,932	37,43,472
Sector	**(at constant Prices)**				
	2002-03	2003-04	2004-05	2005-06	2006-07
1. Agriculture and Allied Activities	4,39,321	4,83,274	4,83,080	5,12,147	5,25,875
2. Industry	4,07,276	4,31,724	4,67,896	5,05,485	5,61,086
3. Services	12,01,136	13,07,593	14,38,684	15,86,900	17,61,195
4. Gross Domestic Product at Factor Cost	20,47,733	22,22,592	23,89,660	26,04,532	28,48,157

@ : Provisional Estimates. * : Quick Estimates. # : Revised Estimates. n.a. : Not available.

$: Corresponds to 'trade, hotels and restaurants' and 'transport, storage and communication'. ± : Pertains to 2000-01 to 2005-06.

Source : Central Statistical Organisation.

APPENDIX TABLE 3: QUARTERLY GROWTH RATES AND COMPOSITION OF REAL GROSS DOMESTIC PRODUCT

(At 1999-2000 Prices)

(Per cent)

Sector	2003-04				2004-05				2005-06				2006-07*			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Agriculture and Allied Activities	**0.2**	**7.7**	**19.4**	**10.3**	**3.4**	**0.7**	**-4.9**	**2.6**	**4.0**	**4.0**	**8.7**	**6.2**	**2.8**	**2.9**	**1.6**	**3.8**
	(21.7)	**(17.8)**	**(26.3)**	**(20.6)**	**(20.7)**	**(16.7)**	**(23.7)**	**(19.4)**	**(19.8)**	**(16.1)**	**(23.5)**	**(18.7)**	**(18.6)**	**(15.0)**	**(22.0)**	**(17.8)**
2. Industry	**5.1**	**5.4**	**5.9**	**7.5**	**7.6**	**9.0**	**9.1**	**7.8**	**9.8**	**6.6**	**7.2**	**8.6**	**10.6**	**11.3**	**10.8**	**11.2**
	(19.7)	**(20.4)**	**(18.1)**	**(19.6)**	**(19.6)**	**(20.8)**	**(18.7)**	**(19.4)**	**(19.8)**	**(20.5)**	**18.4**	**19.1**	**(20.0)**	**(20.7)**	**(18.7)**	**(19.5)**
of which :																
a) Manufacturing	5.8	6.6	6.7	7.3	7.2	8.9	9.7	8.7	10.7	8.1	8.2	9.4	12.3	12.7	11.8	12.4
	(15.1)	(15.8)	(13.9)	(15.1)	(15.0)	(16.1)	(14.5)	(15.0)	(15.3)	(16.1)	(14.3)	(14.9)	(15.7)	(16.5)	(14.8)	(15.4)
b) Mining and quarrying	1.2	0.9	2.6	7.1	9.8	7.7	7.4	5.4	6.1	0.1	2.7	5.2	3.7	3.9	5.5	7.1
	(2.2)	(2.2)	(2.1)	(2.3)	(2.2)	(2.2)	(2.1)	(2.2)	(2.2)	(2.1)	(2.0)	(2.1)	(2.0)	(1.9)	(1.9)	(2.1)
c) Electricity, gas and water supply	4.0	2.1	4.1	8.8	8.1	11.3	6.3	4.5	7.4	2.6	5.0	6.1	5.8	8.1	9.1	6.9
	(2.4)	(2.4)	(2.1)	(2.2)	(2.4)	(2.5)	(2.1)	(2.1)	(2.4)	(2.4)	(2.1)	(2.1)	(2.3)	(2.3)	(2.1)	(2.0)
3. Services	**7.7**	**10.7**	**9.7**	**7.4**	**10.3**	**8.4**	**9.4**	**11.8**	**9.5**	**9.5**	**10.3**	**11.6**	**11.6**	**11.7**	**10.9**	**10.0**
	(58.6)	**(61.8)**	**(55.6)**	**(59.8)**	**(59.7)**	**(62.5)**	**(57.6)**	**(61.3)**	**(60.3)**	**(63.4)**	**(58.1)**	**(62.2)**	**(61.4)**	**(64.2)**	**(59.3)**	**(62.7)**
of which :																
a) Construction	10.1	16.6	10.2	11.2	14.7	10.3	16.5	15.0	12.7	11.3	16.6	16.1	10.5	11.1	10.0	11.2
	(6.3)	(6.7)	(5.6)	(6.1)	(6.7)	(6.9)	(6.2)	(6.4)	(6.9)	(7.1)	(6.6)	(6.7)	(7.0)	(7.1)	(6.7)	(6.9)
b) Trade, hotels, restaurants, transport, storage and communication	8.2	10.4	14.7	14.3	11.0	11.8	9.1	11.9	10.2	9.5	10.0	11.8	12.4	14.2	13.1	12.4
	(24.5)	(24.9)	(24.6)	(25.9)	(25.1)	(26.0)	(25.4)	(26.5)	(25.5)	(26.3)	(25.6)	(27.0)	(26.2)	(27.3)	(26.6)	(27.8)
c) Financing, insurance, real estate and business services	5.0	5.6	5.7	6.0	8.3	7.0	9.2	10.2	8.9	10.6	9.8	14.2	10.8	11.1	11.2	9.3
	(14.0)	(14.3)	(12.4)	(13.0)	(14.0)	(14.3)	(12.8)	(13.2)	(14.1)	(14.6)	(12.9)	(13.7)	(14.2)	(14.7)	(13.2)	(13.7)
d) Community, social and personal services	8.7	13.8	4.9	-3.1	9.1	3.7	7.2	11.6	7.5	7.9	8.3	7.2	11.3	8.3	6.7	5.7
	(13.8)	(15.9)	(13.0)	(14.8)	(13.9)	(15.4)	(13.2)	(15.2)	(13.8)	(15.4)	(13.0)	(14.8)	(14.0)	(15.1)	(12.8)	(14.3)
4. Gross Domestic Product at Factor Cost	**5.5**	**9.1**	**11.4**	**8.0**	**8.3**	**7.2**	**5.6**	**9.1**	**8.4**	**8.0**	**9.3**	**10.0**	**9.6**	**10.2**	**8.7**	**9.1**
	(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)**
Memo:																
(at current prices)																
1. Agriculture and Allied Activities	1,23,533	1,00,273	1,76,292	1,33,544	1,27,145	1,02,696	1,69,317	1,37,471	1,35,056	1,10,834	1,94,211	1,54,958	1,48,304	1,20,851	2,11,418	1,75,479
2. Industry	1,16,944	1,22,059	1,29,413	44,289	1,35,164	1,46,192	1,54,123	1,63,194	1,58,002	1,62,269	1,72,372	1,83,565	1,80,951	1,88,122	2,00,394	2,15,415
3. Services	3,43,422	3,61,333	3,87,723	4,14,190	3,89,302	4,11,735	4,43,718	4,75,875	4,49,010	4,69,200	5,11,140	5,50,317	5,21,542	5,47,788	5,94,068	6,39,140
4. Gross Domestic Product at Factor Cost	5,83,900	5,83,765	6,93,429	6,88,324	6,51,611	6,60,622	7,67,159	7,76,541	7,42,067	7,42,302	8,77,724	8,88,839	8,50,798	8,56,761	10,05,880	10,30,033
(at constant prices 1999-2000)																
1. Agriculture and Allied Activities	1,11,291	90,958	1,58,462	1,22,564	1,15,074	91,551	1,50,760	1,25,695	1,19,681	95,195	1,63,812	1,33,458	1,23,029	97,948	1,66,390	1,38,509
2. Industry	1,01,348	1,04,604	1,09,361	1,16,409	1,09,018	1,14,061	1,19,275	1,25,541	1,19,672	1,21,568	1,27,912	1,36,334	1,32,338	1,35,323	1,41,767	1,51,659
3. Services	3,01,125	3,15,959	3,35,127	3,55,382	3,32,190	3,42,584	3,66,760	3,97,149	3,63,903	3,75,265	4,04,421	4,43,311	4,05,969	4,19,181	4,48,348	4,87,698
4. Gross Domestic Product at Factor Cost	5,13,764	5,11,521	6,02,951	5,94,356	5,56,281	5,48,197	6,36,797	6,48,386	6,03,256	5,92,028	6,96,146	7,13,104	6,61,336	6,52,452	7,56,504	7,77,866

* : Revised Estimates.

Note : 1. Figures in parentheses are percentage share to GDP.

2. Quarters Q1, Q2 , Q3 and Q4 denote April-June, July-September, October-December and January-March, respectively.

3. Constituents may not add up to 100 due to rounding off.

Source : Central Statistical Organisation.

APPENDIX TABLE 4 : AGRICULTURAL PRODUCTION

(Million tonnes)

Crop	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 #
1	2	3	4	5	6	7
I. All Crops: Annual Growth Rate (per cent) $	**7.6**	**-13.2**	**16.1**	**-0.3**	**8.5**	**5.2**
A) Foodgrains	9.4	-14.9	16.4	-3.5	4.7	4.2
B) Non-foodgrains	5.4	-11.1	15.6	3.7	12.4	6.3
A. Foodgrains (a+b)	**212.9**	**174.8**	**213.2**	**198.4**	**208.6**	**216.1**
1. Rice	93.3	71.8	88.5	83.1	91.8	92.8
2. Wheat	72.8	65.8	72.2	68.6	69.4	74.9
3. Coarse Cereals	33.4	26.1	37.6	33.5	34.1	34.3
of which:						
i) Jowar	7.6	7.0	6.7	7.2	7.6	7.4
ii) Bajra	8.3	4.7	12.1	7.9	7.7	8.6
iii) Maize	13.2	11.2	15.0	14.2	14.7	15.0
4. Pulses	13.4	11.1	14.9	13.1	13.4	14.2
of which:						
i) Tur	2.3	2.2	2.4	2.4	2.7	2.4
ii) Gram	5.5	4.2	5.7	5.5	5.6	6.3
a) Kharif	**112.1**	**87.2**	**117.0**	**103.3**	**109.9**	**110.5**
1. Rice	80.5	63.1	78.6	72.2	78.3	80.1
2. Coarse Cereals	26.7	20.0	32.2	26.4	26.7	25.7
of which:						
i) Jowar	4.2	4.2	4.8	4.0	4.1	3.7
ii) Bajra	8.3	4.7	12.1	7.9	7.7	8.6
iii) Maize	11.3	9.3	12.7	11.5	12.2	11.4
3. Pulses	4.8	4.2	6.2	4.7	4.9	4.7
of which:						
i) Tur	2.3	2.2	2.4	2.4	2.7	2.4
b) Rabi	**100.8**	**87.6**	**96.2**	**95.1**	**98.7**	**105.6**
1. Rice	12.8	8.7	9.9	10.9	13.5	12.7
2. Wheat	72.8	65.8	72.2	68.6	69.4	74.9
3. Coarse Cereals	6.7	6.1	5.4	7.1	7.3	8.6
of which:						
i) Jowar	3.3	2.8	1.8	3.2	3.6	3.7
ii) Maize	1.9	1.9	2.3	2.7	2.6	3.6
4. Pulses	8.5	7.0	8.7	8.4	8.5	9.5
of which:						
i) Gram	5.5	4.2	5.7	5.5	5.6	6.3
B. Non-foodgrains						
1. Oilseeds++	20.7	14.8	25.2	24.4	28.0	23.9
of which:						
i) Groundnut	7.0	4.1	8.1	6.8	8.0	4.9
ii) Rapeseed & Mustard	5.1	3.9	6.3	7.6	8.1	7.1
iii) Sunflower	0.7	0.9	0.9	1.2	1.4	1.2
iv) Soyabean	6.0	4.7	7.8	6.9	8.3	8.9
2. Sugarcane	297.2	287.4	233.9	237.1	281.2	345.3
3. Cotton @	10.0	8.6	13.7	16.4	18.5	22.7
4. Jute and Mesta +	11.7	11.3	11.2	10.3	10.8	11.3
5. Tea*	847.4	846.0	850.5	830.7	930.9	722.5 $$
6. Coffee*	300.6	275.3	270.0	275.0	274.0	300.0 ##

\# : Fourth Advance Estimates as on July 19, 2007.
$: Growth rates are based on Index of Agricultural Production with base triennium ending 1993-94=100.
++ : For nine oilseeds out of eleven in all.
@ : Million bales of 170 kg. each.
\+ : Million bales of 180 kg. each.
* : Million kilograms.
$$: Estimated production for April-October.
\## : Relates to April-October including re-exports.
Source : Ministry of Agriculture, Government of India.

APPENDIX TABLE 5 : PROCUREMENT, OFF-TAKE AND STOCKS OF FOODGRAINS

(Million tonnes)

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	14.00	12.82	26.82	13.06	7.76	20.82
1996-97	11.88	8.16	20.04	12.44	13.26	25.70	13.17	3.24	16.41
1997-98	14.54	9.30	23.84	11.36	7.76	19.12	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	19.03	38.03	24.85	24.99	49.85	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	23.20	18.27	41.47	13.34	4.07	17.97
2005-06	26.90	14.79	41.69	25.04	17.16	42.21	13.68	2.01	16.62
2006-07	26.70	9.23	35.93	25.06	11.71	36.77	13.17	4.56	17.79
2007-08 $	4.43	11.10	15.53	1.95	0.81	2.76	13.48	11.60	25.11

* : Stocks as at end-March.

\# : Includes coarse grains.

$: Procurement upto August 1, 2007, offtake upto April 30, 2007 and stocks as on May 1, 2007.

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

APPENDIX TABLE 6 : TRENDS IN INDEX OF INDUSTRIAL PRODUCTION

(Base : 1993-94=100)

Sector	Mining & Quarrying		Manufacturing		Electricity		General	
Weight	10.5		79.4		10.2		100.0	
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
2002-03	139.6	5.8	183.1	6.0	164.3	3.2	176.6	5.8
		(8.3)		(85.4)		(5.4)		(100.0)
2003-04	146.9	5.3	196.6	7.4	172.6	5.0	189.0	7.0
		(6.3)		(87.0)		(6.8)		(100.0)
2004-05	153.4	4.4	214.6	9.2	181.5	5.2	204.8	8.4
		(4.3)		(90.1)		(5.7)		(100.0)
2005-06	154.9	1.0	234.2	9.1	190.9	5.2	221.5	8.2
		(1.0)		(93.2)		(5.7)		(100.0)
2006-07 P	163.2	5.3	263.5	12.5	204.7	7.2	247.1	11.5
		(3.4)		(91.1)		(5.5)		(100.0)
2005-06								
April-June	152.9	4.3	220.6	11.2	190.8	7.7	210.5	10.4
July-September	141.3	-2.1	225.6	7.8	186.2	2.0	212.8	6.5
October-December	156.0	-0.8	236.9	8.1	190.3	4.8	223.7	7.1
January-March	169.5	2.5	253.7	9.6	196.2	6.2	239.0	8.7
April-September	147.1	1.1	223.1	9.5	188.5	4.8	211.7	8.5
October-March	162.8	0.9	245.3	8.8	193.3	5.5	231.4	7.9
2006-07 P								
April-June	158.4	3.6	246.4	11.7	200.9	5.3	232.5	10.5
July-September	145.0	2.6	254.9	13.0	201.2	8.0	237.9	11.8
October-December	166.8	6.9	264.9	11.8	207.7	9.2	248.8	11.2
January-March	182.6	7.7	288.0	13.5	209.2	6.6	268.9	12.5
April-September	151.7	3.1	250.6	12.1	201.0	6.6	235.2	11.1
October-March	174.7	7.3	276.4	12.7	208.5	7.9	258.9	11.9
2007-08 P								
April-June	163.5	3.2	275.8	11.9	217.5	8.3	258.1	11.0

P : Provisional.

Note : Figures in parentheses are relative contributions, 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 7 : 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)	
		2005-06	2006-07 P	2005-06	2006-07 P	2005-06	2006-07 P
1	2	3	4	5	6	7	8
I. Acceleration	**71.29**						
1. Wood and wood products, furniture & fixtures	2.70	70.5	91.0	-5.7	29.1	-0.7	2.4
2. Basic metal and alloy Industries	7.45	227.0	278.9	15.8	22.9	14.8	16.6
3. Transport equipment and parts	3.98	319.7	367.7	12.7	15.0	9.2	8.2
4. Cotton textiles	5.52	137.0	157.3	8.5	14.8	3.8	4.8
5. Machinery and equipment other than transport equipment	9.57	312.8	357.1	11.9	14.2	20.5	18.3
6. Non-metallic mineral products	4.40	271.1	306.0	11.0	12.9	7.6	6.6
7. Rubber, plastic, petroleum and coal products	5.73	200.5	226.0	4.3	12.7	3.0	6.3
8. Metal products and parts (except machinery and equipment)	2.81	164.4	183.2	-1.2	11.4	-0.4	2.3
9. Chemicals and chemical products except products of petroleum & coal	14.00	258.5	282.8	8.3	9.4	17.9	14.6
10. Paper and paper products and printing, publishing and allied activities	2.65	228.6	247.7	-0.9	8.4	-0.3	2.2
11. Wool, silk and man-made fibre textiles	2.26	248.9	269.1	0.0	8.1	0.0	2.0
12. Food products	9.08	170.6	185.4	2.0	8.7	1.9	5.8
13. Leather and leather & fur products	1.14	149.3	149.9	-4.8	0.4	-0.6	0.0
II. Deceleration	**7.48**						
14. Beverages, tobacco and related products	2.38	400.3	445.7	15.7	11.3	8.3	4.7
15. Textile products (including wearing apparel)	2.54	255.5	285.0	16.4	11.5	5.8	3.2
16. Other manufacturing industries	2.56	276.9	298.3	25.2	7.7	9.1	2.4
III. Negative	**0.59**						
17. Jute and other vegetable fibre textiles (except cotton)	0.59	107.7	90.7	0.5	-15.8	0.0	-0.4
Manufacturing (Total)	**79.35**	**234.2**	**263.5**	**9.2**	**12.5**	**100.0**	**100.0**

P : Provisional.

Note : 1. The industry groups of manufacturing sector have been categorised according to their performance during 2006-07.

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 relevant industry group.

Source : Central Statistical Organisation.

APPENDIX TABLE 8 : FREQUENCY DISTRIBUTION OF GROWTH RATES OF SEVENTEEN MAJOR INDUSTRY GROUPS OF MANUFACTURING SECTOR - 2002-03 to 2006-07

(Number of years)

Industry Group	Weight	Negative	0-5 %	5-10 %	10-15 %	15+ %	Above 5% (Col. 5+6+7)
1	2	3	4	5	6	7	8
1. Food products	9.08	2	1	1	1	0	2
2. Beverages, tobacco and related products	2.38	0	0	1	2	2	5
3. Cotton textiles	5.52	2	0	2	1	0	3
4. Wool, silk and man-made fibre textiles	2.26	1	2	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	0	0	2	2	4
7. Wood and wood products, furniture & fixtures	2.70	3	0	1	0	1	2
8. Paper and paper products and printing, publishing and allied activities	2.65	1	0	2	1	1	4
9. Leather and leather & fur products	1.14	3	1	1	0	0	1
10. Chemicals & chemical products (except products of petroleum & coal)	14.00	0	1	3	1	0	4
11. Rubber, plastic, petroleum and coal products	5.73	0	3	1	1	0	2
12. Non-metallic mineral products	4.40	0	2	1	2	0	3
13. Basic metal and alloy industries	7.45	0	0	3	0	2	5
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	1	0	2	2	4
16. Transport equipment and parts	3.98	0	1	0	3	1	4
17. Other manufacturing industries	2.56	0	1	2	0	2	4

Source : Based on data from the Central Statistical Organisation.

APPENDIX TABLE 9 : USE-BASED CLASSIFICATION OF INDUSTRIAL PRODUCTION

(Base : 1993-94=100)

Industry Group	Weight	Index			Growth Rate (Per cent)					
		2004-05	2005-06	2006-07 P	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 P
1	2	3	4	5	6	7	8	9	10	11
1. Basic Goods	35.57	177.9	189.8	209.3	2.6 (31.0)	4.9 (27.1)	5.4 (25.2)	5.5 (20.9)	6.7 (25.4)	10.3 (27.2)
2. Capital Goods	9.26	229.6	265.8	314.2	-3.4 (-11.4)	10.5 (16.2)	13.6 (18.1)	13.9 (16.4)	15.8 (20.0)	18.2 (17.6)
3. Intermediate Goods	26.51	211.1	216.4	242.4	1.5 (16.1)	3.9 (19.2)	6.4 (25.6)	6.1 (20.3)	2.5 (8.4)	11.9 (27.0)
4. Consumer Goods (a+b)	28.66	224.4	251.4	276.8	6.0 (62.6)	7.1 (36.8)	7.1 (31.2)	11.7 (42.6)	12.0 (46.3)	10.1 (28.5)
a) Consumer Durables	5.36	303.5	349.9	382.0	11.5 (30.8)	-6.3 (-8.8)	11.6 (12.0.)	14.3 (12.9)	15.3 (14.9)	9.2 (6.7)
b) Consumer Non-durables	23.30	206.2	228.8	252.6	4.1 (31.8)	12.0 (45.6)	5.8 (19.2)	10.8 (29.6)	11.0 (31.4)	10.4 (21.8)
IIP - General	**100.00**	**204.8**	**221.5**	**247.1**	**2.7 (100.0)**	**5.7 (100.0)**	**7.0 (100.0)**	**8.4 (100.0)**	**8.2 (100.0)**	**11.5 (100.0)**

P : Provisional.

Note : Figures in parentheses are relative contributions, 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 10 : GROWTH OF SIX INFRASTRUCTURE INDUSTRIES

(Base: 1993-94=100)

Industry	Weight	Index		Growth Rate (Per cent)				
		2005-06	2006-07 P	2002-03	2003-04	2004-05	2005-06	2006-07 P
1	2	3	4	5	6	7	8	9
1. Electricity	10.17	190.9	204.8	3.2 (23.6)	5.1 (30.1)	5.2 (32.3)	5.1 (29.8)	7.3 (30.1)
2. Coal	3.22	163.2	173.0	4.5 (8.8)	5.1 (8.0)	6.2 (10.2)	6.6 (10.2)	6.0 (6.7)
3. Finished Steel	5.13	293.0	324.9	7.3 (35.6)	9.8 (39.5)	8.4 (37.1)	11.2 (47.7)	10.9 (34.7)
4. Cement	1.99	257.8	281.4	8.8 (15.0)	6.1 (8.8)	6.6 (10.0)	12.4 (17.8)	9.1 (9.9)
5. Crude Petroleum	4.17	119.2	125.8	3.4 (7.7)	0.7 (1.3)	1.8 (3.3)	-5.2 -(8.7)	5.5 (5.8)
6. Petroleum Refinery Products	2.00	243.2	273.1	4.9 (9.1)	8.2 (12.4)	4.3 (7.0)	2.1 (3.2)	12.3 (12.7)
Composite Index of Infrastructure Industries #	**26.68**	**204.9**	**222.5**	**5.0 (100.0)**	**6.1 (100.0)**	**5.8 (100.0)**	**6.2 (100.0)**	**8.6 (100.0)**

P : Provisional.

: Estimate based on weighted industry-wise index.

Note : Figures in parentheses 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 Commerce and Industry, Government of India.

APPENDIX TABLE 11 : GROSS DOMESTIC SAVING AND INVESTMENT

(Base year : 1999-2000)

Item	Per cent of GDP (at current market prices)				Amount in Rupees crore		
	Average 1999-2000 to 2005-06	2003-04	2004-05 @	2005-06 *	2003-04	2004-05 @	2005-06 *
1	2	3	4	5	6	7	8
1. Household Saving	**22.1**	**23.8**	**21.6**	**22.3**	**6,57,327**	**6,74,834**	**7,97,117**
of which :							
a) Financial Assets	10.7	11.3	10.2	11.7	3,13,260	3,18,791	4,16,462
b) Physical Assets	11.3	12.4	11.4	10.7	3,44,067	3,56,043	3,80,655
2. Private Corporate Sector	**5.2**	**4.7**	**7.1**	**8.1**	**1,31,355**	**2,23,512**	**2,88,430**
3. Public Sector	**0.1**	**1.2**	**2.4**	**2.0**	**31,822**	**74,682**	**71,262**
4. Gross Domestic Saving	**27.4**	**29.7**	**31.1**	**32.4**	**8,20,504**	**9,73,028**	11,56,809
5. Net Capital Inflow	**0.0**	**-1.6**	**0.4**	**1.3**	**-45,380**	**13,338**	**47,665**
6. Gross Domestic Capital Formation	**27.4**	**28.0**	**31.5**	**33.8**	**7,75,124**	**9,86,366**	12,04,474
7. Errors and Omissions	**0.6**	**1.5**	**1.9**	**1.6**	**40,538**	**58,737**	**57,220**
8. Gross Capital Formation	**26.8**	**26.6**	**29.7**	**32.2**	**7,34,585**	**9,27,629**	11,47,253
of which :							
a) Public Sector	6.9	6.3	7.1	7.4	1,74,597	2,20,487	2,64,426
b) Private Corporate Sector	7.7	6.9	9.9	12.9	1,91,349	3,10,045	4,59,715
c) Household Sector	11.3	12.4	11.4	10.7	3,44,067	3,56,043	3,80,655
d) Valuables #	0.9	0.9	1.3	1.2	24,572	41,054	42,457
Memo:							
Total Consumption Expenditure(a+b)		73.0	70.6	69.2			
a) Private Final Consumption Expenditure		61.8	59.7	57.9			
b) Government Final Consumption Expenditure		11.2	11.0	11.3			
Saving-Investment Balance		1.6	-0.4	-1.3			
Public Sector Balance		-5.2	-4.7	-5.4			
Private Sector Balance		9.2	7.4	6.9			
a) Private Corporate Sector		-2.2	-2.8	-4.8			
b) Household Sector		11.3	10.2	11.7			
GDP at current market prices (Rupees crore)		27,65,491	31,26,596	35,67,177			

@ : Provisional Estimates.
* : Quick Estimates.
\# : Valuables cover the expenditures made on acquisition of valuables, excluding works of art and antiques.
Source : Central Statistical Organisation.

APPENDIX TABLE 12 : FINANCIAL SAVING OF THE HOUSEHOLD SECTOR (GROSS)

Item	Per cent to Total Financial Saving			Rupees crore		
	2004-05P	2005-06P	2006-07#	2004-05P	2005-06P	2006-07#
1	2	3	4	5	6	7
Financial Assets (Gross)	**100.0 (13.9)**	**100.0 (16.7)**	**100.0 (18.4)**	**4,34,317**	**5,95,235**	**7,58,751**
a) Currency	8.5 (1.2)	8.7 (1.5)	8.6 (1.6)	36,977	51,954	65,427
b) Deposits	37.2 (5.2)	47.1 (7.9)	55.7 (10.2)	1,61,416	2,80,602	4,22,737
i) With Banks	36.5	46.2	55.6	1,58,393	2,74,747	4,22,114
ii) With Non-banking Companies	0.8	1.0	0.1	3,370	6,130	881
iii) With Coperative Banks and Societies	0.0	0.0	0.0	-134	-54	-76
iv) Trade Debt (Net)	0.0	0.0	0.0	-213	-222	-183
c) Share and Debentures	1.1 (0.2)	4.9 (0.8)	6.3 (1.2)	4,967	29,268	47,918
i) Private Corporate Business	1.4	1.3	1.4	6,124	8,034	10,953
ii) Banking	0.1	0.1	0.1	263	366	403
iii) Units of Unit Trust of India	-0.7	-0.1	0.0	-3,146	-444	-310
iv) Bonds of public Sector undertakings	0.0	0.0	0.0	176	172	172
v) Mutual Funds (Other than UTI)	0.4	3.6	4.8	1,550	21,139	36,700
d) Claims on Government	24.5 (3.4)	14.6 (2.4)	5.2 (1.0)	1,06,420	87,168	39,197
i) Investment in Government securities	4.9	2.4	0.2	21,313	14,390	1,654
ii) Investment in Small Savings,etc.	19.6	12.2	4.9	85,106	72,778	37,544
e) Insurance Funds	15.7 (2.2)	14.0 (2.3)	15.0 (2.8)	67,986	83,540	1,13,900
i) Life Insurance Funds	15.1	13.4	14.6	65,577	80,020	1,10,964
ii) Postal Insurance	0.3	0.3	0.2	1,414	1,962	1,237
iii) State Insurance	0.2	0.3	0.2	995	1,559	1,699
f) Provident and Pension Funds	13.0 (1.8)	10.5 (1.8)	9.2 (1.7)	56,552	62,704	69,571
Memo : GDP at Market Prices (at current prices)				31,26,596	35,67,177	41,25,725

P : Provisional.
: Preliminary Estimates.
Note : 1. Figures in parentheses are percentage to GDP at current market prices.
2. Components may not add up to the totals due to rounding off.

APPENDIX TABLE 13 : VARIATIONS IN RESERVE MONEY

(Amount in Rupees crore)

Item	Outstanding as on March 31, 2007	Variations							
		Financial year				April-June			
		2005-06		2006-07		2006-07		2007-08	
		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)	**7,09,016**	**83,920**	**17.2**	**1,35,961**	**23.7**	**13,466**	**2.3**	**12,390**	**1.7**
Components									
C.1. Currency in Circulation	5,04,225	62,015	16.8	73,549	17.1	22,283	5.2	16,870	3.3
C.2. Bankers' Deposits with the RBI	1,97,295	21,515	18.9	61,784	45.6	-7,204	-5.3	-4,800	-2.4
of which:									
Scheduled Commercial Banks	1,86,322	20,402	19.1	59,261	46.6	-6,738	-5.3	-5,722	-3.1
C.3 . 'Other' Deposits with the RBI	7,496	390	6.0	628	9.1	-1,613	-23.5	319	4.3
Sources									
S.1. Net RBI Credit to Government (a+b)	5,752	26,111		-2,384		53		-25,483	
a) Net RBI Credit to Central Government (i-ii)	2,136	28,417		-3,024		3,071		-21,825	
i) Claims on Central Government	97,184	13,876		26,620		-27,601		-34,156	
ii) Deposits of Central Government	95,048	-14,541		29,644		-30,672		-12,330	
b) Net RBI Credit to State Governments (i-ii)	3,616	-2,306		639		-3,018		-3,657	
i) Claims on State Governments	3,616	-2,306		639		-2,977		-3,616	
ii) Deposits of State Governments	0	0		0		41		41	
S.2. RBI's Claims on Commercial and Co-operative Banks	7,635	537	10.2	1,840	31.8	-3,135	-54.1	-6,299	-82.5
of which:									
Loans and Advances to SCBs	6,310	1,393		4,822		-1,486		-6,209	
S.3. RBI's Credit to Commercial Sector	1,537	-3	-0.2	150	10.8	0	0.0	-151	-9.8
S.4. Net Foreign Exchange Assets of the RBI	**8,66,153**	**60,193**	**9.8**	**1,93,170**	**28.7**	**71,845**	**10.7**	**-2,745**	**-0.3**
S.5. Government's Currency Liabilities to the Public	8,286	1,306	17.5	-467	-5.3	-920	-10.5	171	2.1
S.6. Net Non-monetary Liabilities of the RBI	1,80,348	4,225	3.5	56,347	45.4	54,376	43.9	-46,897	-26.0
S.7. Net Domestic Assets of the RBI (S.1+S.2+S.3+S.5-S.6)	**-1,57,137**	**23,727**		**-57,209**		**-58,379**		**15,134**	

Note : Data are provisional.

APPENDIX TABLE 14 : RESERVE BANK OF INDIA (RBI) SURVEY

(Amount in Rupees crore)

Item	Outstanding as on March 31, 2007	Variations							
		Financial year				April-June			
		2005-06		2006-07		2006-07		2007-08	
		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	5,04,225	62,015	16.8	73,549	17.1	22,283	5.2	16,870	3.3
C.II Bankers' Deposits with the RBI	1,97,295	21,515	18.9	61,784	45.6	-7,204	-5.3	-4,800	-2.4
C.II.1 Scheduled Commercial Banks	1,86,322	20,402	19.1	59,261	46.6	-6,738	-5.3	-5,722	-3.1
C.III 'Other' Deposits with the RBI	7,496	390	6.0	628	9.1	-1,613	-23.5	319	4.3
Reserve Money (C.I + C.II + C.III = S.I + S.II + S.III - S.IV - S.V)	**7,09,016**	**83,920**	**17.2**	**1,35,961**	**23.7**	**13,466**	**2.3**	**12,390**	**1.7**
Sources									
S.I RBI's Domestic Credit (S.I.1 + S.I.2 + S.I.3)	14,925	26,646		-394		-3,082		-31,933	
S.I.1 Net RBI Credit to the Government (S.I.1.1+S.I.1.2)	5,752	26,111		-2,384		53		-25,483	
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)	2,136	28,417		-3,024		3,071		-21,825	
S.I.1.1.1 Loans and Advances to the Central Government	0	0		0		0		0	
S.I.1.1.2 Investments in Treasury Bills	0	0		0		0		0	
S.I.1.1.3 Investments in Dated Government Securities	97,172	13,869	24.5	26,763	38.0	-27,610	-39.2	-34,284	-35.3
S.I.1.1.3.1 Central Government Securities	96,125	14,340	26.1	26,763	38.6	-27,610	-39.8	-34,284	-35.7
S.I.1.1.4 Rupee Coins	12	7		-143		9		128	
S.I.1.1.5 Deposits of the Central Government	95,048	-14,541	-18.2	29,644	45.3	-30,672	-46.9	-12,330	-13.0
S.I.1.2 Net RBI Credit to State Governments	3,616	-2,306		639		-3,018		-3,657	
S.I.2 RBI's Claims on Banks	7,635	1,467		4,838		-1,557		-6,299	
S.I.2.1 Loans and Advances to Scheduled Commercial Banks	6,310	1,393		4,822		-1,486		-6,209	
S.I.3 RBI's Credit to Commercial Sector	1,537	-932	-17.5	-2,848	-64.9	-1,578	-36.0	-151	-9.8
S.I.3.1 Loans and Advances to Primary Dealers	153	0		153		0		-153	
S.I.3.2 Loans and Advances to NABARD	0	-929		-2,998		-1,578		0	
S.II Government's Currency Liabilities to the Public	8,286	1,306	17.5	-467	-5.3	-920	-10.5	171	2.1
S.III Net Foreign Exchange Assets of the RBI	8,66,153	60,193	9.8	1,93,170	28.7	71,845	10.7	-2,745	-0.3
S.III.1 Gold	29,573	5,988	30.4	3,899	15.2	6,875	26.8	-1,426	-4.8
S.III.2 Foreign Currency Assets	8,36,597	54,205	9.1	1,89,270	29.2	64,971	10.0	-1,318	-0.2
S.IV Capital Account	1,57,279	-1,870	-1.6	40,632	34.8	43,736	37.5	-50,463	-32.1
S.V Other Items (net)	23,069	6,095		15,716		10,641		3,567	

Note : Data are provisional.

APPENDIX TABLE 15 : VARIATIONS IN MONEY STOCK

(Amount in Rupees crore)

Item	Outstanding as on March 31, 2007	Variations							
		Financial Year				April-June			
		2005-06		2006-07		2006-07		2007-08	
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8	9	10
Narrow Money (M_1) [C.1+C.2(a)+C.3]	**9,65,195**	**1,43,822**	**21.1**	**1,38,820**	**16.8**	**-20,216**	**-2.4**	**-24,228**	**-2.5**
Broad Money (M_3) (C.1+C.2+C.3 = S.1+S.2+S.3+S.4-S.5)	**33,10,278**	**3,96,878**	**17.0**	**5,80,733**	**21.3**	**55,411**	**2.0**	**78,638**	**2.4**
Components									
C.1. Currency with the Public	4,83,471	58,248	16.4	70,352	17.0	23,797	5.8	17,752	3.7
C.2. Aggregate Deposits with Banks (a+b)	28,19,311	3,38,081	17.1	5,09,754	22.1	33,227	1.4	60,567	2.1
a) Demand Deposits	4,74,228	85,025	26.5	67,841	16.7	-42,399	-10.4	-42,300	-8.9
b) Time Deposits	23,45,083	2,53,056	15.3	4,41,913	23.2	75,626	4.0	1,02,866	4.4
C.3. 'Other' Deposits with the RBI	7,496	549	8.7	628	9.1	-1,613	-23.5	319	4.3
Sources									
S.1. Net Bank Credit to Government (A+B)	**8,38,177**	**17,888**	**2.4**	**71,582**	**9.3**	**23,431**	**3.1**	**18,976**	**2.3**
A. Net RBI Credit to Government (a+b)	5,752	35,799		-2,384		53		-25,483	
a. Net RBI Credit to Central Government	2,136	33,374		-3,024		3,071		-21,825	
b. Net RBI Credit to State Governments	3,616	2,425		639		-3,018		-3,657	
B. Other Banks' Credit to Government	8,32,425	-17,910	-2.3	73,967	9.8	23,378	3.1	44,459	5.3
S.2. Bank Credit to Commercial Sector (a+b)	**21,23,362**	**3,61,746**	**27.2**	**4,30,358**	**25.4**	**14,930**	**0.9**	**-25,063**	**-1.2**
a) RBI's Credit to Commercial Sector	1,537	-3	-0.2	150	10.8	0	0.0	-151	-9.8
b) Other Banks' Credit to Commercial Sector	21,21,825	3,61,748	27.2	4,30,208	25.4	14,930	0.9	-24,912	-1.2
S.3. Net Foreign Exchange Assets of Banking Sector (a+b)	**9,13,179**	**78,291**	**12.1**	**1,86,985**	**25.7**	**58,087**	**8.0**	**-2,745**	**-0.3**
a) RBI's Net Foreign Exchange Assets	8,66,153	61,545	10.1	1,93,170	28.7	71,845	10.7	-2,745	-0.3
b) Other Banks' Net Foreign Exchange Assets	47,026	16,746	45.9	-6,184	-11.6	-13,759	-25.9	0	0.0
S.4. Government's Currency Liabilities to the Public	**8,286**	**1,306**	**17.5**	**-467**	**-5.3**	**-920**	**-10.5**	**171**	**2.1**
S.5. Banking Sector's Net Non-Monetary Liabilities (a+b)	**5,72,727**	**62,353**	**15.5**	**1,07,725**	**23.2**	**40,117**	**8.6**	**-87,299**	**-15.2**
a) Net Non-monetary Liabilities of RBI	1,80,348	786	0.6	56,347	45.4	54,376	43.9	-46,897	-26.0
b) Net Non-monetary Liabilities of other Banks (Residual)	3,92,379	61,566	22.0	51,378	15.1	-14,259	-4.2	-40,403	-10.3

Note : 1. Data are provisional.
2. Data reflect redemption of India Millennium Deposits (IMDs) on December 29, 2005.
3. Financial year variation during 2006-07 is worked out from March 31, 2006, whereas the corresponding financial year variation during 2005-06 worked out from April 1, 2005.

APPENDIX TABLE 16 : NEW MONETARY AGGREGATES

(Amount in Rupees crore)

Item	Outstanding as on March 31, 2007	Variations							
		Financial year				April-June			
		2005-06		2006-07		2006-07		2007-08	
		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)	9,68,514	1,42,832	20.8	1,38,245	16.7	-20,296	-2.4	-24,415	-2.5
NM_2 (M_1+C.II.2.1)	19,87,668	2,63,013	18.9	3,32,021	20.1	11,899	0.7	22,441	1.1
NM_3 (NM_2+C.II.2.2+C.IV = S.I+S.II+S.III-S.IV-S.V)	**33,19,135**	**4,21,124**	**18.1**	**5,71,550**	**20.8**	**54,366**	**2.0**	**76,793**	**2.3**
Components									
C.I Currency with the Public	**4,83,542**	**58,299**	**16.4**	**70,399**	**17.0**	**23,830**	**5.8**	**17,794**	**3.7**
C.II Aggregate Deposits of Residents (C.II.1 + C.II.2)	**27,42,261**	**3,51,052**	**18.5**	**4,97,831**	**22.2**	**29,031**	**1.3**	**61,595**	**2.2**
C.II.1 Demand Deposits	4,77,476	83,984	25.7	67,218	16.4	-42,512	-10.4	-42,528	-8.9
C.II.2 Time Deposits of Residents (C.II.2.1 + C.II.2.2)	22,64,785	2,67,068	17.0	4,30,613	23.5	71,544	3.9	1,04,124	4.6
C.II.2.1 Short-term Time Deposits	10,19,153	1,20,181	17.0	1,93,776	23.5	32,195	3.9	46,856	4.6
C.II.2.1.1 Certificates of Deposits (CDs)	97,354	28,972		52,855		15,100		6,715	
C.II.2.2 Long-term Time Deposits	12,45,632	1,46,887	17.0	2,36,837	23.5	39,349	3.9	57,268	4.6
C.III 'Other' Deposits with the RBI	**7,496**	**549**	**8.7**	**628**	**9.1**	**-1,613**	**-23.5**	**319**	**4.3**
C.IV Call/Term Funding from Financial Institutions	**85,836**	**11,224**	**15.6**	**2,692**	**3.2**	**3,118**	**3.8**	**-2,916**	**-3.4**
Sources									
S.I Domestic Credit (S.I.1+S.I.2)	**30,93,257**	**3,67,066**	**16.5**	**4,98,588**	**19.2**	**44,898**	**1.7**	**15,784**	**0.5**
S.I.1 Net Bank Credit to the Government (S.I.1.1+S.I.1.2)	8,29,500	16,516	2.2	71,868	9.5	23,429	3.1	18,575	2.2
S.I.1.1 Net RBI Credit to the Government	5,752	35,799		-2,384		53		-25,483	
S.I.1.2 Credit to the Government by the Banking System	8,23,748	-19,282	-2.5	74,252	9.9	23,376	3.1	44,058	5.3
S.I.2 Bank Credit to the Commercial Sector (S.I.2.1+S.I.2.2)	22,63,757	3,50,550	23.6	4,26,721	23.2	21,469	1.2	-2,791	-0.1
S.I.2.1 RBI Credit to the Commercial Sector	1,537	-918	-17.3	-2,848	-64.9	-1,578	-36.0	-151	-9.8
S.I.2.2 Credit to the Commercial Sector by the Banking System	22,62,220	3,51,468	23.7	4,29,568	23.4	23,048	1.3	-2,640	-0.1
S.I.2.2.1 Other Investments (Non-SLR Securities)	1,49,310	-11,838	-7.6	5,007	3.5	9,993	6.9	24,286	16.3
S.II Government's Currency Liabilities to the Public	**8,286**	**1,306**	**17.5**	**-467**	**-5.3**	**-920**	**-10.5**	**171**	**2.1**
S.III Net Foreign Exchange Assets of the Banking Sector (S.III.1 + S.III.2)	**8,25,894**	**91,186**	**17.0**	**1,98,526**	**31.6**	**50,708**	**8.1**	**-223**	**-0.0**
S.III.1 Net Foreign Exchange Assets of the RBI	8,66,153	61,545	10.1	1,93,170	28.7	71,845	10.7	-2,745	-0.3
S.III.2 Net Foreign Currency Assets of the Banking System	-40,259	29,640		5,356		-21,137		2,521	
S.IV Capital Account	**3,84,067**	**39,911**	**14.3**	**65,523**	**20.6**	**55,761**	**17.5**	**-11,761**	**-3.1**
S.V Other Items (net)	**2,24,234**	**-1,476**	**-0.9**	**59,574**	**36.2**	**-15,441**	**-9.4**	**-49,301**	**-22.0**

Note : 1. Data are provisional.

2. Data reflect redemption of India Millennium Deposits (IMDs) on December 29, 2005.

3. Financial year variation during 2006-07 is worked out from March 31, 2006, whereas the corresponding financial year variation during 2005-06 is worked out from April 1, 2005.

APPENDIX TABLE 17 : LIQUIDITY AGGREGATES

(Amount in Rupees crore)

Month/Year	NM_3	Postal Deposits	L_1	Liabilities of Financial Institutions: Term Money Borrowings	CDs	Term Deposits	Total	L_2	Public Deposits with NBFCs	L_3
1	2	3	**4=(2+3)**	5	6	7	8=(5+6+7)	**9=(4+8)**	10	**11=(9+10)**
2005-06										
April	**23,29,999**	89,718	**24,19,717**	2,474	30	245	2,749	**24,22,466**		
May	**23,40,363**	91,306	**24,31,669**	3,027	31	245	3,303	**24,34,972**		
June	**23,51,794**	92,870	**24,44,664**	2,954	30	242	3,226	**24,47,890**	20,797	**24,68,687**
July	**23,67,507**	94,376	**24,61,883**	2,978	31	243	3,252	**24,65,135**		
August	**23,95,530**	95,885	**24,91,415**	2,991	31	246	3,268	**24,94,683**		
September	**24,80,351**	97,248	**25,77,599**	2,655	31	235	2,921	**25,80,520**	21,694	**26,02,214**
October	**24,87,997**	98,418	**25,86,415**	2,656	31	245	2,932	**25,89,347**		
November	**25,00,697**	99,771	**26,00,468**	2,656	31	245	2,932	**26,03,400**		
December	**25,26,094**	1,01,199	**26,27,293**	2,656	31	245	2,932	**26,30,225**	21,694	**26,51,919**
January	**25,54,824**	1,01,832	**26,56,656**	2,656	31	245	2,932	**26,59,588**		
February	**25,96,656**	1,02,121	**26,98,777**	2,656	31	245	2,932	**27,01,709**		
March	**27,47,585**	1,03,918	**28,51,503**	2,656	31	245	2,932	**28,54,435**	23,841	**28,78,276**
2006-07										
April	**27,84,883**	1,04,700	**28,89,583**	2,656	31	245	2,932	**28,92,515**		
May	**27,88,335**	1,05,852	**28,94,187**	2,656	31	245	2,932	**28,97,119**		
June	**28,01,951**	1,07,171	**29,09,122**	2,656	31	245	2,932	**29,12,054**	23,841	**29,35,895**
July	**28,46,735**	1,08,492	**29,55,227**	2,656	31	245	2,932	**29,58,159**		
August	**28,90,723**	1,09,931	**30,00,654**	2,656	31	245	2,932	**30,03,586**		
September	**29,65,093**	1,11,023	**30,76,116**	2,656	31	245	2,932	**30,79,048**	25,578	**31,04,625**
October	**29,59,194**	1,11,997	**30,71,191**	2,656	31	245	2,932	**30,74,123**		
November	**30,03,278**	1,13,240	**31,16,518**	2,656	31	245	2,932	**31,19,450**		
December	**30,21,785**	1,14,365	**31,36,150**	2,656	31	245	2,932	**31,39,082**	26,064	**31,65,147**
January	**30,82,508**	1,14,759	**31,97,267**	2,656	31	245	2,932	**32,00,199**		
February	**31,49,707**	1,14,804	**32,64,511**	2,656	31	245	2,932	**32,67,443**		
March	**33,19,135**	1,15,549	**34,34,684**	2,656	31	245	2,932	**34,37,616**	26,064	**34,63,681**
2007- 08										
April	**33,35,148**	1,15,589	**34,50,737**	2,656	31	245	2,932	**34,53,669**		
May	**33,38,768**	1,16,135	**34,54,903**	2,656	31	245	2,932	**34,57,835**		
June	**33,95,929**	1,16,573	**35,12,502**	2,656	31	245	2,932	**35,15,434**	26,064	**35,41,498**

CDs : Certificates of Deposit. L_1, L_2 and L_3 : Liquidity Aggregates. NBFCs : Non-Banking Financial Companies.

Note :
1. Postal Deposits comprise post office savings bank deposits, post office time deposits, post office recurring deposits, other deposits and post office cumulative time deposits.
2. 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.
3. Since July 2001, the term money borrowings of the FIs comprise borrowings from corporate and others.
4. Since August 2002,Term Deposits include CP and Others.
5. 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.
6. While L_1 and L_2 are compiled on a monthly basis, L_3 is compiled on a quarterly basis.
7. Data are provisional. Wherever data are not available, the estimates for the last available month have been repeated.

APPENDIX TABLE 18 : IMPORTANT BANKING INDICATORS - SCHEDULED COMMERCIAL BANKS

(Amount in Rupees crore)

Item	Outstanding as on March 30, 2007	Variations							
		Financial year				April-June			
		2005-06		2006-07		2006-07		2007-08 P	
		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)	**30,24,606**	**3,31,212**	**15.6**	**5,68,469**	**23.1**	**28,803**	**1.2**	**22,830**	**0.8**
2. Aggregate Deposits (a+b)	**26,08,309**	**3,23,913**	**18.1**	**4,99,260**	**23.7**	**34,594**	**1.6**	**59,878**	**2.3**
a. Demand deposits	4,29,137	78,623	27.5	64,497	17.7	-41,272	-11.3	-41,062	-9.6
b. Time deposits	21,79,172	2,45,291	16.4	4,34,763	24.9	75,866	4.3	100,940	4.6
3. Other Borrowings #	85,836	11,224	15.6	2,692	3.2	3,118	3.8	-2,916	-3.4
4. Other Demand and Time Liabilities	2,42,004	1,763	0.9	53,224	28.2	-4,355	-2.3	-21,335	-8.8
5. Borrowings from the RBI	6,245	1,393		4,757		-1,486		-6,144	
6. Inter-bank Liabilities	88,457	-5,688	-7.0	13,292	17.7	-4,554	-6.1	-12,797	-14.5
7. Bank Credit (a+b)	**19,28,913**	**3,54,868**	**30.8**	**4,21,836**	**28.0**	**14,050**	**0.9**	**-33,112**	**-1.7**
a. Food Credit	46,521	675	1.7	5,830	14.3	607	1.5	-2,564	-5.5
b. Non-food Credit	18,82,392	3,54,193	31.8	4,16,006	28.4	13,443	0.9	-30,547	-1.6
8. Investments (a+b)	**7,90,431**	**-22,809**	**-3.1**	**72,977**	**10.2**	**23,764**	**3.3**	**50,762**	**6.4**
a. Government securities	7,74,980	-19,514	-2.7	74,238	10.6	23,238	3.3	45,288	5.8
b. Other approved securities	15,451	-3,295	-16.5	-1,262	-7.5	526	3.1	5,474	35.4
9. Cash in hand	16,108	2,897	28.5	3,063	23.5	-837	-6.4	-324	-2.0
10. Balances with the RBI	1,80,222	34,077	36.6	53,161	41.8	-6,738	-5.3	378	0.2
11. Inter-Bank Assets	77,060	-5,133	-8.6	22,668	41.7	368	0.7	-12,899	-16.7
12. Credit-Deposit Ratio (%)	74.0		109.6		84.5		40.6		-55.3
13. Non-food Credit-Deposit Ratio (%)	72.2		109.3		83.3		38.9		-51.0
14. Investment-Deposit Ratio (%)	30.3		-7.0		14.6		68.7		84.8

P : Provisional.

: Other than from RBI/IDBI/NABARD/EXIM Bank

Note : Financial year variation during 2006-07 is worked out from March 31, 2006, whereas the corresponding financial year variation during 2005-06 is worked out from April 1, 2005.

APPENDIX TABLE 19 : COMMERCIAL BANK SURVEY

(Amount in Rupees crore)

Item	Outstanding as on March 30, 2007	Variations							
		Financial year				April-June			
		2005-06		2006-07		2006-07		2006-08	
		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)	**25,41,201**	**3,40,789**	**19.9**	**4,91,427**	**24.0**	**30,677**	**1.5**	**64,405**	**2.5**
C.I.I Demand Deposits	4,29,137	78,623	27.5	64,497	17.7	-41,272	-11.3	-41,062	-9.6
C.I.2 Time Deposits of Residents (C.I.2.1 + C.I.2.2)	21,12,063	2,62,167	18.4	4,26,930	25.3	71,949	4.3	1,05,467	5.0
C.I.2.1 Short-term Time Deposits	9,50,429	1,17,975	18.4	1,92,119	25.3	32,377	4.3	47,460	5.0
C.I.2.1.1 Certificates of Deposits (CDs)	97,354	28,972	186.6	52,855	118.8	15,100	33.9	6,715	6.9
C.I.2.2 Long-term Time Deposits	11,61,635	1,44,192	18.4	2,34,812	25.3	39,572	4.3	58,007	5.0
C.II Call/Term Funding from Financial Institutions	**85,836**	**11,224**	**15.6**	**2,692**	**3.2**	**3,118**	**3.8**	**-2,916**	**-3.4**
Sources									
S.I Domestic Credit (S.I.1 + S.I.2)	**28,62,491**	**3,22,807**	**15.8**	**4,98,250**	**21.1**	**45,844**	**1.9**	**41,654**	**1.5**
S.I.1 Credit to the Government	7,74,980	-19,514	-2.7	74,238	10.6	23,238	3.3	45,288	5.8
S.I.2 Credit to the Commercial Sector (S.I.2.1 + S.I.2.2 + S.I.2.3 + S.I.2.4)	20,87,511	3,42,321	25.9	4,24,012	25.5	22,606	1.4	-3,634	-0.2
S.I.2.1 Bank Credit	19,28,913	3,54,868	30.8	4,21,836	28.0	14,050	0.9	-33,111	-1.7
S.I.2.1.1Non-food Credit	18,82,392	3,54,193	31.8	4,16,006	28.4	13,443	0.9	-30,547	-1.6
S.I.2.2 Net Credit to Primary Dealers	2,799	2,586		-1,570		-1,963		-282	
S.I.2.3 Investments in Other Approved Securities	15,451	-3,295	-16.5	-1,262	-7.5	526	3.1	5,474	35.4
S.I.2.4 Other Investments (in non-SLR Securities)	1,40,347	-11,838	-8.0	5,007	3.7	9,993	7.4	24,286	17.3
S.II Net Foreign Currency Assets of Commercial Banks (S.II.1 - S.II.2 - S.II.3)	**-40,259**	**29,640**		**5,356**		**-21,137**		**2,521**	
S.II.1 Foreign Currency Assets	58,754	14,059	47.8	15,260	35.1	-13,919	-32.0	-8,671	-14.8
S.II.2 Non-resident Foreign Currency Repatriable Fixed Deposits	67,108	-16,876	-22.2	7,833	13.2	3,917	6.6	-4,527	-6.7
S.II.3 Overseas Foreign Currency Borrowings	31,905	1,295	4.5	2,071	6.9	3,301	11.1	-6,666	-20.9
S.III Net Bank Reserves (S.III.1 + S.III.2 - S.III.3)	**1,90,086**	**35,581**	**34.5**	**51,467**	**37.1**	**-6,090**	**-4.4**	**6,199**	**3.3**
S.III.1 Balances with the RBI	1,80,222	34,077	36.6	53,161	41.8	-6,738	-5.3	378	0.2
S.III.2 Cash in Hand	16,108	2,897	28.5	3,063	23.5	-837	-6.4	-324	-2.0
S.III.3 Loans and Advances from the RBI	6,245	1,393		4,757		-1,486		-6,144	
S.IV Capital Account	**2,02,618**	**40,320**	**29.3**	**24,891**	**14.0**	**12,025**	**6.8**	**38,702**	**19.1**
S.V Other items (net) (S.I + S.II + S.III - S.IV - C.I-C.II)	**1,82,663**	**-4,304**	**-2.9**	**36,063**	**24.6**	**-27,203**	**-18.6**	**-49,817**	**-27.3**
S.V.1 Other Demand & Time Liabilities (net of S.II.3)	2,10,099	468	0.3	51,154	32.2	-7,656	-4.8	-14,669	-7.0
S.V.2 Net Inter-Bank Liabilities (other than to PDs)	14,196	2,031	8.8	-10,945	-43.5	-6,886	-27.4	-180	-1.3

Note: 1. Data are provisional.

2. Data reflect redemption of India Millennium Deposits (IMDs) on December 29, 2005.

3. Financial year variation during 2006-07 is worked out from March 31, 2006, whereas the corresponding financial year variation during 2005-06 is worked out from April 1, 2005.

APPENDIX TABLE 20 : SECTORAL DEPLOYMENT OF GROSS BANK CREDIT

(Amount in Rupees crore)

Sector	Outstanding as on			Variations during			
	March 18, 2005	March 31, 2006	March 30, 2007	2005-06		2006-07	
				Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8
I. Gross Bank Credit (II + III)	10,45,954	14,43,920	18,41,878	3,97,966	38.0	3,97,958	27.6
II. Food Credit	41,121	40,691	46,521	-430	-1.0	5,830	14.3
III. Non-Food Gross Bank Credit (1 to 4)	10,04,833	14,03,229	17,95,357	3,98,396	39.6	3,92,128	27.9
1. Agriculture & Allied Activities	1,24,269	1,73,875	2,30,180	49,606	39.9	56,305	32.4
2. Industry (Small, Medium and Large)	4,23,136	5,49,940	6,91,483	1,26,804	30.0	1,41,543	25.7
3. Services	2,01,080	3,19,334	4,18,191	1,18,254	58.8	98,857	31.0
3.1. Transport Operators	8,396	17,341	26,416	8,945	106.5	9,075	52.3
3.2. Professional and Other Services	9,656	15,283	23,782	5,627	58.3	8,499	55.6
3.3. Trade	58,195	83,428	1,08,041	25,233	43.4	24,613	29.5
3.4. Real Estate Loans	13,546	26,693	45,328	13,147	97.1	18,635	69.8
3.5. Non-Banking Financial Companies	22,807	34,270	48,496	11,463	50.3	14,226	41.5
4. Personal Loans	2,56,348	3,60,081	4,55,503	1,03,733	40.5	95,422	26.5
4.1. Consumer Durables	8,976	7,101	9,151	-1,875	-20.9	2,050	28.9
4.2. Housing@	1,33,908	1,85,181	2,30,689	51,273	38.3	45,508	24.6
4.3. Advances Against Fixed Deposits (including FCNR (B), NRNR Deposits *etc.*)	29,774	34,283	40,455	4,509	15.1	6,172	18.0
4.4. Credit Card Outstandings	6,432	9,086	13,316	2,654	41.3	4,230	46.6
4.5. Education	5,680	9,962	15,020	4,282	75.4	5,058	50.8
Memo:							
5. Priority Sector	3,74,953	5,10,175	6,32,647	1,35,222	36.1	1,22,472	24.0
of which, Housing #	90,298	1,33,200	1,61,832	42,902	47.5	28,632	21.5

@ : Direct housing loans.

\# : Direct as well as indirect housing loans.

Note: 1. Data are provisional and relate to select scheduled commercial banks.

2. Owing to change in classification of sectors, data for 2006 onwards are not comparable with the earlier periods.
3. Year-on-year variations during 2005-06 cover data for 27 fortnights as against 26 fortnights in 2006-07.
4. Gross bank credit data include bills rediscounted with Reserve Bank, EXIM Bank, other approved financial institutions and inter-bank participations.

APPENDIX TABLE 21 : INDUSTRY-WISE DEPLOYMENT OF GROSS BANK CREDIT

(Amount in Rupees crore)

Sector	Outstanding as on			Variations during			
	March 18, 2005	March 31, 2006	March 30, 2007	2005-06		2006-07	
				Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6	7	8
1. Industry (Small, Medium and Large Scale)	4,23,136	5,49,940	6,91,483	1,26,804	30.0	1,41,543	25.7
2. Mining and Quarrying (including Coal)	2,139	4,146	7,582	2,007	93.8	3,436	82.9
3. Food Processing	24,025	30,940	39,560	6,915	28.8	8,620	27.9
4. Beverage and Tobacco	1,943	4,002	4,821	2,059	106.0	819	20.5
5. Textiles	43,789	58,326	78,289	14,537	33.2	19,963	34.2
6. Leather and Leather Products	3,264	4,483	4,753	1,219	37.3	270	6.0
7. Wood and Wood Products	489	1,496	2,875	1,007	205.9	1,379	92.2
8. Paper and Paper Products	6,863	9,132	11,494	2,269	33.1	2,362	25.9
9. Petroleum, Coal Products and Nuclear Fuels	15,261	25,150	35,462	9,889	64.8	10,312	41.0
10. Chemicals and Chemical Products	39,021	48,588	55,480	9,567	24.5	6,892	14.2
11. Rubber, Plastic and their Products	3,966	7,218	9,003	3,252	82.0	1,785	24.7
12. Glass and Glass Ware	395	1,817	2,557	1,422	360.0	740	40.7
13. Cement and Cement Products	8,005	7,799	9,334	-206	-2.6	1,535	19.7
14. Basic Metals and Metal Products	47,015	65,864	83,467	18,849	40.1	17,603	26.7
15. All Engineering	28,934	34,829	43,368	5,895	20.4	8,539	24.5
16. Vehicles, Vehicle Parts and Transport Equipments	12,045	18,622	20,673	6,577	54.6	2,051	11.0
17. Gems and Jewellery	14,156	20,549	23,789	6,393	45.2	3,240	15.8
18. Construction	8,321	13,275	19,470	4,954	59.5	6,195	46.7
19. Infrastructure	78,999	1,12,830	1,43,116	33,831	42.8	30,286	26.8
20. Other Industries	84,506	80,873	96,390	-3,633	-4.3	15,517	19.2

Note : 1. Data are provisional and relate to select scheduled commercial banks.
2. Owing to change in classification of sectors/industries, data for 2006 onwards are not comparable with the earlier periods.
3. Year-on-year variations during 2005-06 cover data for 27 fortnights as against 26 fortnights in 2006-07.
4. Gross bank credit data include bills rediscounted with Reserve Bank, EXIM Bank, other approved financial institutions and Inter-bank participations.

APPENDIX TABLE 22 : RESERVE BANK'S ACCOMMODATION TO SCHEDULED COMMERCIAL BANKS

(Amount in Rupees crore)

Item	2005-06 March	2006-07				2007-08 June
		June	September	December	March	
1	2	3	4	5	6	7
1. Export Credit Refinance						
A) Limit	6,051	6,514	6,963	7,200	8,110	8,343
B) Outstanding	1,568	2	1,564	1,784	4,985	101
Memo Items:						
1. Aggregate Export Credit $	86,207	93,067	94,773	97,763	1,04,926	1,07,983
2. Export Credit Eligible for Refinance	40,338	43,423	46,420	48,002	54,069	55,619
3. Aggregate Export Credit as Percentage of Net Bank Credit	5.7	6.0	5.7	5.6	5.4	5.6

$: Inclusive of Rupee export credit, preshipment 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.

APPENDIX TABLE 23 : VARIATIONS IN INDEX NUMBERS OF WHOLESALE PRICES (Base : 1993-94 = 100)

(Per cent)

Major Group/Sub-group/ Commodity	Weight	Variations					
		Year-on-year		Average		Year-on-year	
		April 1, 2006	March 31, 2007	2005-06	2006-07	July 1, 2006	June 30, 2007 P
1	2	3	4	5	6	7	8
All Commodities	**100.0**	**4.0**	**5.9**	**4.4**	**5.4**	**5.2**	**4.3**
I. Primary Articles	**22.0**	**4.8**	**10.7**	**2.9**	**7.8**	**7.6**	**8.9**
1. Food articles	15.4	5.9	8.0	4.8	7.7	7.8	7.7
a) Cereals	4.4	5.9	7.4	4.5	7.3	5.0	6.7
i) Rice	2.4	2.1	5.7	3.8	2.9	1.4	5.8
ii) Wheat	1.4	12.7	7.3	3.9	13.1	8.9	7.7
b) Pulses	0.6	33.3	12.5	11.5	30.5	31.0	2.9
c) Fruits and vegetables	2.9	0.6	3.8	7.4	3.9	4.1	15.8
d) Milk	4.4	1.9	8.4	0.3	6.3	6.3	5.2
e) Eggs, fish and meat	2.2	13.2	9.4	12.0	4.4	9.0	6.4
f) Condiments and spices	0.7	11.1	18.0	-6.2	29.1	25.1	6.6
g) Other food articles	0.2	11.5	15.6	4.5	19.0	28.0	-4.8
i) Tea	0.2	-2.1	16.7	-10.8	18.7	24.6	-16.1
ii) Coffee	0.1	33.7	14.1	39.5	19.4	34.0	13.9
2. Non-food articles	6.1	-2.4	17.2	-4.5	5.0	1.5	12.0
a) Fibres	1.5	-0.4	16.5	-10.4	4.2	2.5	8.8
Raw cotton	1.4	-1.7	21.9	-13.0	5.2	2.5	12.3
b) Oilseeds	2.7	-9.2	31.6	-7.6	5.1	-4.6	28.3
3. Minerals	0.5	43.6	17.5	26.4	28.3	52.8	11.4
II. Fuel, Power, Light and Lubricants	**14.2**	**8.3**	**1.0**	**9.5**	**5.6**	**7.4**	**-1.3**
1. Coking coal	0.2	0.0	0.0	5.2	0.0	0.0	0.0
2. Mineral oils	7.0	12.0	0.5	14.0	7.9	13.4	-3.5
3. Electricity	5.5	4.5	2.3	4.0	3.2	-0.6	2.4
III. Manufactured Products	**63.8**	**1.9**	**6.1**	**3.1**	**4.4**	**3.5**	**4.8**
1. Sugar, *Khandsari* and *Gur*	3.9	5.8	-11.4	9.5	0.6	7.6	-17.0
i) Sugar	3.6	6.2	-12.7	10.6	0.7	8.8	-18.5
ii) *Khandsari*	0.2	14.1	-11.3	20.4	3.0	8.9	-22.0
iii) *Gur*	0.1	2.3	-4.0	11.3	-3.8	-4.9	-11.8
2. Edible oils	2.8	-3.3	14.1	-6.6	5.8	0.1	15.0
3. Cotton textiles	4.2	2.3	-1.0	-8.3	3.2	1.5	2.0
4. Chemicals and chemical products	11.9	3.3	3.6	3.6	3.0	4.0	4.1
5. Cement	1.7	14.9	11.6	9.0	18.5	19.7	10.3
6. Iron and steel	3.6	-4.2	8.1	7.7	1.5	-1.6	6.7
7. Machinery and machine tools	8.4	3.2	8.1	5.1	5.6	3.7	8.7
8. Transport equipment and parts	4.3	0.9	2.0	3.7	1.6	1.1	1.9

P : Provisional.

Source : Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.

APPENDIX TABLE 24 : VARIATIONS IN WHOLESALE PRICES - WEIGHTED CONTRIBUTIONS (Base : 1993-94 = 100)

(Per cent)

Major Group/Sub-group/Commodity	Weight	Weighted Contributions					
		Year-on-year		Average		Year-on-year	
		April 1, 2006	March 31, 2007	2005-06	2006-07	July 1, 2006	June 30, 2007 P
1	2	3	4	5	6	7	8
All Commodities	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
I. Primary Articles	**22.0**	**25.8**	**39.0**	**14.4**	**31.3**	**31.2**	**46.1**
1. Food articles	15.4	22.5	20.8	16.7	21.9	22.7	28.0
a) Cereals	4.4	6.2	5.3	4.2	5.6	4.0	6.5
i) Rice	2.4	1.1	2.1	1.9	1.2	0.6	2.9
ii) Wheat	1.4	4.3	1.8	1.2	3.3	2.2	2.4
b) Pulses	0.6	4.5	1.4	1.5	3.4	3.4	0.5
c) Fruits and vegetables	2.9	0.5	2.0	5.3	2.4	2.5	11.3
d) Milk	4.4	2.0	5.8	0.3	4.8	5.0	5.1
e) Eggs, fish and meat	2.2	7.3	3.8	6.2	2.0	4.1	3.7
f) Condiments and spices	0.7	1.7	2.0	-0.9	3.2	2.8	1.1
g) Other food articles	0.2	0.4	0.4	0.2	0.6	0.8	-0.2
i) Tea	0.2	0.0	0.2	-0.3	0.3	0.5	-0.4
ii) Coffee	0.1	0.5	0.2	0.4	0.2	0.4	0.2
2. Non-food articles	6.1	-3.5	15.6	-6.2	5.2	1.6	15.5
a) Fibres	1.5	-0.1	3.1	-3.2	0.9	0.6	2.4
Raw cotton	1.4	-0.4	3.5	-3.5	1.0	0.5	2.8
b) Oilseeds	2.7	-5.5	11.0	-4.4	2.1	-2.1	14.3
3. Minerals	0.5	6.9	2.6	3.9	4.2	6.8	2.6
II. Fuel, Power, Light and Lubricants	**14.2**	**45.5**	**4.0**	**45.7**	**23.1**	**31.7**	**-7.2**
1. Coking coal	0.2	0.0	0.0	0.3	0.0	0.0	0.0
2. Mineral oils	7.0	37.2	1.1	37.2	18.7	32.5	-11.2
3. Electricity	5.5	8.3	2.8	6.7	4.4	-0.8	4.0
III. Manufactured Products	**63.8**	**27.7**	**57.3**	**39.8**	**45.5**	**37.2**	**61.6**
1. Sugar, *Khandsari* and *Gur*	3.9	5.2	-7.0	7.3	0.4	5.1	-14.4
i) Sugar	3.6	4.7	-6.6	6.8	0.4	5.0	-13.3
ii) *Khandsari*	0.2	0.6	-0.3	0.7	0.1	0.3	-0.9
iii) *Gur*	0.1	0.0	0.0	0.1	0.0	-0.1	-0.1
2. Edible oils	2.8	-1.8	4.7	-3.4	2.2	0.0	7.0
3. Cotton textiles	4.2	2.1	-0.6	-7.1	1.9	1.0	1.6
4. Chemicals and chemical products	11.9	9.7	7.1	9.4	6.4	8.9	10.8
5. Cement	1.7	5.6	3.2	2.9	5.0	5.5	4.0
6. Iron and steel	3.6	-5.1	6.0	7.8	1.3	-1.5	7.1
7. Machinery and machine tools	8.4	5.2	8.6	7.2	6.5	4.5	12.8
8. Transport equipment and parts	4.3	0.8	1.2	2.9	1.0	0.8	1.5

P : Provisional.

Source : Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.

APPENDIX TABLE 25 : ANNUALISED VARIATIONS IN PRICE INDICES
(Year-on-year)

(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
2000-01	4.9	2.5	5.6	-2.0
	(7.2)	(3.8)	(5.6)	(-0.3)
2001-02	1.6	5.2	4.8	3.0
	(3.6)	(4.3)	(5.1)	(1.1)
2002-03	6.5	4.1	3.8	4.9
	(3.4)	(4.0)	(3.8)	(3.2)
2003-04	4.6	3.5	3.4	2.5
	(5.4)	(3.9)	(3.7)	(3.9)
2004-05	5.1	4.2	4.0	2.4
	(6.4)	(3.8)	(3.6)	(2.6)
2005-06	4.1	4.9	5.0	5.3
	(4.4)	(4.4)	(4.7)	(3.9)
2006-07	5.9 ^	6.7	7.6	9.5
	(5.4)	(6.7)	(6.6)	(7.8)
2005-06				
April	5.7	5.0	4.2	3.0
May	5.3	3.7	4.2	3.0
June	4.3	3.3	3.9	2.7
July	4.2	4.1	4.8	3.6
August	3.3	3.4	4.3	3.2
September	4.3	3.6	4.8	3.2
October	4.8	4.2	4.5	3.2
November	4.5	5.3	5.5	4.7
December	4.6	5.6	5.7	4.7
January	4.0	4.7	5.0	4.7
February	4.2	4.9	4.8	5.0
March	4.1	4.9	5.0	5.3
2006-07				
April	3.9	5.0	5.0	5.6
May	5.0	6.3	5.8	6.4
June	4.8	7.7	6.5	7.2
July	4.7	6.7	5.7	6.3
August	5.3	6.3	6.1	6.5
September	5.4	6.8	6.6	7.3
October	5.3	7.3	7.2	8.4
November	5.6	6.3	6.7	8.3
December	5.9	6.9	6.9	8.9
January	6.7	6.7	7.4	9.5
February	6.2	7.6	7.8	9.8
March	5.9	6.7	7.6	9.5
2007-08				
April	6.0	6.7	7.7	9.4
May	5.2	6.6	6.8	8.2
June	4.3 P	5.7	6.1	7.8

P : Provisional. @ : Base : 1993-94=100.

: Base : 1982=100 up to December 2005 and Base : 2001=100 from January 2006.

+ : Base : 1984-85=100. * : Base : 1986-87=100.

^ : The year-on-year inflation comparable with the week ended March 31, 2007 is 4.0 per cent, which represents the variation of April 1, 2006 over April 2, 2005.

Note : Figures in parentheses are on an average basis.

Source : 1. Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.
2. Labour Bureau, Ministry of Labour and Employment, Government of India.
3. Central Statistical Organisation, Ministry of Statistics and Programme Implementation, Government of India.

APPENDIX TABLE 26 : 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
1996-97	66,733 (56,242)	46,394	7,255 (-3236)	9,022	1,934	32,654
1997-98	88,937 (73,204)	63,062	23,300 (7,567)	22,748	12,914	46,449
1998-99	1,13,349 (89,560)	79,944	35,466 (11,678)	32,138	11,800	66,976
1999-2000	1,04,716	89,910	14,467	33,539	-5,588	67,596
2000-01	1,18,816	1,07,854	19,502	41,351	6,705	85,234
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	1,07,879
2003-04	1,23,273	1,15,558	-815	30,008	-76,065	98,261
2004-05	1,25,794	1,26,252	-1,140	31,705	-60,177	78,338
2005-06	1,46,435	1,45,743	13,805	35,145	28,417	92,299
2006-07 BE	1,48,686	1,47,825	8,863	27,265	..	84,727
2006-07 RE	1,52,328	1,48,072	6,136	22,011	-1,042	83,436
2007-08 BE	1,50,948	1,44,950	-8,047	5,263	..	71,478
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
1996-97	4.88 (4.11)	3.39	0.53 (-0.24)	0.66	0.14	2.39
1997-98	5.84 (4.81)	4.14	1.53 (0.50)	1.49	0.85	3.05
1998-99	6.51 (5.14)	4.59	2.04 (0.67)	1.85	0.68	3.85
1999-2000	5.36	4.61	0.74	1.72	-0.29	3.46
2000-01	5.65	5.13	0.93	1.97	0.32	4.05
2001-02	6.18	5.40	1.47	2.24	-0.23	4.39
2002-03	5.90	5.44	1.11	2.18	-1.16	4.39
2003-04	4.46	4.18	-0.03	1.09	-2.75	3.55
2004-05	4.02	4.04	-0.04	1.01	-1.92	2.51
2005-06	4.11	4.09	0.39	0.99	0.80	2.59
2006-07 BE	3.76	3.74	0.22	0.69	..	2.14
2006-07 RE	3.69	3.59	0.15	0.53	-0.03	2.02
2007-08 BE	3.26	3.13	-0.17	0.11	..	1.54
Average 1995-96 to 2005-06	5.29 *	4.50	0.87 *	1.52	-0.36	3.42

RE : Revised Estimates. BE : Budget Estimates.

.. : Not Available. + : As per RBI records. * : Net of States' share in small savings.

Note : 1. Revenue deficit is the excess of revenue expenditure over revenue receipts. Net RBI credit to the Central Government is the sum of increase in the Reserve Bank's holdings of i)Treasury Bills, ii) Government of India dated securities, iii) rupee coins and iv) Ways and Means Advances from the Reserve Bank to the Centre (since April 1, 1997) adjusted for Centre's cash balances with the Reserve Bank. Gross fiscal deficit is the excess of total expenditure (including loans, net of changes in recoveries) over revenue receipts (including external grants) and non-debt capital receipts. Net fiscal deficit is the difference between gross fiscal deficit and net lending. Gross primary deficit is the difference between gross fiscal deficit and interest payments. Net primary deficit denotes net fiscal deficit *minus* net interest payments.

2. Figures in parentheses are excluding States' share in small savings as per the system of accounting followed since 1999-2000.

3. Negative sign indicates surplus.

Source : Central Government Budget Documents and Reserve Bank records.

APPENDIX TABLE 27 : MAJOR ITEMS OF RECEIPTS AND EXPENDITURES OF THE CENTRAL GOVERNMENT

(Rupees crore)

Item	Average 1996-97 to 2005-06	2002-03	2003-04	2004-05	2005-06	2006-07 (BE)	2006-07 (RE)	2007-08 (BE)
1	2	3	4	5	6	7	8	9
1. Total Receipts (2+5)		4,11,365	4,75,146	5,06,382	5,06,123	5,63,991	5,81,637	6,80,521@
	(15.61)	(16.74)	(17.18)	(16.20)	(14.19)	(14.2)	(14.10)	(14.69)
2. Revenue Receipts (3+4)		2,30,834	2,63,813	3,05,991	3,47,462	4,03,465	4,23,331	4,86,422
	(9.24)	(9.39)	(9.54)	(9.79)	(9.74)	(10.21)	(10.26)	(10.50)
3. Tax Revenue (Net to Centre)		1,58,544	1,86,982	2,24,798	2,70,264	3,27,205	3,45,971	4,03,872
	(6.60)	(6.45)	(6.76)	(7.19)	(7.58)	(8.28)	(8.39)	(8.72)
4. Non-tax Revenue		72,290	76,831	81,193	77,198	76,260	77,360	82,550
of which :	(2.63)	(2.94)	(2.78)	(2.60)	(2.16)	(1.93)	(1.88)	(1.78)
i) Interest Receipts		37,622	38,538	32,387	22,032	19,263	20,131	19,308
	(1.44)	(1.53)	(1.39)	(1.04)	(0.62)	(0.49)	(0.49)	(0.42)
ii) Dividends and Profits		21,230	21,160	22,939	25,451	27,500	30,438	33,925
	(0.60)	(0.86)	(0.77)	(0.73)	(0.71)	(0.70)	(0.74)	(0.73)
5. Capital Receipts		1,80,531	2,11,333	2,00,391	1,58,661	1,60,526	1,58,306	1,94,099@
	(6.37)	(7.34)	(7.64)	(6.41)	(4.45)	(4.06)	(3.84)	(4.19)
6. Total Expenditure (7+8)		4,13,248	4,71,203	4,98,252	5,06,123	5,63,991	5,81,637	6,80,521@
	(15.66)	(16.81)	(17.04)	(15.94)	(14.19)	(14.27)	(14.10)	(14.69)
7. Revenue Expenditure		3,38,713	3,62,074	3,84,329	4,39,761	4,88,192	5,06,767	5,57,900
of which :	(12.66)	(13.78)	(13.09)	(12.29)	(12.33)	(12.35)	(12.28)	(12.04)
i) Interest Payments		1,17,804	1,24,088	1,26,934	1,32,630	1,39,823	1,46,192	1,58,995
	(4.42)	(4.79)	(4.49)	(4.06)	(3.72)	(3.54)	(3.54)	(3.43)
ii) Subsidies		43,533	44,323	43,653	47,520	46,213	53,463	54,330
	(1.37)	(1.77)	(1.60)	(1.40)	(1.33)	(1.17)	(1.30)	(1.17)
iii) Defence		40,709	43,203	43,862	48,211	51,542	51,542	54,078
	(1.62)	(1.66)	(1.56)	(1.40)	(1.35)	(1.30)	(1.25)	(1.17)
8. Capital Disbursements		74,535	1,09,129	1,13,923	66,362	75,799	74,870	1,22,621@
of which :	(3.00)	(3.03)	(3.95)	(3.64)	(1.86)	(1.92)	(1.81)	(2.65)
Capital Outlay		29,101	34,150	52,338	55,025	66,938	65,164	115,123@
	(1.25)	(1.18)	(1.23)	(1.67)	(1.54)	(1.69)	(1.58)	(2.48)
9. Developmental Expenditure*		1,84,197	1,95,428	2,14,955	2,29,060	2,62,515	2,59,752	3,45,878@
of which :	(7.01)	(7.49)	(7.07)	(6.88)	(6.42)	(6.64)	(6.30)	(7.46)
Social Sector		58,606	61,178	65,132	76,956	81,605	99,387	94,486
	(1.88)	(2.38)	(2.21)	(2.08)	(2.16)	(2.06)	(2.41)	(2.04)
10. Non-Developmental Expenditure*		2,42,749	2,43,298	2,62,904	2,90,677	3,16,081	3,35,757	3,48,847
	(8.84)	(9.88)	(8.80)	(8.41)	(8.15)	(8.00)	(8.14)	(7.53)
Memo Items:								(per cent)
1. Interest Payments/Revenue Receipts	48.06	51.03	47.04	41.48	38.17	34.66	34.53	32.69
2. Revenue Deficit/Gross Fiscal Deficit	64.70	74.36	79.71	62.27	63.03	56.98	54.77	47.35
3. Net RBI Credit to Centre/GFD	-8.52	-19.58	-61.70	-47.84	19.41	..	-0.68	..

BE : Budget Estimates. RE : Revised Estimates. .. : Not Available.

@ : Includes an amount of Rs.40,000 crore on account of transactions relating to transfer of the Reserve Bank's stake in the State Bank of India to the Central Government.

* : 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 28 : 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 @	Drawdown 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)
2001-02	90,812 (64.4)	46,038 (32.7)	-1,496 -(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)	1,36,761 (110.9)	-13,488 -(10.9)	1,23,273 (100.0)
2004-05	50,939 & (40.5)	68,232 (54.2)	-8,130 -(6.5)	1,11,041 (88.3)	14,753 (11.7)	1,25,794 (100.0)
2005-06	1,06,241 & (72.6)	53,610 (36.6)	-20,888 -(14.3)	1,38,963 (94.9)	7,472 (5.1)	1,46,435 (100.0)
2006-07 (BE)	1,13,778 & (76.5)	26,584 (17.9)	0 (0.0)	1,40,362 (94.4)	8,324 (5.6)	1,48,686 (100.0)
2006-07 (RE)	1,10,500 & (72.5)	23,010 (15.1)	10,926 (7.2)	1,44,436 (94.8)	7,892 (5.2)	1,52,328 (100.0)
2007-08 (BE)	1,10,827 & (73.4)	31,010 (20.5)	0 (0.0)	1,41,837 (94.0)	9,111 (6.0)	1,50,948 (100.0)

RE : Revised Estimates. BE : Budget Estimates.

\# : Includes dated securities and 364-day Treasury Bills.

@ : Other borrowings include small savings, state provident funds, special deposits, reserve funds, Treasury Bills (excluding 364-day Treasury Bill). From 1999-2000, small savings and public provident funds are represented through NSSF's investment in Central Government special securities and since 2003-04 also includes NSSF's investment of redemption proceeds in Central Government special securities.

\+ : Prior to 1997, represents variations in 91-day Treasury Bills issued net of changes in cash balances with the Reserve Bank.

& : Exclusive of amount raised under Market Stabilisation Scheme.

Note : 1. Figures in parentheses represent percentages to 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 29 : 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 (5+6)
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)	2,13,435 (18.0)	33,680 (2.8)	5,54,984 (46.7)	51,249 (4.3)	6,06,233 (51.0)
2001-02	9,13,061 (40.0)	3,08,668 (13.5)	73,133 (3.2)	12,94,862 (56.8)	71,546 (3.1)	13,66,408 (59.9)
2002-03	10,20,689 (41.5)	3,98,774 (16.2)	80,126 (3.3)	14,99,589 (61.0)	59,612 (2.4)	15,59,201 (63.4)
2003-04	11,41,706 (41.3)	4,56,472 (16.5)	92,376 (3.3)	16,90,554 (61.1)	46,124 (1.7)	17,36,678 (62.8)
2004-05	12,75,971 $ (40.8)	5,64,584 (18.1)	92,989 (3.0)	19,33,544 (61.8)	60,877 (1.9)	19,94,421 (63.8)
2005-06	13,89,758 $ (39.0)	6,66,682 (18.7)	1,09,462 (3.1)	21,65,902 (60.7)	94,243 (2.6)	22,60,145 (63.4)
2006-07(RE)	15,54,238 $ (37.7)	7,54,718 (18.3)	1,25,374 (3.0)	24,34,330 (59.0)	1,02,135 (2.5)	25,36,465 (61.5)
2007-08 (BE)	16,83,966 $ (36.3)	8,25,529 (17.8)	1,23,701 (2.7)	26,33,196 (56.8)	1,11,245 (2.4)	27,44,441 (59.2)

RE : Revised Estimates. BE : Budget Estimates.

* : At historical exchange rate.

$: Includes amount raised under Market Stabilisation Scheme (MSS).

Note : 1. Figures in parentheses represent percentages to GDP.

2. From 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 30 : 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	18,786	14,531	10,131	8,280	420	-74	5,309
1995-96	31,426	26,696	9,493	10,555	16	-2,850	8,201
2000-01	89,510	84,676	37,808	44,411	-1,092	-2,346	53,569
2005-06 P	89,847	81,746	4,177	6,709	2,425	-39,857	2,690
2006-07 (RE) P	1,14,476	1,04,935	16,591	17,616	-2,733	17,900	1,303
2007-08 (BE) P	1,09,904	94,682	4,561	1,926	..	2,103	-17,288
As Percentage to GDP at Current Market Prices							
1990-91	3.30	2.56	1.78	1.46	0.07	-0.01	0.93
1995-96	2.65	2.25	0.80	0.89	0.00	-0.24	0.69
2000-01	4.26	4.03	1.80	2.11	-0.05	-0.11	2.55
2005-06 P	2.52	2.29	0.12	0.19	0.07	-1.12	0.08
2006-07 (RE) P	2.77	2.54	0.40	0.43	-0.07	0.43	0.03
2007-08 (BE) P	2.37	2.04	0.10	0.04	..	0.05	-0.37

B : Select Budgetary Variables of State Governments

(Per cent)

Item	1990-00 (Average)	2005-06 P	2006-07 P (RE)	2007-08 P (BE)
1	2	3	4	5
1. GFD / Total Expenditure (excluding recoveries)	21.4	16.3	16.9	14.5
2. Revenue Deficit / Revenue Expenditure	9.3	0.6	0.2	-2.9
3. Conventional Deficit / Aggregate Disbursements	-0.1	7.0	-2.5	-0.3
4. Revenue Deficit / GFD	34.8	3.0	1.1	-15.7
5. Non-Developmental Revenue Expenditure / Revenue Receipts	39.6	42.8	40.9	39.2
6. Interest Payments/Revenue Receipts	16.5	19.4	18.0	16.9
7. Developmental Expenditure / GDP	10.2	9.5	10.4	10.4
of which : Social Sector Expenditure / GDP	5.7	5.4	6.1	6.1
8. Non-Developmental Expenditure / GDP	4.6	5.4	5.5	5.4
9. States' Own Tax Revenue/GDP	5.3	6.2	6.5	6.6
10. States' Own Non Tax Revenue / GDP	1.7	1.4	1.4	1.3

RE : Revised Estimates. BE : Budget Estimates. .. Not available.
GFD : Gross Fiscal Deficit. P : Provisional data.
* : Data pertain to State Governments having accounts with the Reserve Bank of India.

Notes : (1) The net RBI credit to State Governments refers to variations in loans and advances given to them by the Reserve Bank net of their incremental deposits with the Reserve Bank.
(2) Negative sign (-) indicates surplus.

Source : Budget Documents of the State Governments and the Reserve Bank records.

APPENDIX TABLE 31 : 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		68,306	1,20,297	1,88,603	12,204	1,04,823	1,17,027	80,510	2,25,120	3,05,630
	(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	13,592	1,13,878	1,27,470	82,789	2,31,741	3,14,530
	(a)	37.0	63.0	100.0	10.7	89.3	100.0	26.3	73.7	100.0
	(b)	3.0	5.2	8.2	0.6	5.0	5.6	3.6	10.2	13.8
2002-03		83,085	1,33,181	2,16,266	18,151	1,24,526	1,42,677	1,01,236	2,57,707	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		1,05,090	1,49,258	2,54,348	20,531	1,40,703	1,61,234	1,25,621	2,89,961	4,15,582
	(a)	41.3	58.7	100.0	12.7	87.3	100.0	30.2	69.8	100.0
	(b)	3.8	5.4	9.2	0.7	5.1	5.8	4.5	10.5	15.0
2004-05		1,32,771	1,72,777	3,05,548	24,043	1,65,045	1,89,088	1,56,814	3,37,822	4,94,636
	(a)	43.5	56.5	100.0	12.7	87.3	100.0	31.7	68.3	100.0
	(b)	4.2	5.5	9.8	0.8	5.3	6.1	5.0	10.8	15.8
2005-06 *		1,65,202	2,00,949	3,66,151	30,211	1,90,658	2,20,869	1,95,413	3,91,607	5,87,020
	(a)	45.1	54.9	100.0	13.7	86.3	100.0	33.3	66.7	100.0
	(b)	4.6	5.6	10.3	0.8	5.3	6.2	5.5	11.0	16.5
2006-07 *		2,10,684	2,31,469	4,42,153	31,388	2,21,786	2,53,174	2,42,072	4,53,255	6,95,327
BE	(a)	47.6	52.4	100.0	12.4	87.6	100.0	34.8	65.2	100.0
	(b)	5.3	5.9	11.2	0.8	5.6	6.4	6.1	11.5	17.6
2006-07 *		2,29,272	2,38,576	4,67,848	32,733	2,29,784	2,62,517	2,62,005	4,68,360	7,30,365
RE	(a)	49.0	51.0	100.0	12.5	87.5	100.0	35.9	64.1	100.0
	(b)	5.6	5.8	11.3	0.8	5.6	6.4	6.4	11.4	17.7
2007-08 *		2,67,490	2,80,632	5,48,122	39,808	2,60,087	2,99,895	3,07,298	5,40,719	8,48,017
BE	(a)	48.8	51.2	100.0	13.3	86.7	100.0	36.2	63.8	100.0
	(b)	5.8	6.1	11.8	0.9	5.6	6.5	6.6	11.7	18.3
Memo Items :										
(Average)										
1996-97	(a)	37.3	62.8	100.0	12.7	87.3	100.0	27.7	72.3	100.0
to 2005-06	(b)	3.4	5.7	9.1	0.8	5.1	5.8	4.2	10.7	14.9

RE : Revised Estimates. BE : Budget Estimates.

@ : Excluding States' share in central taxes as reported in Central Government budget documents.

* : Data regarding State Governments are provisional for the years 2005-06, 2006-07 (BE), 2006-07 (RE) and 2007-08 (BE) .

(a) : Represents percentages to total tax revenue.

(b) : Represents percentages to GDP.

Source : Budget Documents of the Central and the State Governments.

APPENDIX TABLE 32 : FINANCING OF GROSS FISCAL DEFICIT AND OUTSTANDING LIABILITIES OF STATE GOVERNMENTS

A. Financing of Gross Fiscal Deficit of State Governments (Rupees crore)

Year	Market Borrow-ings	Loans from Centre	Loans against Securities issued to NSSF	Loans from LIC, NABARD, NCDC, *etc.*	State Provident Funds	Reserve Funds	Deposits and Advances	Suspense and Miscell-aneous	Remitt-ances	Overall Surplus (-)/ Deficit (+)	Others #	Gross Fiscal Deficit (2 to12)
1	2	3	4	5	6	7	8	9	10	11	12	13
1990-91	2,556	9,978	–	241	2,488	1,120	1,670	376	-154	-74	438	18,786
	(13.6)	(53.1)	–	(1.3)	(13.2)	(6.0)	(8.9)	(2.0)	-(0.8)	-(0.4)	(2.3)	(100.0)
1995-96	5,888	14,801	–	635	4,201	2,101	2,947	3,096	-338	-2,850	-4,754	31,426
	(18.7)	(47.1)	–	(2.0)	(13.4)	(6.7)	(9.4)	(9.9)	-(1.1)	-(9.1)	-(15.1)	(100.0)
2000-01	12,519	8,396	32,606	4,550	10,846	3,099	7,136	2,355	1,032	-2,346	9,317	89,510
	(14.0)	(9.4)	(36.4)	(5.1)	(12.1)	(3.5)	(8.0)	(2.6)	(1.2)	-(2.6)	(10.4)	(100.0)
2001-02	17,249	10,974	35,648	6,285	7,977	4,521	4,996	-2,452	-427	3,426	7,796	95,993
	(18.0)	(11.4)	(37.1)	(6.5)	(8.3)	(4.7)	(5.2)	-(2.6)	-(0.4)	(3.6)	(8.1)	(100.0)
2002-03	28,484	-932	52,243	4,858	7,195	4,799	711	1,212	93	-4,611	8,015	1,02,067
	(27.9)	-(0.9)	(51.2)	(4.8)	(7.0)	(4.7)	(0.7)	(1.2)	(0.1)	-(4.5)	(7.9)	(100.0)
2003-04	47,286	14,117	20,813	4,132	7,122	6,377	-374	-5,429	1,850	-1,075	28,231	1,23,050
	(38.4)	(11.5)	(16.9)	(3.4)	(5.8)	(5.2)	-(0.3)	-(4.4)	(1.5)	-(0.9)	(22.9)	(100.0)
2004-05	32,768	-12,673	68,793	44	8,034	7,127	8,074	-10,649	1,240	-10,459	16,952	1,09,251
	(30.0)	-(11.6)	(63.0)	(0.04)	(7.4)	(6.5)	(7.4)	-(9.7)	(1.1)	-(9.6)	(15.5)	(100.0)
2005-06 P	15,305	4,936	74,508	4,055	9,617	5,228	7,262	7,911	51	-39,857	830	89,847
	(17.0)	(5.5)	(82.9)	(4.51)	(10.7)	(5.8)	(8.1)	(8.8)	(0.1)	-(44.4)	(0.9)	(100.0)
2006-07 (RE) P	18,938	-1,651	58,667	6,020	10,090	4,733	1,775	31	319	17,900	-2,346	1,14,476
	(16.5)	-(1.4)	(51.2)	(5.3)	(8.8)	(4.1)	(1.6)	(0.0)	(0.3)	(15.64)	-(2.0)	(100.0)
2007-08 (BE) P	26,100	5,318	53,679	6,793	11,442	4,235	1,508	-1,437	-44	2,103	209	1,09,904
	(23.7)	(4.8)	(48.8)	(6.2)	(10.4)	(3.9)	(1.4)	-(1.3)	(0.0)	(1.9)	(0.2)	(100.0)

B. Outstanding Liabilities of State Governments (Rupees crore)

Year	Market Loans	Loans and Advances from Centre	NSSF	Loans from Banks and FIs	Provident Funds, *etc.*	Reserve Funds	Deposits and Advances	Others +	Total Out-standing Liabilities (2 to 9)	Total Out-standing Liabilities as Percentage to GDP
1	2	3	4	5	6	7	8	9	10	11
1990-91	15,652	73,521	–	2,513	16,861	4,734	12,769	2,105	1,28,155	22.5
1995-96	37,088	130,618	–	4,838	38,216	10,577	26,654	2,809	2,50,889	21.1
2000-01	86,767	2,43,910	59,022	29,213	93,629	22,868	59,328	7,336	6,02,073	28.6
2001-02	1,04,027	2,54,884	94,670	40,894	1,03,815	27,389	64,325	10,520	7,00,524	30.7
2002-03	1,33,066	2,53,952	1,46,914	51,198	1,13,678	32,188	65,036	2,889	7,98,921	32.5
2003-04	1,79,466	2,68,069	1,67,726	60,990	1,23,003	38,565	64,662	21,020	9,23,500	33.4
2004-05	2,13,443	2,56,265	2,35,650	62,171	1,31,886	45,692	72,736	24,462	10,42,304	33.3
2005-06 P	2,28,748	2,61,201	3,10,158	68,127	1,42,349	50,920	79,998	22,333	11,63,834	32.6
2006-07 (RE) P	2,47,686	2,59,551	3,68,825	73,817	1,53,236	55,654	81,773	19,649	12,60,190	30.5
2007-08 (BE) P	2,73,786	2,64,868	4,22,503	81,334	1,65,632	59,889	83,280	18,250	13,69,543	29.6

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

#: Includes Miscellaneous Capital Receipts, Contingency Fund, Inter-State Settlement, *etc.*

+: Includes WMA from RBI, Contingency Fund, Compensation and Other Bonds.

Note : 1. Figures in parantheses are percentages to gross fiscal deficit.

2. Data on outstanding liabilities of the State Governments have been revised by broadening its composition to include Reserve Funds, Deposits and Advances and Contingency Fund.

Source : Budget Documents of State Governments and 'Combined Finance and Revenue Accounts of Union and State Governments', Government of India.

APPENDIX TABLE 33 : COMBINED RECEIPTS AND DISBURSEMENTS OF THE CENTRAL AND THE STATE GOVERNMENTS

(Rupees crore)

Item	2002-03 (Accounts)	2003-04 (Accounts)	2004-05 (Accounts)	2005-06 (Accounts)	2006-07 (Revised Estimates)	2007-08 (Budget Estimates)
1	2	3	4	5	6	7
I. Total Disbursements (A+B+C)	**7,04,904**	**7,96,384**	**8,69,757**	**9,70,780**	**11,62,151**	**13,27,296**
of which						
A. Developmental (i +ii +iii)	**3,59,329**	**4,17,834**	**4,45,354**	**5,17,170**	**6,28,775**	**7,58,406**
i) Revenue	2,88,431	3,18,444	3,42,517	3,96,274	4,81,618	5,46,932
ii) Capital	50,633	69,070	78,936	98,245	1,25,884	1,88,629
iii) Loans	20,265	30,320	23,901	22,651	21,273	22,844
B. Non-Developmental (i+ii+iii)	**3,39,523**	**3,71,651**	**4,16,340**	**4,43,248**	**5,19,492**	**5,52,300**
i) Revenue	3,22,357	3,52,676	3,79,825	4,06,252	4,71,484	5,02,215
of which :						
Interest Payments	1,59,060	1,77,573	1,92,312	2,05,623	2,31,945	2,52,828
i) Capital	15,038	17,603	34,368	35,843	46,208	48,730
iii) Loans	2,128	1,371	2,147	1,153	1,800	1,355
C. Others ++	**6,052**	**6,899**	**8,063**	**10,361**	**13,884**	**16,590**
II. Total Receipts	**7,07,634**	**7,99,162**	**8,88,345**	**10,31,525**	**11,33,325**	**13,25,193**
of which :						
A. Revenue Receipts	**4,53,850**	**5,18,611**	**6,15,644**	**7,17,897**	**8,82,247**	**10,11,549**
i) Tax Receipts (a + b + c)	3,58,224	4,13,981	4,92,481	5,85,535	7,28,864	8,46,219
a) Taxes on commodities and services	2,56,440	2,87,729	3,35,448	3,88,980	4,65,518	5,37,478
b) Taxes on Income and Property	1,01,211	1,25,595	1,56,214	1,95,430	2,62,005	3,07,299
c) Taxes of Union Territories (Without Legislature)	573	658	819	1,125	1,341	1,442
ii) Non-Tax Receipts	95,626	1,04,630	1,23,163	1,32,362	1,53,383	1,65,330
of which :						
Interest Receipts	17,781	18,856	19,223	19,989	18,565	20,385
B. Non-debt Capital Receipts (i+ii)	**16,067**	**43,271**	**19,392**	**13,560**	**15,399**	**57,880**
i) Recovery of Loans & Advances	12,916	26,318	14,968	11,970	11,574	5,964
ii) Disinvestment proceeds	3,151	16,952	4,424	1590 **	3,825 **	51,916 **
III. Gross Fiscal Deficit [I - (IIA + IIB)]	**2,34,987**	**2,34,501**	**2,34,721**	**2,39,323**	**2,64,506**	**2,57,867**
Financed by :						
A. Institution-wise (i+ii)	**2,34,987**	**2,34,501**	**2,34,721**	**2,39,323**	**2,64,506**	**2,57,867**
i) Domestic Financing (a+b)	2,46,921	2,47,989	2,19,968	2,31,851	2,56,614	2,48,756
a) Net Bank Credit to Government # #	86,958	66,381	13,863	17,888	71,582	..
of which :						
Net RBI Credit to Government	-31,499	-75,772	-62,882	35,799	-2,384	..
b) Non-Bank Credit to Government	1,59,963	1,79,959	2,06,105	2,13,963	1,85,032	..
ii) External Financing	-11,934	-13,488	14,753	7,472	7,892	9,111
B. Instrument-wise (i+ii)	**2,34,987**	**2,34,501**	**2,34,721**	**2,39,323**	**2,64,506**	**2,57,867**
i) Domestic Financing (a to g)	2,46,921	2,47,989	2,19,968	2,31,851	2,56,614	2,48,756
a) Market Borrowings (net) @	1,32,610	1,36,156	85,498	1,21,546	1,29,438	1,36,927
b) Small Savings (net) &	52,261	67,642	87,690	89,836	61,600	57,500
c) State Provident Funds (net)	11,816	12,014	13,139	15,162	15,090	16,442
d) Reserve Funds	7,197	8,883	10,827	10,122	8,998	4,973
e) Deposits and Advances	5,208	9,705	4,529	18,888	13,422	-903
f) Cash Balances ^	-2,728	-2,778	-18,588	-60,745	28,826	2,103
g) Others &&	40,557	16,367	36,873	37,043	-760	31,715
ii) External Financing	-11,934	-13,488	14,753	7,472	7,892	9,111
IV. I as per cent of GDP	**28.7**	**28.8**	**27.8**	**27.2**	**28.2**	**28.6**
V. II as per cent of GDP	**28.8**	**28.9**	**28.4**	**28.9**	**27.5**	**28.6**
VI. IIA as per cent of GDP	**18.5**	**18.8**	**19.7**	**20.1**	**21.4**	**21.8**
VII. IIA (i) as per cent of GDP	**14.6**	**15.0**	**15.8**	**16.4**	**17.7**	**18.3**
VIII. III as per cent of GDP	**9.6**	**8.5**	**7.5**	**6.7**	**6.4**	**5.6**

++ : Represent compensation and assignments by States to local bodies and *Panchayati Raj* institutions.
** : Also includes sale of 'land and property' and debt relief. # # : As per RBI records. .. : Not available.
@ : Borrowing through dated securities and 364-day Treasury Bills.
& : Represent net investment in Central and State Governments' special securities by the National Small Savings Fund (NSSF).
^ : Include Ways and Means Advances of the State Governments. (-) : Indicates surplus/net outflow.
&& : Include Treasury Bills (excluding 364-day Treasury Bills), loans from financial institutions, insurance and pension funds, remittances, cash balance investment account *etc.*

Note : i) Total disbursements/receipts are net of repayments of the Central Government (including repayments to the NSSF) and State Governments.
ii) Total receipts are net of variation in cash balances of the Central and State Governments.
iii) Data pertaining to State Governments from 2005-06 onwards are provisional. The data relate to budgets of 29 State Governments.
iv) In case of Union Government finances for 2007-08 (BE), the figures for non-debt capital receipts and development capital outlay includes an amount of Rs. 40,000 crore budgeted on account of transactions relating to transfer of the Reserve Bank's stake in the State Bank of India to the Central Government.

Source : Budget Documents of Central and State Governments.

APPENDIX TABLE 34 : MARKET BORROWINGS OF THE CENTRAL AND STATE GOVERNMENTS

(Rupees crore)

Government/Authority	Gross			Repayments			Net		
	2005-06	2006-07	2007-08 (BE)	2005-06	2006-07	2007-08 (BE)	2005-06	2006-07	2007-08 (BE)
1	2	3	4	5	6	7	8	9	10
1. Central Government(a+b)	1,60,018	1,79,373	1,87,769	61,781	68,103	76,942	98,237	1,11,270	1,10,827
a) Dated Securities	1,31,000	1,46,000	1,55,455	35,630	39,084	45,876	95,370	1,06,916	1,09,579
b) 364-day Treasury Bills	29,018	33,373	32,314	26,151	29,019	31,066	2,867	4,354	1,248
2. State Governments	21,729	20,825	35,114 *	6,274	6,551	11,555	15,455	14,274	23,559 *
Grand Total (1+2)	**1,81,747**	**2,00,198**	**2,22,883**	**68,055**	**74,654**	**88,497**	**1,13,692**	**1,25,544**	**1,34,386**

BE: Budget Estimates

***** Excludes three States for which Annual Plans are yet to be finalised. Also includes additional allocation of Rs. 535 crore in 2007-08 in respect of two States.

Source : Reserve Bank records and Budget Documents of the Central Government.

APPENDIX TABLE 35 : REPO/REVERSE REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY

(Amount in Rupees crore)

LAF Date	Repo/ Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(-) of liquidity	Outstanding Amount@
		Bids received		Bids Accepted		Cut-Off Rate %	Bids Received		Bids Accepted		Cut-Off Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2006-07													
03-Apr-06	1	2	1030	2	1030	6.50	1	50	1	50	5.50	980	
$	1	1	35	1	35	6.50	19	9860	19	9860	5.50	-9825	8845
04-Apr-06	1	–	–	–	–	–	8	4300	8	4300	5.50	-4235	
$	1	2	60	2	60	6.50	26	17740	26	17740	5.50	-17680	21915
05-Apr-06	2	–	–	–	–	–	14	9710	14	9710	5.50	-9710	
$	2	–	–	–	–	–	32	20280	32	20280	5.50	-20280	29990
07-Apr-06	3	–	–	–	–	–	13	6020	13	6020	5.50	-6020	
$	3	–	–	–	–	–	37	26695	37	26695	5.50	-26695	32715
10-Apr-06	2	–	–	–	–	–	25	17530	25	17530	5.50	-17530	
$	2	1	300	1	300	6.50	38	32630	38	32630	5.50	-32330	49860
12-Apr-06	1	–	–	–	–	–	24	18915	24	18915	5.50	-18915	
$	1	–	–	–	–	–	39	30775	39	30775	5.50	-30775	49690
13-Apr-06	4	–	–	–	–	–	31	26075	31	26075	5.50	-26075	
$	4	–	–	–	–	–	50	30975	50	30975	5.50	-30975	57050
17-Apr-06	1	–	–	–	–	–	22	15980	22	15980	5.50	-15980	
$	1	–	–	–	–	–	28	19225	28	19225	5.50	-19225	35205
18-Apr-06	1	–	–	–	–	–	19	9180	19	9180	5.50	-9180	
$	1	–	–	–	–	–	46	46790	46	46790	5.50	-46790	55970
19-Apr-06	1	–	–	–	–	–	29	22660	29	22660	5.50	-22660	
$	1	–	–	–	–	–	41	38030	41	38030	5.50	-38030	60690
20-Apr-06	1	–	–	–	–	–	36	28520	36	28520	5.50	-28520	
$	1	–	–	–	–	–	31	29185	31	29185	5.50	-29185	57705
21-Apr-06	3	–	–	–	–	–	34	27670	34	27670	5.50	-27670	
$	3	–	–	–	–	–	31	34405	31	34405	5.50	-34405	62075
24-Apr-06	1	–	–	–	–	–	36	33700	36	33700	5.50	-33700	
$	1	–	–	–	–	–	35	33300	35	33300	5.50	-33300	67000
25-Apr-06	1	–	–	–	–	–	39	39815	39	39815	5.50	-39815	
$	1	–	–	–	–	–	28	27655	28	27655	5.50	-27655	67470
26-Apr-06	1	–	–	–	–	–	34	33650	34	33650	5.50	-33650	
$	1	–	–	–	–	–	38	29875	38	29875	5.50	-29875	63525
27-Apr-06	1	–	–	–	–	–	33	38755	33	38755	5.50	-38755	
$	1	–	–	–	–	–	29	25625	29	25625	5.50	-25625	64380
28-Apr-06	4	–	–	–	–	–	26	20795	26	20795	5.50	-20795	
$	4	–	–	–	–	–	37	27010	37	27010	5.50	-27010	47805
02-May-06	1	–	–	–	–	–	22	16735	22	16735	5.50	-16735	
$	1	–	–	–	–	–	31	40825	31	40825	5.50	-40825	57560
03-May-06	1	–	–	–	–	–	32	27865	32	27865	5.50	-27865	
$	1	–	–	–	–	–	39	42855	39	42855	5.50	-42855	70720
04-May-06	1	–	–	–	–	–	33	41060	33	41060	5.50	-41060	
$	1	–	–	–	–	–	31	30940	31	30940	5.50	-30940	72000
05-May-06	3	–	–	–	–	–	24	17145	24	17145	5.50	-17145	
$	3	–	–	–	–	–	38	32400	38	32400	5.50	-32400	49545
08-May-06	1	–	–	–	–	–	30	24665	30	24665	5.50	-24665	
$	1	–	–	–	–	–	45	42195	45	42195	5.50	-42195	66860
09-May-06	1	–	–	–	–	–	32	27270	32	27270	5.50	-27270	
$	1	–	–	–	–	–	45	42105	45	42105	5.50	-42105	69375
10-May-06	1	–	–	–	–	–	31	24115	31	24115	5.50	-24115	
$	1	–	–	–	–	–	44	39960	44	39960	5.50	-39960	64075
11-May-06	1	–	–	–	–	–	34	35190	34	35190	5.50	-35190	
$	1	–	–	–	–	–	35	26465	35	26465	5.50	-26465	61655
12-May-06	3	–	–	–	–	–	30	21990	30	21990	5.50	-21990	
$	3	–	–	–	–	–	46	27855	46	27855	5.50	-27855	49845
15-May-06	1	–	–	–	–	–	30	31980	30	31980	5.50	-31980	
$	1	–	–	–	–	–	30	19265	30	19265	5.50	-19265	51245
16-May-06	1	–	–	–	–	–	31	29375	31	29375	5.50	-29375	
$	1	–	–	–	–	–	35	23780	35	23780	5.50	-23780	53155
17-May-06	1	–	–	–	–	–	34	33490	34	33490	5.50	-33490	
$	1	–	–	–	–	–	36	29395	36	29395	5.50	-29395	62885
18-May-06	1	–	–	–	–	–	33	33790	33	33790	5.50	-33790	
$	1	–	–	–	–	–	40	30525	40	30525	5.50	-30525	64315
19-May-06	3	–	–	–	–	–	34	36465	34	36465	5.50	-36465	
$	3	–	–	–	–	–	41	25350	41	25350	5.50	-25350	61815
22-May-06	1	–	–	–	–	–	31	34650	31	34650	5.50	-34650	
$	1	–	–	–	–	–	40	30720	40	30720	5.50	-30720	65370

APPENDIX TABLE 35 : REPO/REVERSE REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Contd.)*

(Amount in Rupees crore)

LAF Date	Repo/ Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(-) of liquidity	Outstanding Amount@
		Bids received		Bids Accepted		Cut-Off Rate %	Bids Received		Bids Accepted		Cut-Off Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
23-May-06	1	–	–	–	–	–	32	37850	32	37850	5.50	-37850	
$	1	–	–	–	–	–	41	29540	41	29540	5.50	-29540	67390
24-May-06	1	–	–	–	–	–	29	35675	29	35675	5.50	-35675	
$	1	–	–	–	–	–	40	29325	40	29325	5.50	-29325	65000
25-May-06	1	–	–	–	–	–	28	30435	28	30435	5.50	-30435	
$	1	–	–	–	–	–	43	31400	43	31400	5.50	-31400	61835
26-May-06	3	–	–	–	–	–	30	32755	30	32755	5.50	-32755	
$	3	–	–	–	–	–	53	24490	53	24490	5.50	-24490	57245
29-May-06	1	–	–	–	–	–	25	33455	25	33455	5.50	-33455	
$	1	–	–	–	–	–	32	26475	32	26475	5.50	-26475	59930
30-May-06	1	–	–	–	–	–	34	37345	34	37345	5.50	-37345	
$	1	–	–	–	–	–	37	28750	37	28750	5.50	-28750	66095
31-May-06	1	–	–	–	–	–	32	36780	32	36780	5.50	-36780	
$	1	–	–	–	–	–	32	25250	32	25250	5.50	-25250	62030
01-Jun-06	1	–	–	–	–	–	38	37995	38	37995	5.50	-37995	
$	1	–	–	–	–	–	39	29115	39	29115	5.50	-29115	67110
02-Jun-06	3	–	–	–	–	–	32	38385	32	38385	5.50	-38385	
$	3	–	–	–	–	–	41	27785	41	27785	5.50	-27785	66170
05-Jun-06	1	–	–	–	–	–	30	35550	30	35550	5.50	-35550	
$	1	–	–	–	–	–	41	35095	41	35095	5.50	-35095	70645
06-Jun-06	1	–	–	–	–	–	33	40875	33	40875	5.50	-40875	
$	1	–	–	–	–	–	46	31425	46	31425	5.50	-31425	72300
07-Jun-06	1	–	–	–	–	–	31	31670	31	31670	5.50	-31670	
$	1	–	–	–	–	–	41	34875	41	34875	5.50	-34875	66545
08-Jun-06	1	–	–	–	–	–	31	27140	31	27140	5.50	-27140	
$	1	–	–	–	–	–	46	30875	46	30875	5.50	-30875	58015
09-Jun-06	3	–	–	–	–	–	26	26675	26	26675	5.75	-26675	
$	3	–	–	–	–	–	56	20845	56	20845	5.75	-20845	47520
12-Jun-06	1	–	–	–	–	–	24	30355	24	30355	5.75	-30355	
$	1	–	–	–	–	–	33	18880	33	18880	5.75	-18880	49235
13-Jun-06	1	–	–	–	–	–	29	32655	29	32655	5.75	-32655	
$	1	–	–	–	–	–	31	15615	31	15615	5.75	-15615	48270
14-Jun-06	1	–	–	–	–	–	26	31040	26	31040	5.75	-31040	
$	1	–	–	–	–	–	34	19635	34	19635	5.75	-19635	50675
15-Jun-06	1	–	–	–	–	–	26	25810	26	25810	5.75	-25810	
$	1	–	–	–	–	–	34	21675	34	21675	5.75	-21675	47485
16-Jun-06	3	–	–	–	–	–	24	23070	24	23070	5.75	-23070	
$	3	–	–	–	–	–	34	17495	34	17495	5.75	-17495	40565
19-Jun-06	1	–	–	–	–	–	26	21570	26	21570	5.75	-21570	
$	1	–	–	–	–	–	33	17250	33	17250	5.75	-17250	38820
20-Jun-06	1	–	–	–	–	–	29	22465	29	22465	5.75	-22465	
$	1	–	–	–	–	–	36	19730	36	19730	5.75	-19730	42195
21-Jun-06	1	–	–	–	–	–	27	21795	27	21795	5.75	-21795	
$	1	–	–	–	–	–	36	20855	36	20855	5.75	-20855	42650
22-Jun-06	1	–	–	–	–	–	27	21745	27	21745	5.75	-21745	
$	1	–	–	–	–	–	41	20510	41	20510	5.75	-20510	42255
23-Jun-06	3	–	–	–	–	–	23	10355	23	10355	5.75	-10355	
$	3	–	–	–	–	–	48	19955	48	19955	5.75	-19955	30310
26-Jun-06	1	–	–	–	–	–	23	20705	23	20705	5.75	-20705	
$	1	–	–	–	–	–	33	19115	33	19115	5.75	-19115	39820
27-Jun-06	1	–	–	–	–	–	23	17580	23	17580	5.75	-17580	
$	1	–	–	–	–	–	34	21780	34	21780	5.75	-21780	39360
28-Jun-06	1	–	–	–	–	–	21	15015	21	15015	5.75	-15015	
$	1	–	–	–	–	–	34	27375	34	27375	5.75	-27375	42390
29-Jun-06	1	–	–	–	–	–	23	22180	23	22180	5.75	-22180	
$	1	–	–	–	–	–	35	22115	35	22115	5.75	-22115	44295
30-Jun-06	3	–	–	–	–	–	18	17805	18	17805	5.75	-17805	
$	3	–	–	–	–	–	41	24760	41	24760	5.75	-24760	42565
03-Jul-06	1	–	–	–	–	–	25	27085	25	27085	5.75	-27085	
$	1	–	–	–	–	–	44	27530	44	27530	5.75	-27530	54615
04-Jul-06	1	–	–	–	–	–	30	36265	30	36265	5.75	-36265	
$	1	–	–	–	–	–	36	24105	36	24105	5.75	-24105	60370
05-Jul-06	1	–	–	–	–	–	35	41765	35	41765	5.75	-41765	
$	1	–	–	–	–	–	40	22945	40	22945	5.75	-22945	64710
06-Jul-06	1	–	–	–	–	–	39	41800	39	41800	5.75	-41800	
$	1	–	–	–	–	–	43	29135	43	29135	5.75	-29135	70935

APPENDIX TABLE 35 : REPO/REVERSE REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Contd.)*

(Amount in Rupees crore)

LAF Date	Repo/ Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(-) of liquidity	Outstanding Amount@
		Bids received		Bids Accepted		Cut-Off Rate %	Bids Received		Bids Accepted		Cut-Off Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
07-Jul-06	3	–	–	–	–	–	32	33910	32	33910	5.75	-33910	
$	3	–	–	–	–	–	45	24365	45	24365	5.75	-24365	58275
10-Jul-06	1	–	–	–	–	–	29	30630	29	30630	5.75	-30630	
$	1	–	–	–	–	–	36	22255	36	22255	5.75	-22255	52885
11-Jul-06	1	–	–	–	–	–	34	35465	34	35465	5.75	-35465	
$	1	–	–	–	–	–	30	18840	30	18840	5.75	-18840	54305
12-Jul-06	1	–	–	–	–	–	21	15495	21	15495	5.75	-15495	
$	1	–	–	–	–	–	35	27615	35	27615	5.75	-27615	43110
13-Jul-06	1	–	–	–	–	–	30	31685	30	31685	5.75	-31685	
$	1	–	–	–	–	–	25	13725	25	13725	5.75	-13725	45410
14-Jul-06	3	–	–	–	–	–	28	25500	28	25500	5.75	-25500	
$	3	–	–	–	–	–	23	14185	23	14185	5.75	-14185	39685
17-Jul-06	1	–	–	–	–	–	14	13920	14	13920	5.75	-13920	
$	1	–	–	–	–	–	37	28240	37	28240	5.75	-28240	42160
18-Jul-06	1	–	–	–	–	–	25	29810	25	29810	5.75	-29810	
$	1	–	–	–	–	–	27	15265	27	15265	5.75	-15265	45075
19-Jul-06	1	–	–	–	–	–	24	28875	24	28875	5.75	-28875	
$	1	–	–	–	–	–	30	14565	30	14565	5.75	-14565	43440
20-Jul-06	1	–	–	–	–	–	29	25465	29	25465	5.75	-25465	
$	1	–	–	–	–	–	38	21750	38	21750	5.75	-21750	47215
21-Jul-06	3	–	–	–	–	–	24	22055	24	22055	5.75	-22055	
$	3	–	–	–	–	–	46	24015	46	24015	5.75	-24015	46070
24-Jul-06	1	–	–	–	–	–	24	23860	24	23860	5.75	-23860	
$	1	–	–	–	–	–	26	13165	26	13165	5.75	-13165	37025
25-Jul-06	1	–	–	–	–	–	12	6845	12	6845	5.75	-6845	
$	1	–	–	–	–	–	41	36480	41	36480	6.00	-36480	43325
26-Jul-06	1	–	–	–	–	–	26	27745	26	27745	6.00	-27745	
$	1	–	–	–	–	–	37	17330	37	17330	6.00	-17330	45075
27-Jul-06	1	–	–	–	–	–	23	27275	23	27275	6.00	-27275	
$	1	–	–	–	–	–	36	17560	36	17560	6.00	-17560	44835
28-Jul-06	3	–	–	–	–	–	25	24595	25	24595	6.00	-24595	
$	3	–	–	–	–	–	33	19560	33	19560	6.00	-19560	44155
31-Jul-06	1	–	–	–	–	–	20	23285	20	23285	6.00	-23285	
$	1	–	–	–	–	–	39	21385	39	21385	6.00	-21385	44670
01-Aug-06	1	–	–	–	–	–	23	24780	23	24780	6.00	-24780	
$	1	–	–	–	–	–	41	24410	41	24410	6.00	-24410	49190
02-Aug-06	1	–	–	–	–	–	25	27070	25	27070	6.00	-27070	
$	1	–	–	–	–	–	43	22620	43	22620	6.00	-22620	49690
03-Aug-06	1	–	–	–	–	–	25	27115	25	27115	6.00	-27115	
$	1	–	–	–	–	–	40	21690	40	21690	6.00	-21690	48805
04-Aug-06	3	–	–	–	–	–	24	24800	24	24800	6.00	-24800	
$	3	–	–	–	–	–	51	23555	51	23555	6.00	-23555	48355
07-Aug-06	1	–	–	–	–	–	23	28735	23	28735	6.00	-28735	
$	1	–	–	–	–	–	29	18095	29	18095	6.00	-18095	46830
08-Aug-06	1	–	–	–	–	–	26	30280	26	30280	6.00	-30280	
$	1	–	–	–	–	–	28	14670	28	14670	6.00	-14670	44950
09-Aug-06	1	–	–	–	–	–	25	29840	25	29840	6.00	-29840	
$	1	–	–	–	–	–	28	11240	28	11240	6.00	-11240	41080
10-Aug-06	1	–	–	–	–	–	22	27965	22	27965	6.00	-27965	
$	1	–	–	–	–	–	27	11140	27	11140	6.00	-11140	39105
11-Aug-06	3	–	–	–	–	–	18	21740	18	21740	6.00	-21740	
$	3	–	–	–	–	–	19	9250	19	9250	6.00	-9250	30990
14-Aug-06	2	–	–	–	–	–	20	20020	20	20020	6.00	-20020	
$	2	–	–	–	–	–	18	6050	18	6050	6.00	-6050	26070
16-Aug-06	1	–	–	–	–	–	16	15105	16	15105	6.00	-15105	
$	1	–	–	–	–	–	35	16675	35	16675	6.00	-16675	31780
17-Aug-06	1	–	–	–	–	–	17	14120	17	14120	6.00	-14120	
$	1	–	–	–	–	–	31	20225	31	20225	6.00	-20225	34345
18-Aug-06	3	–	–	–	–	–	20	13035	20	13035	6.00	-13035	
$	3	–	–	–	–	–	38	16955	38	16955	6.00	-16955	29990
21-Aug-06	1	–	–	–	–	–	15	14580	15	14580	6.00	-14580	
$	1	–	–	–	–	–	20	9940	20	9940	6.00	-9940	24520
22-Aug-06	1	–	–	–	–	–	16	19220	16	19220	6.00	-19220	
$	1	–	–	–	–	–	23	9475	23	9475	6.00	-9475	28695
23-Aug-06	1	–	–	–	–	–	18	20030	18	20030	6.00	-20030	
$	1	–	–	–	–	–	24	11085	24	11085	6.00	-11085	31115

APPENDIX TABLE 35 : REPO/REVERSE REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Contd.)*

(Amount in Rupees crore)

LAF Date	Repo/ Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(-) of liquidity	Outstanding Amount@
		Bids received		Bids Accepted		Cut-Off Rate %	Bids Received		Bids Accepted		Cut-Off Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
24-Aug-06	1	–	–	–	–	–	18	19480	18	19480	6.00	-19480	
$	1	–	–	–	–	–	21	11015	21	11015	6.00	-11015	30495
25-Aug-06	3	–	–	–	–	–	19	18665	19	18665	6.00	-18665	
$	3	–	–	–	–	–	16	5320	16	5320	6.00	-5320	23985
28-Aug-06	1	–	–	–	–	–	21	23555	21	23555	6.00	-23555	
$	1	–	–	–	–	–	28	15650	28	15650	6.00	-15650	39205
29-Aug-06	1	–	–	–	–	–	21	24580	21	24580	6.00	-24580	
$	1	–	–	–	–	–	37	16170	37	16170	6.00	-16170	40750
30-Aug-06	1	–	–	–	–	–	21	25785	21	25785	6.00	-25785	
$	1	–	–	–	–	–	41	20890	41	20890	6.00	-20890	46675
31-Aug-06	1	–	–	–	–	–	23	24985	23	24985	6.00	-24985	
$	1	–	–	–	–	–	35	21785	35	21785	6.00	-21785	46770
01-Sep-06	3	–	–	–	–	–	20	20570	20	20570	6.00	-20570	
$	3	–	–	–	–	–	40	20595	40	20595	6.00	-20595	41165
04-Sep-06	1	–	–	–	–	–	17	21475	17	21475	6.00	-21475	
$	1	–	–	–	–	–	29	19200	29	19200	6.00	-19200	40675
05-Sep-06	1	–	–	–	–	–	17	22740	17	22740	6.00	-22740	
$	1	–	–	–	–	–	31	18560	31	18560	6.00	-18560	41300
06-Sep-06	1	–	–	–	–	–	20	25290	20	25290	6.00	-25290	
$	1	–	–	–	–	–	27	16155	27	16155	6.00	-16155	41445
07-Sep-06	1	–	–	–	–	–	17	23800	17	23800	6.00	-23800	
$	1	–	–	–	–	–	27	19700	27	19700	6.00	-19700	43500
08-Sep-06	3	–	–	–	–	–	18	20200	18	20200	6.00	-20200	
$	3	–	–	–	–	–	33	23605	33	23605	6.00	-23605	43805
11-Sep-06	1	–	–	–	–	–	19	22695	19	22695	6.00	-22695	
$	1	–	–	–	–	–	21	11420	21	11420	6.00	-11420	34115
12-Sep-06	1	–	–	–	–	–	18	20070	18	20070	6.00	-20070	
$	1	–	–	–	–	–	25	14685	25	14685	6.00	-14685	34755
13-Sep-06	1	–	–	–	–	–	16	18090	16	18090	6.00	-18090	
$	1	–	–	–	–	–	31	18080	31	18080	6.00	-18080	36170
14-Sep-06	1	–	–	–	–	–	19	21570	19	21570	6.00	-21570	
$	1	–	–	–	–	–	34	15710	34	15710	6.00	-15710	37280
15-Sep-06	3	–	–	–	–	–	11	10230	11	10230	6.00	-10230	
$	3	1	275	1	275	7.00	34	12665	34	12665	6.00	-12390	22620
18-Sep-06	1	–	–	–	–	–	6	1140	6	1140	6.00	-1140	
$	1	–	–	–	–	–	7	2485	7	2485	6.00	-2485	3625
19-Sep-06	1	–	–	–	–	–	7	1225	7	1225	6.00	-1225	
$	1	–	–	–	–	–	9	2900	9	2900	6.00	-2900	4125
20-Sep-06	1	–	–	–	–	–	5	595	5	595	6.00	-595	
$	1	–	–	–	–	–	13	8030	13	8030	6.00	-8030	8625
21-Sep-06	1	–	–	–	–	–	6	5485	6	5485	6.00	-5485	
$	1	–	–	–	–	–	8	7930	8	7930	6.00	-7930	13415
22-Sep-06	3	–	–	–	–	–	5	5735	5	5735	6.00	-5735	
$	3	–	–	–	–	–	9	8820	9	8820	6.00	-8820	14555
25-Sep-06	1	–	–	–	–	–	5	5545	5	5545	6.00	-5545	
$	1	–	–	–	–	–	15	8140	15	8140	6.00	-8140	13685
26-Sep-06	1	–	–	–	–	–	4	5640	4	5640	6.00	-5640	
$	1	–	–	–	–	–	16	9880	16	9880	6.00	-9880	15520
27-Sep-06	1	–	–	–	–	–	4	5625	4	5625	6.00	-5625	
$	1	–	–	–	–	–	16	14330	16	14330	6.00	-14330	19955
28-Sep-06	1	–	–	–	–	–	4	5210	4	5210	6.00	-5210	
$	1	–	–	–	–	–	24	12195	24	12195	6.00	-12195	17405
29-Sep-06	4	4	1220	4	1220	7.00	3	1175	3	1175	6.00	45	
$	4	10	3790	10	3790	7.00	17	5750	17	5750	6.00	-1960	1915
03-Oct-06	1	–	–	–	–	–	4	2755	4	2755	6.00	-2755	
$	1	–	–	–	–	–	10	14270	10	14270	6.00	-14270	17025
04-Oct-06	1	–	–	–	–	–	6	8295	6	8295	6.00	-8295	
$	1	–	–	–	–	–	14	16145	14	16145	6.00	-16145	24440
05-Oct-06	1	–	–	–	–	–	7	15330	7	15330	6.00	-15330	
$	1	–	–	–	–	–	11	14020	11	14020	6.00	-14020	29350
06-Oct-06	3	–	–	–	–	–	7	16995	7	16995	6.00	-16995	
$	3	–	–	–	–	–	13	12075	13	12075	6.00	-12075	29070
09-Oct-06	1	–	–	–	–	–	7	17100	7	17100	6.00	-17100	
$	1	–	–	–	–	–	14	12065	14	12065	6.00	-12065	29165
10-Oct-06	1	–	–	–	–	–	8	16980	8	16980	6.00	-16980	
$	1	–	–	–	–	–	9	5900	9	5900	6.00	-5900	22880

APPENDIX TABLE 35 : REPO/REVERSE REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Contd.)*

(Amount in Rupees crore)

LAF Date	Repo/ Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(-) of liquidity	Outstanding Amount@
		Bids received		Bids Accepted		Cut-Off Rate %	Bids Received		Bids Accepted		Cut-Off Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
11-Oct-06	1	–	–	–	–	–	6	14300	6	14300	6.00	-14300	
$	1	–	–	–	–	–	13	11310	13	11310	6.00	-11310	25610
12-Oct-06	1	–	–	–	–	–	8	16210	8	16210	6.00	-16210	
$	1	–	–	–	–	–	19	8940	19	8940	6.00	-8940	25150
13-Oct-06	3	–	–	–	–	–	7	6190	7	6190	6.00	-6190	
$	3	1	35	1	35	7.00	24	12085	24	12085	6.00	-12050	18240
16-Oct-06	1	–	–	–	–	–	2	585	2	585	6.00	-585	
$	1	–	–	–	–	–	7	2290	7	2290	6.00	-2290	2875
17-Oct-06	1	–	–	–	–	–	3	575	3	575	6.00	-575	
$	1	–	–	–	–	–	9	3350	9	3350	6.00	-3350	3925
18-Oct-06	1	–	–	–	–	–	3	420	3	420	6.00	-420	
$	1	–	–	–	–	–	6	745	6	745	6.00	-745	1165
19-Oct-06	1	–	–	–	–	–	3	360	3	360	6.00	-360	
$	1	1	1000	1	1000	7.00	4	1175	4	1175	6.00	-175	535
20-Oct-06	3	2	900	2	900	7.00	1	25	1	25	6.00	875	
$	3	4	685	4	685	7.00	4	80	4	80	6.00	605	-1480
23-Oct-06	3	5	1445	5	1445	7.00	2	85	2	85	6.00	1360	
$	3	1	20	1	20	7.00	4	640	4	640	6.00	-620	-740
26-Oct-06	1	1	10	1	10	7.00	–	–	–	–	–	10	
$	1	–	–	–	–	–	18	16335	18	16335	6.00	-16335	16325
27-Oct-06	3	–	–	–	–	–	6	4160	6	4160	6.00	-4160	
$	3	1	330	1	330	7.00	19	8440	19	8440	6.00	-8110	12270
30-Oct-06	1	–	–	–	–	–	3	300	3	300	6.00	-300	
$	1	–	–	–	–	–	7	1705	7	1705	6.00	-1705	2005
31-Oct-06	1	–	–	–	–	–	1	50	1	50	6.00	-50	
$	1	–	–	–	–	7.25	7	3720	7	3720	6.00	-3720	3770
01-Nov-06	1	–	–	–	–	–	2	260	2	260	6.00	-260	
$	1	–	–	–	–	–	9	4315	9	4315	6.00	-4315	4575
02-Nov-06	1	–	–	–	–	–	2	260	2	260	6.00	-260	
$	1	–	–	–	–	–	7	5830	7	5830	6.00	-5830	6090
03-Nov-06	3	–	–	–	–	–	3	365	3	365	6.00	-365	
$	3	–	–	–	–	–	10	7950	10	7950	6.00	-7950	8315
06-Nov-06	1	–	–	–	–	–	3	5105	3	5105	6.00	-5105	
$	1	–	–	–	–	–	8	1995	8	1995	6.00	-1995	7100
07-Nov-06	1	–	–	–	–	–	2	225	2	225	6.00	-225	
$	1	–	–	–	–	–	9	7705	9	7705	6.00	-7705	7930
08-Nov-06	1	–	–	–	–	–	5	1900	5	1900	6.00	-1900	
$	1	–	–	–	–	–	8	8895	8	8895	6.00	-8895	10795
09-Nov-06	1	–	–	–	–	–	4	365	4	365	6.00	-365	
$	1	–	–	–	–	–	9	6580	9	6580	6.00	-6580	6945
10-Nov-06	3	–	–	–	–	–	3	640	3	640	6.00	-640	
$	3	–	–	–	–	–	23	8320	23	8320	6.00	-8320	8960
13-Nov-06	1	–	–	–	–	–	2	270	2	270	6.00	-270	
$	1	–	–	–	–	–	5	2545	5	2545	6.00	-2545	2815
14-Nov-06	1	–	–	–	–	–	1	170	1	170	6.00	-170	
$	1	–	–	–	–	–	4	4110	4	4110	6.00	-4110	4280
15-Nov-06	1	–	–	–	–	–	1	120	1	120	6.00	-120	
$	1	–	–	–	–	–	3	4990	3	4990	6.00	-4990	5110
16-Nov-06	1	–	–	–	–	–	–	–	–	–	–	–	
$	1	–	–	–	–	–	5	4565	5	4565	6.00	-4565	4565
17-Nov-06	3	–	–	–	–	–	1	100	1	100	6.00	-100	
$	3	–	–	–	–	–	4	5035	4	5035	6.00	-5035	5135
20-Nov-06	1	–	–	–	–	–	–	–	–	–	–	–	
$	1	–	–	–	–	–	9	9745	9	9745	6.00	-9745	9745
21-Nov-06	1	–	–	–	–	–	1	25	1	25	6.00	-25	
$	1	–	–	–	–	–	15	12050	15	12050	6.00	-12050	12075
22-Nov-06	1	–	–	–	–	–	3	160	3	160	6.00	-160	
$	1	–	–	–	–	–	17	23400	17	23400	6.00	-23400	23560
23-Nov-06	1	–	–	–	–	–	7	6555	7	6555	6.00	-6555	
$	1	–	–	–	–	–	24	16875	24	16875	6.00	-16875	23430
24-Nov-06	3	–	–	–	–	–	5	3490	5	3490	6.00	-3490	
$	3	–	–	–	–	–	29	12505	29	12505	6.00	-12505	15995
27-Nov-06	1	–	–	–	–	–	6	2060	6	2060	6.00	-2060	
$	1	–	–	–	–	–	15	12405	15	12405	6.00	-12405	14465
28-Nov-06	1	–	–	–	–	–	8	4365	8	4365	6.00	-4365	
$	1	–	–	–	–	–	6	4970	6	4970	6.00	-4970	9335

APPENDIX TABLE 35 : REPO/REVERSE REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Contd.)*

(Amount in Rupees crore)

LAF Date	Repo/ Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(-) of liquidity	Outstanding Amount@
		Bids received		Bids Accepted		Cut-Off Rate %	Bids Received		Bids Accepted		Cut-Off Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
29-Nov-06	1	–	–	–	–	–	5	2235	5	2235	6.00	-2235	
$	1	–	–	–	–	–	15	9690	15	9690	6.00	-9690	11925
30-Nov-06	1	–	–	–	–	–	6	1590	6	1590	6.00	-1590	
$	1	–	–	–	–	–	19	16575	19	16575	6.00	-16575	18165
01-Dec-06	3	–	–	–	–	–	5	1560	5	1560	6.00	-1560	
$	3	–	–	–	–	–	32	22970	32	22970	6.00	-22970	24530
04-Dec-06	1	–	–	–	–	–	7	3430	7	3430	6.00	-3430	
$	1	–	–	–	–	–	26	25495	26	25495	6.00	-25495	28925
05-Dec-06	1	–	–	–	–	–	8	3595	8	3595	6.00	-3595	
$	1	–	–	–	–	–	28	28685	28	28685	6.00	-28685	32280
06-Dec-06	1	–	–	–	–	–	8	2850	8	2850	6.00	-2850	
$	1	–	–	–	–	–	27	31405	27	31405	6.00	-31405	34255
07-Dec-06	1	–	–	–	–	–	11	9885	11	9885	6.00	-9885	
$	1	–	–	–	–	–	16	16660	16	16660	6.00	-16660	26545
08-Dec-06	3	–	–	–	–	–	10	3620	10	3620	6.00	-3620	
$	3	–	–	–	–	–	19	14475	19	14475	6.00	-14475	18095
11-Dec-06	1	–	–	–	–	–	4	760	4	760	6.00	-760	
$	1	–	–	–	–	–	9	7750	9	7750	6.00	-7750	8510
12-Dec-06	1	1	500	1	500	7.25	3	175	3	175	6.00	325	
$	1	8	2010	8	2010	7.25	7	9440	7	9440	6.00	-7430	7105
13-Dec-06	1	18	5590	18	5590	7.25	4	160	4	160	6.00	5430	
$	1	3	795	3	795	7.25	7	4915	7	4915	6.00	-4120	-1310
14-Dec-06	1	16	5740	16	5740	7.25	3	125	3	125	6.00	5615	
$	1	1	100	1	100	7.25	7	4735	7	4735	6.00	-4635	-980
15-Dec-06	3	17	5225	17	5225	7.25	–	–	–	–	–	5225	
$	3	5	645	5	645	7.25	8	2780	8	2780	6.00	-2135	-3090
18-Dec-06	1	11	3870	11	3870	7.25	1	10	1	10	6.00	3860	
$	1	12	3935	12	3935	7.25	5	195	5	195	6.00	3740	-7600
19-Dec-06	1	13	3535	13	3535	7.25	1	10	1	10	6.00	3525	
$	1	16	4875	16	4875	7.25	5	85	5	85	6.00	4790	-8315
20-Dec-06	1	14	5830	14	5830	7.25	1	10	1	10	6.00	5820	
$	1	16	5810	16	5810	7.25	4	85	4	85	6.00	5725	-11545
21-Dec-06	1	20	8870	20	8870	7.25	1	10	1	10	6.00	8860	
$	1	14	2770	14	2770	7.25	6	115	6	115	6.00	2655	-11515
22-Dec-06	4	23	11765	23	11765	7.25	1	65	1	65	6.00	11700	
$	4	33	11315	33	11315	7.25	6	2735	6	2735	6.00	8580	-20280
26-Dec-06	1	39	23245	39	23245	7.25	–	–	–	–	–	23245	
$	1	17	5035	17	5035	7.25	5	285	5	285	6.00	4750	-27995
27-Dec-06	1	44	23455	44	23455	7.25	–	–	–	–	–	23455	
$	1	19	4340	19	4340	7.25	2	25	2	25	6.00	4315	-27770
28-Dec-06	1	43	22450	43	22450	7.25	–	–	–	–	–	22450	
$	1	27	13670	27	13670	7.25	1	10	1	10	6.00	13660	-36110
29-Dec-06	4	47	24665	47	24665	7.25	–	–	–	–	–	24665	
$	4	20	9535	20	9535	7.25	3	2515	3	2515	6.00	7020	-31685
02-Jan-07	1	38	17040	38	17040	7.25	–	–	–	–	–	17040	
$	1	3	905	3	905	7.25	21	11365	21	11365	6.00	-10460	-6580
03-Jan-07	1	4	1010	4	1010	7.25	–	–	–	–	–	1010	
$	1	1	450	1	450	7.25	24	8100	24	8100	6.00	-7650	6640
4-Jan.-07	1	3	600	3	600	7.25	–	–	–	–	–	600	
$	1	1	70	1	70	7.25	26	10915	26	10915	6.00	-10845	10245
05-Jan-07	3	15	6460	15	6460	7.25	–	–	–	–	–	6460	
$	3	1	125	1	125	7.25	34	11770	34	11770	6.00	-11645	5185
08-Jan-07	1	17	6080	17	6080	7.25	–	–	–	–	–	6080	
$	1	22	10405	22	10405	7.25	6	170	6	170	6.00	10235	-16315
09-Jan-07	1	21	8195	21	8195	7.25	–	–	–	–	–	8195	
$	1	23	9940	23	9940	7.25	5	140	5	140	6.00	9800	-17995
10-Jan-07	1	15	6930	15	6930	7.25	1	20	1	20	6.00	6910	
$	1	22	11380	22	11380	7.25	7	830	7	830	6.00	10550	-17460
11-Jan-07	1	19	7775	19	7775	7.25	–	–	–	–	–	7775	
$	1	18	11240	18	11240	7.25	3	125	3	125	6.00	11115	-18890
12-Jan-07	3	21	10400	21	10400	7.25	1	45	1	45	6.00	10355	
$	3	19	10430	19	10430	7.25	3	60	3	60	6.00	10370	-20725
15-Jan-07	1	18	7785	18	7785	7.25	1	50	1	50	6.00	7735	
$	1	21	8740	21	8740	7.25	4	95	4	95	6.00	8645	-16380
16-Jan-07	1	19	9435	19	9435	7.25	1	20	1	20	6.00	9415	
$	1	15	7185	15	7185	7.25	3	70	3	70	6.00	7115	-16530

APPENDIX TABLE 35 : REPO/REVERSE REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Contd.)*

(Amount in Rupees crore)

LAF Date	Repo/ Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(-) of liquidity	Outstanding Amount@
		Bids received		Bids Accepted		Cut-Off Rate %	Bids Received		Bids Accepted		Cut-Off Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
17-Jan-07	1	16	6815	16	6815	7.25	1	20	1	20	6.00	6795	
$	1	14	5810	14	5810	7.25	5	140	5	140	6.00	5670	-12465
18-Jan-07	1	15	5280	15	5280	7.25	1	90	1	90	6.00	5190	
$	1	11	3535	11	3535	7.25	4	105	4	105	6.00	3430	-8620
19-Jan-07	3	11	6275	11	6275	7.25	3	190	3	190	6.00	6085	
$	3	15	5800	15	5800	7.25	4	75	4	75	6.00	5725	-11810
22-Jan-07	1	14	5465	14	5465	7.25	2	150	2	150	6.00	5315	
$	1	17	8995	17	8995	7.25	3	95	3	95	6.00	8900	-14215
23-Jan-07	1	15	4015	15	4015	7.25	1	35	1	35	6.00	3980	
$	1	15	8100	15	8100	7.25	3	175	3	175	6.00	7925	-11905
24-Jan-07	1	10	3455	10	3455	7.25	2	160	2	160	6.00	3295	
$	1	17	7040	17	7040	7.25	4	145	4	145	6.00	6895	-10190
25-Jan-07	4	16	5345	16	5345	7.25	1	35	1	35	6.00	5310	
$	4	11	6180	11	6180	7.25	3	45	3	45	6.00	6135	-11445
29-Jan-07	2	11	2895	11	2895	7.25	1	35	1	35	6.00	2860	
$	2	8	2280	8	2280	7.25	5	730	5	730	6.00	1550	-4410
31-Jan-07	1	30	12595	30	12595	7.25	–	–	–	–	–	12595	
$	1	5	1415	5	1415	7.50	5	115	5	115	6.00	1300	-13895
02-Feb-07	3	12	6665	12	6665	7.50	1	300	1	300	6.00	6365	
$	3	14	4130	14	4130	7.50	9	3045	9	3045	6.00	1085	-7450
05-Feb-07	1	12	8105	12	8105	7.50	2	40	2	40	6.00	8065	
$	1	7	2350	7	2350	7.50	4	60	4	60	6.00	2290	-10355
06-Feb-07	1	7	5300	7	5300	7.50	1	15	1	15	6.00	5285	
$	1	4	1760	4	1760	7.50	5	835	5	835	6.00	925	-6210
07-Feb-07	1	5	3285	5	3285	7.50	1	15	1	15	6.00	3270	
$	1	1	1500	1	1500	7.50	5	100	5	100	6.00	1400	-4670
08-Feb-07	1	–	–	–	–	–	1	15	1	15	6.00	-15	
$	1	–	–	–	–	–	10	2985	10	2985	6.00	-2985	3000
09-Feb-07	3	–	–	–	–	–	2	35	2	35	6.00	-35	
$	3	–	–	–	–	–	5	1715	5	1715	6.00	-1715	1750
12-Feb-07	1	–	–	–	–	–	1	20	1	20	6.00	-20	
$	1	–	–	–	–	–	6	2135	6	2135	6.00	-2135	2155
13-Feb-07	1	–	–	–	–	–	2	40	2	40	6.00	-40	
$	1	–	–	–	–	–	8	4050	8	4050	6.00	-4050	4090
14-Feb-07	1	–	–	–	–	–	2	40	2	40	6.00	-40	
$	1	1	15	1	15	7.50	3	85	3	85	6.00	-70	110
15-Feb-07	4	19	10155	19	10155	7.50	2	15	2	15	6.00	10140	
$	4	4	1775	4	1775	7.50	28	6755	28	6755	6.00	-4980	-5160
19-Feb-07	1	14	4435	14	4435	7.50	2	30	2	30	6.00	4405	
$	1	11	4360	11	4360	7.50	3	55	3	55	6.00	4305	-8710
20-Feb-07	1	7	1530	7	1530	7.50	1	25	1	25	6.00	1505	
$	1	15	6700	15	6700	7.50	5	450	5	450	6.00	6250	-7755
21-Feb-07	1	8	1470	8	1470	7.50	1	25	1	25	6.00	1445	
$	1	–	–	–	–	–	6	3465	6	3465	6.00	-3465	2020
22-Feb-07	1	–	–	–	–	–	1	25	1	25	6.00	-25	
$	1	–	–	–	–	–	17	9020	17	9020	6.00	-9020	9045
23-Feb-07	3	–	–	–	–	–	4	385	4	385	6.00	-385	
$	3	–	–	–	–	–	11	6555	11	6555	6.00	-6555	6940
26-Feb-07	1	–	–	–	–	–	4	545	4	545	6.00	-545	
$	1	–	–	–	–	–	25	17935	25	17935	6.00	-17935	18480
27-Feb-07	1	–	–	–	–	–	8	2270	8	2270	6.00	-2270	
$	1	–	–	–	–	–	29	21200	29	21200	6.00	-21200	23470
28-Feb-07	1	–	–	–	–	–	5	2095	5	2095	6.00	-2095	
$	1	–	–	–	–	–	34	22185	34	22185	6.00	-22185	24280
01-Mar-07	1	–	–	–	–	–	9	2355	9	2355	6.00	–2,355	
$	1	–	–	–	–	–	46	27805	46	27805	6.00	–27,805	30160
02-Mar-07	3	–	–	–	–	–	6	1055	6	1055	6.00	–1,055	
$	3	–	–	–	–	–	41	21365	41	21365	6.00	–21,365	22420
05-Mar-07	1	–	–	–	–	–	24	12585	24	1995	6.00	-1995	
$	1	–	–	–	–	–	20	10090	20	1005	6.00	-1,005	3000
06-Mar-07	1	–	–	–	–	–	25	15400	25	2000	6.00	-2000	
$	1	–	–	–	–	–	17	7425	17	994	6.00	-994	2994
07-Mar-07	1	–	–	–	–	–	21	16390	21	2000	6.00	-2000	
$	1	–	–	–	–	–	14	9335	14	998	6.00	-998	2998
08-Mar-07	1	–	–	–	–	–	22	15900	22	1994	6.00	-1994	
$	1	–	–	–	–	–	16	11640	16	1005	6.00	-1005	2999

APPENDIX TABLE 35 : REPO/REVERSE REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Contd.)*

(Amount in Rupees crore)

LAF Date	Repo/ Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(-) of liquidity	Outstanding Amount@
		Bids received		Bids Accepted		Cut-Off Rate %	Bids Received		Bids Accepted		Cut-Off Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
09-Mar-07	3	–	–	–	–	–	19	15610	19	1997	6.00	-1997	
$	3	–	–	–	–	–	19	10875	19	1003	6.00	-1003	3000
12-Mar-07	1	–	–	–	–	–	21	19170	21	1999	6.00	-1999	
$	1	–	–	–	–	–	17	13650	17	1001	6.00	-1001	3000
13-Mar-07	1	–	–	–	–	–	20	22745	20	1997	6.00	-1997	
$	1	–	–	–	–	–	14	11370	14	1003	6.00	-1003	3000
14-Mar-07	1	–	–	–	–	–	20	20355	20	2000	6.00	-2000	
$	1	–	–	–	–	–	17	16820	17	1000	6.00	-1000	3000
15-Mar-07	1	–	–	–	–	–	14	19370	14	2000	6.00	-2000	
$	1	1	20	1	20		10	8145	10	1000	6.00	-980	2980
16-Mar-07	4	20	11080	20	11080	7.50	1	20	1	20	6.00	11060	
$	4	17	8625	17	8625	7.50	1	150	1	150	6.00	8475	-19535
20-Mar-07	1	40	29345	40	29345	7.50	–	–	–	–	6.00	29345	
$	1	22	5905	22	5905	7.50	1	300	1	300	6.00	5605	-34950
21-Mar-07	1	40	34055	40	34055	7.50	–	–	–	–	–	34055	
$	1	21	9020	21	9020	7.50	–	–	–	–	–	9020	-43075
22-Mar-07	1	34	29035	34	29035	7.50	–	–	–	–	–	29035	
$	1	24	10515	24	10515	7.50	1	10	1	10	6.00	10505	-39540
23-Mar-07	3	32	24135	32	24135	7.50	–	–	–	–	–	24135	
$	3	31	18060	31	18060	7.50	1	10	1	10	6.00	18050	-42185
26-Mar-07	2	39	29495	39	29495	7.50	–	–	–	–	6.00	29495	
$	2	18	7265	18	7265	7.50	1	40	1	40	6.00	7225	-36720
28-Mar-07	1	33	26725	33	26725	7.50	–	–	–	–	6.00	26725	
$	1	3	670	3	670	7.50	11	3215	11	1000	6.00	-330	-26395
29-Mar-07	1	20	13005	20	13005	7.50	1	30	1	30	6.00	12975	
$	1	12	4860	12	4860	7.50	1	10	1	10	6.00	4850	-17825
30-Mar-07	3	34	21275	34	21275	7.50	2	810	2	810	6.00	20465	
$	3	25	9375	25	9375	7.50	4	955	4	955	6.00	8420	-28885
$$	2	11	2815	11	2815	7.75	5	2515	5	2515	6.00	300	-300
03-Apr-07	1	32	19,740	32	19,740	7.75	–	–	–	–	–	19,740	
$	1	8	2,875	8	2,875	7.75	2	60	2	60	6.00	2,815	-22,555
04-Apr-07	1	16	10,060	16	10,060	7.75	4	3,060	4	2,000	6.00	8,060	
$	1	3	410	3	410	7.75	5	1,245	5	996	6.00	-586	-7,474
05-Apr-07	4	3	1,165	3	1,165	7.75	1	30	1	30	6.00	1,135	
$	4	1	400	1	400	7.75	4	80	4	80	6.00	320	-1,455
09-Apr-07	1	2	760	2	760	7.75	6	3,370	6	2,000	6.00	-1,240	
$	1	–	–	–	–	–	15	5,745	15	1,000	6.00	-1,000	2,240
10-Apr-07	1	–	–	–	–	–	11	14,295	11	1,999	6.00	-1,999	
$	1	–	–	–	–	–	20	14,825	20	1,001	6.00	-1,001	3,000
11-Apr-07	1	–	–	–	–	–	23	24,875	23	1,992	6.00	-1,992	
$	1	–	–	–	–	–	21	18,545	21	1,008	6.00	-1,008	3,000
12-Apr-07	1	–	–	–	–	–	25	28,690	25	1,999	6.00	-1,999	
$	1	–	–	–	–	–	21	22,925	21	1,000	6.00	-1,000	2,999
13-Apr-07	3	–	–	–	–	–	10	19,855	10	1,999	6.00	-1,999	
$	3	–	–	–	–	–	6	9,445	6	1,001	6.00	-1,001	3,000
16-Apr-07	1	1	400	1	400	7.75	2	210	2	210	6.00	190	
$	1	34	13,415	34	13,415	7.75	1	10	1	10	6.00	13,405	-13,595
17-Apr-07	1	36	15,870	36	15,870	7.75	–	–	–	–	–	15,870	
$	1	15	4,460	15	4,460	7.75	2	110	2	110	6.00	4,350	-20,220
18-Apr-07	1	22	9,085	22	9,085	7.75	1	10	1	10	6.00	9,075	
$	1	26	8,075	26	8,075	7.75	–	–	–	–	–	8,075	-17,150
19-Apr-07	1	19	9,385	19	9,385	7.75	–	–	–	–	–	9,385	
$	1	15	6,275	15	6,275	7.75	2	70	2	70	6.00	6,205	-15,590
20-Apr-07	3	20	10,010	20	10,010	7.75	–	–	–	–	–	10,010	
$	3	17	6,190	17	6,190	7.75	2	115	2	115	6.00	6,075	-16,085
23-Apr-07	1	13	5,200	13	5,200	7.75	2	120	2	120	6.00	5,080	
$	1	15	4,790	15	4,790	7.75	2	115	2	115	6.00	4,675	-9,755
24-Apr-07	1	23	14,365	23	14,365	7.75	3	125	3	125	6.00	14,240	
$	1	2	40	2	40	7.75	5	1,615	5	1,000	6.00	-960	-13,280
25-Apr-07	1	1	500	1	500	7.75	5	1,745	5	1,745	6.00	-1,245	
$	1	14	2,990	14	2,990	7.75	2	10	2	10	6.00	2,980	-1,735
26-Apr-07	1	5	2,650	5	2,650	7.75	1	100	1	100	6.00	2,550	
$	1	18	6,070	18	6,070	7.75	1	15	1	15	6.00	6,055	-8,605
27-Apr-07	3	26	10,705	26	10,705	7.75	–	–	–	–	–	10,705	
$	3	2	290	2	290	7.75	10	2,585	10	999	6.00	-709	-9,996
30-Apr-07	3	17	8,360	17	8,360	7.75	1	15	1	15	6.00	8,345	
$	3	23	7,615	23	7,615	7.75	–	–	–	–	–	7,615	-15,960

APPENDIX TABLE 35 : REPO/REVERSE REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Contd.)*

(Amount in Rupees crore)

LAF Date	Repo/ Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(-) of liquidity	Outstanding Amount@
		Bids received		Bids Accepted		Cut-Off Rate %	Bids Received		Bids Accepted		Cut-Off Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
3-May-07	1	10	4380	10	4380	7.75	1	25	1	25	6.00	4355	
$	1	11	3225	11	3225	7.75	1	10	1	10	6.00	3215	-7570
4-May-07	3	3	1720	3	1720	7.75	2	915	2	915	6.00	805	
$	3	3	225	3	225	7.75	3	215	3	215	6.00	10	-815
7-May-07	1	–	–	–	–	–	5	4100	5	2000	6.00	-2000	
$	1	–	–	–	–	–	6	5235	6	1000	6.00	-1000	3000
8-May-07	1	–	–	–	–	–	17	17260	17	1998	6.00	-1998	
$	1	1	30	1	30	7.75	11	11335	11	1002	6.00	-972	2970
9-May-07	1	–	–	–	–	–	19	18740	19	2000	6.00	-2000	
$	1	1	150	1	150	7.75	17	14770	17	999	6.00	-849	2849
10-May-07	1	–	–	-1	–	–	24	23020	24	2000	6.00	-2000	
$	1	–	–	–	–	–	19	11475	19	999	6.00	-999	2999
11-May-07	3	–	–	–	–	–	17	19260	17	1998	6.00	-1998	
$	3	–	–	–	–	–	9	5835	9	1001	6.00	-1001	2999
14-May-07	1	7	2650	7	2650	7.75	–	–	–	–	–	2650	
$	1	29	13845	29	13845	7.75	1	25	1	25	6.00	13820	-16470
15-May-07	1	16	11120	16	11120	7.75	–	–	–	–	–	11120	
$	1	24	12995	24	12995	7.75	1	10	1	10	6.00	12985	-24105
16-May-07	1	15	9825	15	9825	7.75	1	10	1	10	6.00	9815	
$	1	23	11780	23	11780	7.75	1	25	1	25	6.00	11755	-21570
17-May-07	1	17	10525	17	10525	7.75	–	–	–	–	–	10525	
$	1	17	14025	17	14025	7.75	1	15	1	15	6.00	14010	-24535
18-May-07	3	22	14150	22	14150	7.75	–	–	–	–	–	14150	
$	3	10	5530	10	5530	7.75	1	10	1	10	6.00	5520	-19670
21-May-07	1	8	2530	8	2530	7.75	–	–	–	–	–	2530	
$	1	18	9480	18	9480	7.75	2	295	2	295	6.00	9185	-11715
22-May-07	1	1	225	1	225	7.75	–	–	–	–	–	225	
$	1	12	5055	12	5055	7.75	2	95	2	95	6.00	4960	-5185
23-May-07	1	–	–	–	–	–	–	–	–	–	–	–	
$	1	5	5775	5	5775	7.75	1	10	1	10	6.00	5765	-5765
24-May-07	1	2	300	2	300	7.75	–	–	–	–	–	300	
$	1	8	6455	8	6455	7.75	1	25	1	25	6.00	6430	-6730
25-May-07	3	6	1595	6	1595	7.75	–	–	–	–	–	1595	
$	3	7	3415	7	3415	7.75	3	320	3	320	6.00	3095	-4690
28-May-07	1	–	–	–	–	–	8	9955	8	2000	6.00	-2000	
$	1	–	–	–	–	–	12	7535	12	999	6.00	-999	2999
29-May-07	1	–	–	–	–	–	20	18275	20	2000	6.00	-2000	
$	1	–	–	–	–	–	20	14995	20	994	6.00	-994	2994
30-May-07	1	–	–	–	–	–	28	30805	28	1999	6.00	-1999	
$	1	–	–	–	–	–	25	18530	25	997	6.00	-997	2996
31-May-07	1	–	–	–	–	–	32	37020	32	1995	6.00	-1995	
$	1	–	–	–	–	–	35	35270	35	997	6.00	-997	2992
1-Jun-07	3	–	–	–	–	–	35	44550	35	1996	6.00	-1996	
$	3	–	–	–	–	–	32	37075	32	1000	6.00	-1000	2996
4-Jun-07	1	–	–	–	–	–	39	48810	39	1997	6.00	-1997	
$	1	–	–	–	–	–	33	38605	33	1001	6.00	-1001	2998
5-Jun-07	1	–	–	–	–	–	41	56745	41	1998	6.00	-1998	
$	1	–	–	–	–	–	40	46100	40	999	6.00	-999	2997
6-Jun-07	1	–	–	–	–	–	41	67785	41	2000	6.00	-2000	
$	1	–	–	–	–	–	37	41740	37	1000	6.00	-1000	3000
7-Jun-07	1	–	–	–	–	–	45	64980	45	1999	6.00	-1999	
$	1	–	–	–	–	–	37	45010	37	1001	6.00	-1001	3000
8-Jun-07	3	–	–	–	–	–	41	59415	41	1994	6.00	-1994	
$	3	–	–	–	–	–	35	42655	35	995	6.00	-995	2989
11-Jun-07	1	–	–	–	–	–	27	26120	27	1994	6.00	-1994	
$	1	–	–	–	–	–	26	27885	26	1003	6.00	-1003	2997
12-Jun-07	1	–	–	–	–	–	27	33190	27	1994	6.00	-1994	
$	1	–	–	–	–	–	27	28935	27	1005	6.00	-1005	2999
13-Jun-07	1	–	–	–	–	–	28	32580	28	1998	6.00	-1998	
$	1	–	–	–	–	–	30	31880	30	999	6.00	-999	2997
14-Jun-07	1	–	–	–	–	–	31	39145	31	1998	6.00	-1998	
$	1	–	–	–	–	–	31	34570	31	1001	6.00	-1001	2999
15-Jun-07	3	–	–	–	–	–	29	38555	29	1996	6.00	-1996	
$	3	–	–	–	–	–	26	30645	26	1002	6.00	-1002	2998
18-Jun-07	1	–	–	–	–	–	28	35700	28	2000	6.00	-2000	
$	1	–	–	–	–	–	30	33750	30	999	6.00	-999	2999
19-Jun-07	1	–	–	–	–	–	30	43695	30	2000	6.00	-2000	
$	1	–	–	–	–	–	31	35895	31	997	6.00	-997	2997
20-Jun-07	1	–	–	–	–	–	34	46600	34	1989	6.00	-1989	
$	1	–	–	–	–	–	32	29410	32	1011	6.00	-1011	3000

APPENDIX TABLE 35 : REPO/REVERSE REPO AUCTIONS UNDER LIQUIDITY ADJUSTMENT FACILITY *(Concld.)*

(Amount in Rupees crore)

LAF Date	Repo/ Reverse Repo period (Day (s))	Repo (Injection)					Reverse Repo (Absorption)					Net Injections (+)/ absorption(-) of liquidity	Outstanding Amount@
		Bids received		Bids Accepted		Cut-Off Rate %	Bids Received		Bids Accepted		Cut-Off Rate %		
		Number	Amount	Number	Amount		Number	Amount	Number	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
21-Jun-07	1	–	–	–	–	–	34	47805	34	1994	6.00	-1994	
$	1	–	–	–	–	–	34	32500	34	1006	6.00	-1006	3000
22-Jun-07	3	–	–	–	–	–	35	47145	35	1990	6.00	-1990	
$	3	–	–	–	–	–	33	30435	33	1007	6.00	-1007	2997
25-Jun-07	1	–	–	–	–	–	29	34595	29	2000	6.00	-2000	
$	1	–	–	–	–	–	28	26475	28	1000	6.00	-1000	3000
26-Jun-07	1	–	–	–	–	–	38	48350	38	1995	6.00	-1995	
$	1	–	–	–	–	–	27	19180	27	1001	6.00	-1001	2996
27-Jun-07	1	–	–	–	–	–	–	–	–	–	–	0	
$	1	–	–	–	–	–	2	10	2	10	6.00	-10	10
28-Jun-07	1	5	2500	5	2500	7.75	–	–	–	–	–	2500	
$	1	12	6975	12	6975	7.75	2	10	2	10	6.00	6965	-9465
29-Jun-07	4	16	9520	16	9520	7.75	–	–	–	–	–	9520	
$	4	1	375	1	375	7.75	13	4005	13	1000	6.00	-625	-8895
3-Jul-07	1	–	–	–	–	–	29	40995	29	1998	6.00	-1998	
$	1	–	–	–	–	–	37	39505	37	997	6.00	-997	2995
4-Jul-07	1	–	–	–	–	–	40	53670	40	2000	6.00	-2000	
$	1	–	–	–	–	–	33	39085	33	987	6.00	-987	2987
5-Jul-07	1	–	–	–	–	–	40	55370	40	1996	6.00	-1996	
$	1	–	–	–	–	–	34	38850	34	1001	6.00	-1001	2997
6-Jul-07	3	–	–	–	–	–	39	55325	39	1998	6.00	-1998	
$	3	–	–	–	–	–	27	33800	27	1001	6.00	-1001	2999
9-Jul-07	1	–	–	–	–	–	34	52935	34	1999	6.00	-1999	
$	1	–	–	–	–	–	28	33380	28	1000	6.00	-1000	2999
10-Jul-07	1	–	–	–	–	–	42	57540	42	1999	6.00	-1999	
$	1	–	–	–	–	–	33	32905	33	991	6.00	-991	2990
11-Jul-07	1	–	–	–	–	–	43	56590	43	1995	6.00	-1995	
$	1	–	–	–	–	–	32	35405	32	1002	6.00	-1002	2997
12-Jul-07	1	–	–	–	–	–	42	58960	42	1994	6.00	-1994	
$	1	–	–	–	–	–	37	39705	37	1005	6.00	-1005	2999
13-Jul-07	3	–	–	–	–	–	44	63750	44	1991	6.00	-1991	
$	3	–	–	–	–	–	39	41950	39	1008	6.00	-1008	2999
16-Jul-07	1	–	–	–	–	–	43	56555	43	1995	6.00	-1995	
$	1	–	–	–	–	–	40	41945	40	1005	6.00	-1005	3000
17-Jul-07	1	–	–	–	–	–	47	66970	47	1996	6.00	-1996	
$	1	–	–	–	–	–	38	35565	38	1003	6.00	-1003	2999
18-Jul-07	1	–	–	–	–	–	44	67310	44	1998	6.00	-1998	
$	1	–	–	–	–	–	39	42855	39	1002	6.00	-1002	3000
19-Jul-07	1	–	–	–	–	–	48	65920	48	1984	6.00	-1984	
$	1	–	–	–	–	–	38	42760	38	1016	6.00	-1016	3000
20-Jul-07	3	–	–	–	–	–	44	62735	44	1996	6.00	-1996	
$	3	–	–	–	–	–	34	42475	34	1004	6.00	-1004	3000
23-Jul-07	1	–	–	–	–	–	38	59910	38	1991	6.00	-1991	
$	1	–	–	–	–	–	32	37905	32	1008	6.00	-1008	2999
24-Jul-07	1	–	–	–	–	–	49	68545	49	1998	6.00	-1998	
$	1	–	–	–	–	–	39	45355	39	999	6.00	-999	2997
25-Jul-07	1	–	–	–	–	–	47	68115	47	1995	6.00	-1995	
$	1	–	–	–	–	–	34	39485	34	998	6.00	-998	2993
26-Jul-07	1	–	–	–	–	–	46	77930	46	1994	6.00	-1994	
$	1	–	–	–	–	–	42	50855	42	1005	6.00	-1005	2999
27-Jul-07	3	–	–	–	–	–	44	86110	44	1993	6.00	-1993	
$	3	–	–	–	–	–	41	65690	41	999	6.00	-999	2992
30-Jul-07	1	–	–	–	–	–	46	88215	46	2000	6.00	-2000	
$	1	–	–	–	–	–	40	62025	40	999	6.00	-999	2999
31-Jul-07	1	–	–	–	–	–	40	80730	40	1993	6.00	-1993	
$	1	–	–	–	–	–	33	53145	33	1007	6.00	-1007	3000
1-Aug-07	1	–	–	–	–	–	44	85715	44	1988	6.00	-1988	
$	1	–	–	–	–	–	35	50530	35	1011	6.00	-1011	2999
2-Aug-07	1	–	–	–	–	–	41	74040	41	1991	6.00	-1991	
$	1	–	–	–	–	–	33	49030	33	986	6.00	-986	2977
3-Aug-07	3	–	–	–	–	–	28	59630	28	1996	6.00	-1996	
$	3	–	–	–	–	–	28	45000	28	1001	6.00	-1001	2997
6-Aug-07	1	–	–	–	–	–	28	52070	28	52070	6.00	-52070	52070

@ : Net of overnight repo.

$: Second LAF auction introduced with effect from November 28, 2005.

$$: Additional LAF on March 30, 2007.

Note : 1. With effect from October 29, 2004, nomenclature of repo and reverse repo has been interchanged as per international usage. Till October 28, 2004, repo indicates absorption of liquidity whereas reverse repo indicates injection of liquidity by the Reserve Bank.

2. Ceiling of Rs. 3,000 crore on daily reverse repo under LAF which was introduced with effect from March 5, 2007 was withdrawn with effect from August 6, 2007.

3. Second LAF has been discontinued with effect from August 6, 2007.

APPENDIX TABLE 36 : ISSUE OF CERTIFICATES OF DEPOSIT BY SCHEDULED COMMERCIAL BANKS

Fortnight ended	Outstanding (Rupees crore)	Rate of Discount (Per cent) @	Weighted Average Discount Rate (Per cent) @	Fortnight ended (Per cent) @	Outstanding (Rupees crore)	Rate of Discount (Per cent) @	Weighted Average Discount Rate (Per cent) @
1	2	3	4	5	6	7	8
2005-06				May 12	48,515	6.50-7.90	7.05
April 1	14,975	4.75-6.60	–	26	50,228	6.37-8.67	7.17
15	14,106	4.10-6.60	–	June 9	53,863	5.75-7.96	7.17
29	16,602	4.24-6.50	–	23	56,390	5.50-8.16	7.19
May 13	17,420	4.29-6.75	–	July 7	57,256	6.00-8.70	7.64
27	17,689	4.29-6.75	–	21	59,167	4.35-8.21	7.65
June 10	18,503	5.47-7.00	–	August 4	64,748	6.00-8.62	7.40
24	19,270	5.58-7.50	–	18	65,621	4.75-8.50	7.77
July 8	20,509	4.50-7.00	–	September 1	66,340	4.60-8.50	7.57
22	20,768	4.25-7.00	–	15	63,864	7.13-8.50	7.74
August 5	21,062	4.75-7.00	–	29	65,274	7.25-8.50	7.80
19	23,568	4.66-7.00	–	October 13	64,482	4.75-8.50	7.79
September 2	23,645	4.66-7.00	–	27	65,764	6.00-8.50	7.73
16	25,604	4.66-7.75	–	November 10	67,694	6.00-8.36	7.81
30	27,641	4.39-7.00	5.99	24	68,911	7.50-8.33	7.99
October 14	27,626	4.66-7.25	5.78	December 8	69,664	6.00-8.36	7.90
28	29,193	5.25-7.75	6.11	22	68,619	7.25-8.90	8.28
November 11	29,345	5.25-6.50	6.05	January 5	68,928	8.26-9.25	8.94
25	27,457	5.25-7.50	6.09	19	70,149	8.00-9.55	9.22
December 9	30,445	5.35-7.75	6.30	February 2	70,727	8.41-9.80	9.32
23	32,806	5.50-7.25	6.56	16	72,795	9.40-10.83	9.87
January 6	34,432	4.40-7.75	6.70	March 2	77,971	9.90-11.30	10.63
20	34,521	5.40-7.75	6.45	16	92,468	10.30-11.25	10.77
February 3	33,986	4.35-7.90	6.83	30	93,272	10.23-11.90	10.75
17	34,487	4.35-8.16	7.68	**2007-08**			
March 3	36,626	5.85-8.50	7.83	April 13	93,808	9.50-11.50	10.15
17	36,931	4.35-8.81	8.65	27	95,980	9.40-11.50	10.75
31	43,568	6.50-8.94	8.62	May 11	97,292	10.05-11.50	10.65
2006-07				25	99,175	7.00-10.82	9.87
April 14	38,568	6.00-8.90	7.68	June 8	99,287	6.13-10.95	9.31
28	44,059	6.00-8.45	7.03	22	98,337	7.00-10.20	9.37

@ : Effective discount rate per annum.
– : Not available.

APPENDIX TABLE 37 : COMMERCIAL PAPER*

Fortnight ended		Outstanding (Rupees crore)	Amount Issued (Rupees crore)	Typical Effective Rates of Discount (Per cent)	Weighted Average Discount Rate (Per cent)	Fortnight ended		Outstanding (Rupees crore)	Amount Issued (Rupees crore)	Typical Effective Rates of Discount (Per cent)	Weighted Average Discount Rate (Per cent)
1		2	3	4	5	6		7	8	9	10
2005-06											
April	15	15,214	1,964	5.55-6.33	5.97	June	15	18,933	2,655	6.44-9.25	6.99
	30	15,598	1,585	5.50-6.65	5.84		30	19,650	2,326	6.59-9.25	7.10
May	15	16,078	1,565	5.38-6.65	5.73	July	15	21,652	3,389	6.25-8.30	7.18
	31	17,182	2,259	5.40-6.65	5.81		31	21,110	2,423	6.50-8.25	7.34
June	15	17,522	1,408	5.42-6.65	5.66	August	15	23,084	4,018	6.25-8.10	7.06
	30	17,797	1,517	5.45-6.51	5.79		31	23,299	2,442	6.60-9.00	7.31
July	15	18,207	1,896	5.57-7.50	5.93	September	15	24,011	2,507	6.40-8.17	7.39
	31	18,607	1,464	5.25-7.50	5.88		30	24,444	2,713	7.10-9.25	7.70
August	15	20,117	2,156	5.50-7.50	5.84	October	15	23,521	1,733	7.20-8.65	7.63
	31	19,508	1,955	5.45-7.50	5.77		31	23,171	1,640	7.00-8.75	7.77
September	15	20,019	1,392	5.50-6.56	5.75	November	15	23,450	2,361	7.25-9.25	8.08
	30	19,725	1,127	5.45-6.65	5.87		30	24,238	4,031	7.50-9.50	7.88
October	15	18,702	1,008	5.69-7.50	6.00	December	15	23,827	1,915	7.50-8.75	7.94
	31	18,726	1,884	5.63-7.50	5.99		31	23,536	1,165	7.74-10.00	8.52
November	15	17,903	852	5.75-6.60	6.10	January	15	23,758	1,255	8.30-9.58	8.70
	30	18,013	1,631	5.90-6.79	6.30		31	24,398	2,235	8.25-10.50	9.09
December	15	17,431	2,109	6.21-7.75	6.56	February	15	23,999	1,522	8.00-11.25	9.49
	31	17,234	1,995	6.20-7.75	6.81		28	21,167	1,241	8.70-12.00	10.49
January	15	17,415	844	6.50-7.75	7.16	March	15	19,102	2,106	7.50-13.35	10.24
	31	16,431	1,093	6.65-8.50	7.29		30	17,838	1,280	10.25-13.00	11.33
February	15	16,203	1,204	7.03-8.50	7.87						
	28	15,876	1,956	7.22-8.75	8.02	**2007-08**					
March	15	12,877	685	7.75-8.95	8.55	April	15	19,013	1,952	10.00-14.00	10.46
	31	12,718	2,128	6.69-9.25	8.59		30	18,759	1,815	9.65-11.75	10.52
						May	1	19,288	2,309	9.25-11.45	10.50
2006-07							31	22,024	4,016	8.71-12.00	9.87
April	15	12,968	1,423	6.77-8.95	7.62	June	15	25,500	5,238	7.00-10.80	9.13
	30	16,550	4,642	6.35-9.25	7.30		30	26,256	2,287	7.35-12.00	8.93
May	15	17,264	2,068	6.32-7.95	6.87						
	31	17,067	2,633	6.40-9.25	6.89						

* : Face value.

APPENDIX TABLE 38: INDICES OF REAL EFFECTIVE EXCHANGE RATE (REER) AND NOMINAL EFFECTIVE EXCHANGE RATE (NEER) OF THE INDIAN RUPEE

Year/Month	36 - Currency Trade based weights (Base : 1993-94=100)		6 - Currency Trade based weights (Base : 1993-94 = 100)	
	REER	NEER	REER	NEER
1	2	3	4	5
1993-94	100.00	100.00	100.00	100.00
1994-95	104.32	98.91	105.82	96.96
1995-96	98.19	91.54	101.27	88.56
1996-97	96.83	89.27	101.11	86.85
1997-98	100.77	92.04	104.41	87.94
1998-99	93.04	89.05	96.14	77.49
1999-00	95.99	91.02	97.69	77.16
2000-01	100.09	92.12	102.82	77.43
2001-02	100.86	91.58	102.71	76.04
2002-03	98.18	89.12	97.68	71.27
2003-04	99.56	87.14	99.17	69.97
2004-05	100.09	87.31	101.78	69.58
2005-06	102.35	89.85	107.30	72.28
2006-07 (P)	98.59	85.88	105.47	68.93
2005-06				
April	100.57	88.97	104.38	71.16
May	102.07	90.03	106.28	72.11
June	103.70	91.24	108.20	73.29
July	105.02	92.07	109.43	73.94
August	104.01	90.95	108.33	72.95
September	103.91	90.38	108.19	72.45
October	102.54	89.42	107.20	71.75
November	101.37	88.30	106.85	71.09
December	100.59	88.06	106.36	71.03
January	101.47	89.41	107.05	72.31
February	101.74	89.88	107.91	72.88
March	101.25	89.52	107.41	72.45
2006-07 (P)				
April	98.22	87.73	105.75	71.04
May	96.44	85.43	103.48	68.79
June	96.57	85.11	103.06	68.21
July	95.74	84.22	102.25	67.59
August	95.63	83.61	102.14	67.08
September	98.00	84.65	104.75	67.84
October	99.99	86.18	107.25	69.11
November	100.41	86.50	107.82	69.34
December	99.29	85.89	106.39	68.82
January	100.98	87.05	107.70	69.77
February	100.83	87.13	107.71	69.88
March	101.02	87.11	107.41	69.70
2007-08 (P)				
April	104.12	91.51	111.59	72.18
May	107.52	94.53	115.34	74.64

P : Provisional.

Note : For detailed methodology of compilation of indices, see "Revision of Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) Indices", *Reserve Bank of India Bulletin*, December 2005.

APPENDIX TABLE 39: INTER-BANK AND MERCHANT TRANSACTIONS IN THE FOREIGN EXCHANGE MARKET

(US $ million)

Month	Inter-bank							Merchant						
	Spot			Forward/Swap			Turnover	Spot			Forward			Turnover
	Purchases	Sales	Net	Purchases	Sales	Net		Purchases	Sales	Net	Purchases	Sales	Net	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2006														
Jan	89896	89066	830	78520	93489	-14969	350971	26492	26748	-256	36276	38605	-2329	128121
Feb	78270	78265	6	70983	88434	-17451	315952	25307	23847	1460	26345	27499	-1154	102999
Mar	92257	99494	-7237	96311	116734	-20423	404797	37540	31770	5771	35401	36521	-1120	141231
Apr	90195	92037	-1842	79144	92858	-13714	354234	33118	29626	3493	31769	35503	-3734	130016
May	117461	115715	1745	92639	97847	-5208	423661	34504	37720	-3216	48534	46523	2011	167282
Jun	96853	95418	1435	70160	74384	-4224	336815	28946	29762	-817	32977	34351	-1374	126036
Jul	86643	84848	1795	62377	66962	-4585	300829	25411	25781	-370	32283	33999	-1716	117474
Aug	103226	100723	2503	72900	73703	-803	350553	30579	31856	-1277	34939	37702	-2763	135075
Sep	103184	101808	1376	87868	87389	479	380248	33678	32705	974	38740	40002	-1262	145125
Oct	96569	95552	1017	82395	80881	1514	355398	37130	35842	1288	40253	42451	-2198	155675
Nov	122117	126608	-4491	100542	101182	-640	450450	37586	32898	4688	45891	45287	604	161662
Dec	103069	102639	430	94497	98444	-3947	398649	36385	36677	-292	41249	42846	-1596	157157
2007														
Jan (P)	120621	122472	-1851	100306	98974	1332	442373	38189	38657	-468	44681	44024	657	165551
Feb (P)	110063	112542	-2479	85305	93082	-7777	400992	34660	32087	2573	34542	32439	2103	133728
Mar (P)	132042	131057	985	135686	134300	1386	533085	47061	43976	3085	49596	51336	-1740	191969
Apr (P)	152702	153223	-521	138189	146641	-8452	590755	53727	52902	825	51852	50795	1057	209276
May (P)	147942	151931	-3989	136006	135509	497	571388	59377	54769	4608	52228	49589	2639	215963
Jun (P)	165589	166893	-1304	150961	149109	1852	632552	66299	58943	7356	63870	66205	-2335	255317

P : Provisional.

Note : 1. Merchant turnover includes cross-currency (*i.e.*, foreign currency to foreign currency, both spot and forward) transactions and cancellation of forward contracts.
2. Inter-bank turnover includes cross-currency (*i.e.*, foreign currency to foreign currency, both spot and forward) transactions.

APPENDIX TABLE 40: SECONDARY MARKET TRANSACTIONS IN GOVERNMENT SECURITIES

(Amount in Rupees crore)

Instruments	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
I. Outright Transaction																
1. Central Government Securities	55,280	55,029	33,870	34,770	89,707	1,24,585	66,848	1,59,804	83,115	74,736	61,410	46,356	69,534	68,848	93,750	2,05,731
	(83.56)	(79.63)	(71.03)	(78.09)	(83.58)	(89.12)	(87.17)	(91.29)	(89.88)	(89.45)	(88.94)	(82.15)	(86.46)	(86.77)	(81.49)	(89.16)
2. State Government Securities	426	2,519	1,070	708	715	736	468	873	1,262	695	1,218	1,859	1,551	1,362	912	1,044
	(0.64)	(3.64)	(2.24)	(1.59)	(0.67)	(0.53)	(0.61)	(0.5)	(1.37)	(0.83)	(1.76)	(3.29)	(1.93)	(1.71)	(0.79)	(0.45)
3. Treasury Bills	10,453	11,562	12,747	9,050	16,926	14,472	9,375	14,381	8,094	8,115	6,415	8,216	9,340	9,133	20,371	23,952
	(15.80)	(16.73)	(26.73)	(20.32)	(15.77)	(10.35)	(12.22)	(8.21)	(8.75)	(9.71)	(9.29)	(14.56)	(11.61)	(11.51)	(17.71)	(10.38)
(a) 91 days	1,097	3,222	2,885	2,863	5,471	3,825	2,985	2,570	2,867	3,015	2,605	2,942	5,008	5,229	12,900	10,632
	(1.66)	(4.66)	(6.05)	(6.43)	(5.10)	(2.74)	(3.89)	(1.47)	(3.10)	(3.61)	(3.77)	(5.21)	(6.23)	(6.59)	(63.32)	(44.39)
(b) 182 days	1,023	2,212	4,171	2,071	4,467	2,674	1,708	4,031	1,323	1,868	1,256	2,227	1,435	1,089	3,654	1746
	(1.55)	(3.2)	(8.75)	(4.65)	(4.16)	(1.91)	(2.23)	(2.3)	(1.43)	(2.24)	(3.70)	(3.95)	(1.78)	(1.37)	(17.94)	(7.29)
(c) 364 days	8,333	6,128	5,691	4,116	6,988	7,973	4,683	7,780	3,905	3,232	2,555	3,047	2,897	2,815	3,817	11,573
	(12.60)	(8.87)	(11.93)	(9.24)	(6.51)	(5.7)	(6.11)	(4.44)	(4.22)	(3.87)	(3.70)	(5.40)	(3.60)	(3.55)	(18.74)	(48.32)
Total (1+2+3)	66,159	69,110	47,687	44,527	1,07,328	1,39,793	76,691	1,75,059	92,471	83,546	69,044	56,430	80,425	79,343	1,15,033	2,30,726
	(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	93,578	1,90,987	2,07,409	1,67,715	2,04,559	2,05,788	1,88,684	2,39,073	1,58,735	1,46,607	1,49,838	1,72,576	1,32,158	2,10,540	2,25,958	2,38,855
	(78.08)	(81.8)	(75.44)	(69.37)	(78.25)	(86.14)	(88.22)	(91.09)	(92.98)	(92.69)	(87.38)	(82.80)	(87.71)	(93.79)	(87.79)	(88.11)
2. State Government Securities	2,259	6,182	7,241	5,372	4,269	3,349	2,862	2,600	2,301	2,165	3,254	8,821	3,440	1,841	1,165	1,854
	(1.88)	(2.65)	(2.63)	(2.22)	(1.63)	(1.40)	(1.34)	(0.99)	(1.35)	(1.37)	(1.90)	(4.23)	(2.29)	(0.82)	(0.45)	(0.68)
3. Treasury Bills	24,017	36,300	60,300	68,678	52,594	29,751	22,322	20,788	9,687	9,404	18,387	27,039	15,071	12,104	30,250	30,372
	(20.04)	(15.55)	(21.93)	(28.41)	(20.12)	(12.45)	(10.44)	(7.92)	(5.67)	(5.95)	(10.72)	(12.97)	(10)	(5.39)	(11.75)	(11.20)
(a) 91 days	1,840	10,063	23,773	21,894	16,669	4,488	2,385	2,814	2,730	3,079	3,369	5,268	1,487	2,734	10,672	16,269
	(1.54)	(4.31)	(8.65)	(9.06)	(6.38)	(1.88)	(1.12)	(1.07)	(1.60)	(1.95)	(1.96)	(2.53)	(0.99)	(1.22)	(35.28)	(53.57)
(b) 182 days	4,311	6,571	9,379	7,778	8,848	5,497	1,929	4,640	3,064	3,001	4,625	2,953	1,373	462	1,034	3,187
	(3.60)	(2.81)	(3.41)	(3.22)	(3.38)	(2.30)	(0.90)	(1.77)	(1.79)	(1.90)	(2.70)	(1.42)	(0.91)	(0.20)	(3.42)	(10.49)
(c) 364 days	17,866	19,666	27,149	39,006	27,077	19,765	18,008	13,334	3,893	3,325	10,393	18,819	12,211	8,908	18,544	10,916
	(14.91)	(8.42)	(9.87)	(16.13)	(10.36)	(8.27)	(8.42)	(5.08)	(2.28)	(2.10)	(6.06)	(9.03)	(8.10)	(3.97)	(61.30)	(35.94)
Total (1+2+3)	1,19,854	2,33,470	2,74,951	2,41,765	2,61,423	2,38,888	2,13,868	2,62,461	1,70,724	1,58,176	1,71,476	2,08,437	1,50,669	2,24,485	2,57,372	2,71,081
	(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)	**1,86,012**	**3,02,579**	**3,22,638**	**2,86,293**	**3,68,751**	**3,78,681**	**2,90,560**	**4,37,520**	**2,63,194**	**2,41,722**	**2,40,520**	**2,64,867**	**2,31,094**	**3,03,829**	**3,72,405**	**5,01,808**
Percentage of I to III	(35.57)	(22.84)	(14.78)	(15.55)	(29.11)	(36.92)	(26.39)	(40.01)	(35.13)	(34.56)	(28.71)	(21.31)	(34.8)	(26.11)	(30.89)	(45.98)
Percentage of II to III	(64.43)	(77.16)	(85.22)	(84.45)	(70.89)	(63.08)	(73.61)	(59.99)	(64.87)	(65.44)	(71.29)	(78.69)	(65.2)	(73.89)	(69.11)	(54.02)

Note : 1. Figures in parentheses indicate percentages to total outright/ repo transactions. Repo transactions exclude second leg of transactions.

2. 182-day Treasury Bills have been re-introduced from the year 2005-06.

APPENDIX TABLE 41: INTEREST RATE STRUCTURE OF SCHDULED COMMERCIAL BANKS

(Per cent)

Item	31-Mar 2006	30-Apr 2006	31-May 2006	30-Jun 2006	31-Jul 2006	30-Aug 2006	30-Sep 2006	31-Oct 2006	30-Nov 2006	31-Dec 2006	31-Jan 2007	28-Feb 2007	31-Mar 2007	30-Apr 2007	31-May 2007	30-Jun 2007	31-Jul 2007
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
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	≤ BPLR	≤ BPLR	≤ BPLR	≤ BPLR
2. Over Rs. 2 lakh :																	
BPLR*	10.25-10.75	10.25-10.75	10.75-11.25	10.75-11.25	10.75-11.25	11.00-11.50	11.00-11.50	11.00-11.50	11.00-11.50	11.00-11.50	11.50-12.00	12.25-12.50	12.25-12.50	12.75-13.25	12.75-13.25	12.75-13.25	12.75-13.25
B. Deposit Rates																	
Category of Account																	
1. Current	Nil	Nil	Nil	Nil	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	3.50	3.50	3.50	3.50
3. Term Deposits *																	
a) Up to and including one year	2.25-5.50	2.25-6.00	3.00-6.00	3.00-6.00	3.00-6.00	3.00-6.25	3.00-6.25	3.00-6.25	3.00-6.50	3.00-7.00	3.00-7.00	3.00-7.00	3.00-7.00	3.00-7.00	3.00-7.00	3.00-9.50	3.00-9.50
b) 1-2 years	6.00-6.50	6.00-6.50	6.25-6.75	6.25-6.75	6.25-6.75	6.50-7.00	6.75-7.00	6.75-7.00	6.75-7.25	7.00-7.50	7.50-8.25	7.50-8.25	7.50-9.00	7.50-9.00	7.50-9.00	7.50-9.50	7.50-9.50
c) 2-3 years	6.00-6.50	6.00-6.50	6.25-6.75	6.25-6.75	6.25-6.75	6.50-7.00	6.75-7.00	6.75-7.00	6.75-7.25	7.00-7.50	7.50-8.50	7.50-8.50	7.50-8.50	7.50-8.50	7.50-8.50	7.50-9.50	7.50-9.50
d) > 3 years	6.25-7.00	6.25-7.00	6.50-7.00	6.50-7.00	6.50-7.00	7.00-8.00	7.00-8.00	7.00-8.00	7.00-8.00	7.30-8.00	7.75-8.50	7.75-9.00	7.75-9.00	7.75-9.00	7.75-9.00	7.75-9.60	7.75-9.60

* : Data relate to major public sector banks. BPLR : Benchmark Prime Lending Rate. ≤ : Not exceeding.

APPENDIX TABLE 42 : NEW CAPITAL ISSUES BY NON-GOVERNMENT PUBLIC LIMITED COMPANIES

(Amount in Rupees crore)

Security and Type of Issue	2004-05		2005-06		2006-07	
	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** **(46)**	**12,004** **(11,049)**	**128** **(118)**	**20,899** **(18,793)**	**115** **(110)**	**30,753** **(20,613)**
a) Prospectus	25 (24)	8,389 (8,010)	92 (89)	16,801 (15,355)	82 (82)	28,172 (18,520)
b) Rights	26 (22)	3,615 (3,039)	36 (29)	4,098 (3,439)	33 (28)	2,581 (2,093)
2) Preference Shares (a+b)	**–**	**–**	**1**	**10**	**–**	**–**
a) Prospectus	–	–	1	10	–	–
b) Rights	–	–	–	–	–	–
3) Debentures (a+b)	**–**	**–**	**2**	**245**	**3**	**847**
a) Prospectus	–	–	1	127	–	–
b) Rights	–	–	1	118	3	847
of which:						
I) Convertible (a+b)	–	–	–	–	–	–
a) Prospectus	–	–	–	–	–	–
b) Rights	–	–	–	–	–	–
II) Non–Convertible (a+b)	–	–	2	245	3	847
a) Prospectus	–	–	1	127	–	–
b) Rights	–	–	1	118	3	847
4) Bonds (a+b)	**3**	**1,478**	**–**	**–**	**–**	**–**
a) Prospectus	3	1,478	–	–	–	–
b) Rights	–	–	–	–	–	–
5) Total (1+2+3+4)	**54**	**13,482**	**131**	**21,154**	**118**	**31,600**
a) Prospectus	28	9,867	94	16,938	82	28,172
b) Rights	26	3,615	37	4,216	36	3,428

– : Nil/Negligible.

Note :
1. Data are provisional.
2. Data exclude bonus shares, offers for sale and private placements.
3. Figures in brackets indicate data in respect of premium on capital issues. These are included in respective totals.
4. Preference shares include cumulative convertible preference shares and equi-preference shares.
5. Convertible debentures include partly convertible debentures.
6. Non-convertible debentures include secured premium notes and secured deep discount bonds.
7. 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 43 : ASSISTANCE SANCTIONED AND DISBURSED BY FINANCIAL INSTITUTIONS

(Rupees crore)

Institutions	2004-05		2005-06 P		2006-07 P	
	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
1	2	3	4	5	6	7
A. All India Development Banks (1 to 5)	**26,304**	**16,185**	**49,096**	**27,815**	**45,063**	**32,419**
1. IDBI	10,799	6,183	26,490	12,483	19,776	14,533
2. IFCI	–	91	–	187	1,050	550
3. IDFC	6,414	3,723	10,631	6,045	13,053	7,207
4. SIDBI	9,091	6,188	11,975	9,100	11,184	10,129
5. IIBI	–	–	–	–	N.A.	N.A.
B. Specialised Financial Institutions (6 to 8)	**111**	**72**	**133**	**88**	**245**	**120**
6. IVCF	–	–	–	–	–	–
7. ICICI Venture	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
8. TFCI	111	72	133	88	245	120
C. Investment Institutions (9 to 10)	**10,403**	**8,972**	**15,558**	**11,771**	**18,759**	**27,857**
9. LIC	9,340	7,954	15,165	11,200	18,127	27,017
10. GIC $	1,063	1,018	393	571	632	840
D. Total Assistance by All-India Financial Institutions (A+B+C)	**36,818**	**25,229**	**64,787**	**39,674**	**64,067**	**60,396**
E. State-level Institutions (11 and 12)	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
11. SFCs	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
12. SIDCs	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
F. Total Assistance by All Financial Institutions (AFIs) [D+E]	**36,818**	**25,229**	**64,787**	**39,674**	**64,067**	**60,396**

P : Provisional. – : Nil/Negligible. N.A. : Not available.

$: Data include GIC and its subsidiaries.

Source : Respective Financial Institutions.

APPENDIX TABLE 44 : DOMESTIC STOCK INDICES

Year/Month	BSE Index (Base: 1978-79=100)				S&P CNX Nifty (Base: Nov 3, 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
2003-04	**4492 (40.1)**	**6194**	**2924**	**5591 (83.4)**	**1427 (37.6)**	**1982**	**924**	**1772 (81.2)**
2004-05	**5741 (27.8)**	**6915**	**4505**	**6493 (16.1)**	**1805 (26.5)**	**2169**	**1389**	**2036 (14.9)**
2005-06	**8279 (44.2)**	**11307**	**6135**	**11280 (73.7)**	**2513 (39.2)**	**3419**	**1903**	**3403 (67.1)**
2006-07	**12277 (48.3)**	**14652**	**8929**	**13072 (15.9)**	**3572 (42.1)**	**4224**	**2632**	**3821 (12.3)**
2005-06								
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	2391	2179	2312
August	7726	7860	7596	7805	2358	2403	2318	2385
September	8272	8650	7876	8634	2512	2611	2406	2601
October	8220	8800	7686	7892	2487	2663	2316	2371
November	8552	8995	7944	8789	2575	2712	2387	2652
December	9162	9398	8816	9398	2773	2843	2661	2837
January	9540	9920	9238	9920	2893	3001	2809	3001
February	10090	10370	9743	10370	3019	3075	2941	3075
March	10857	11307	10509	11280	3236	3419	3117	3403
2006-07								
April	11742	12043	11237	12043	3494	3574	3346	3558
May	11599	12612	10399	10399	3437	3754	3071	3071
June	9935	10609	8929	10609	2915	3128	2633	3128
July	10557	10930	10007	10744	3092	3197	2933	3143
August	11305	11724	10752	11699	3306	3430	3148	3414
September	12036	12454	11551	12454	3492	3588	3366	3588
October	12637	13024	12204	12962	3649	3769	3515	3744
November	13416	13774	13033	13696	3869	3969	3767	3955
December	13628	13972	12995	13628	3910	4016	3717	3966
January	13984	14283	13362	14091	4037	4148	3850	4083
February	14143	14652	12938	12938	4084	4224	3745	3745
March	12858	13308	12415	13072	3731	3876	3577	3822
2007-08								
April	13478	14229	12455	13872	3947	4178	3634	4088
May	14156	14544	13765	14544	4184	4296	4067	4296
June	14334	14651	14003	14651	4222	4318	4113	4318
July	15253	15795	14664	15551	4474	4621	4314	4529

Note : Figures in parentheses are percentage variations over the previous year.

Source : Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited (NSE).

APPENDIX 45 : MAJOR INDICATORS OF DOMESTIC EQUITY MAKRETS

Year/Month	Bombay Stock Exchange Limited (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
2002-03	**4.9**	**678**	**14.51**	**5,72,198**	**3,14,073**	**5.2**	**224**	**15.24**	**5,37,133**	**6,17,989**
2003-04	**23.0**	**1845**	**16.19**	**12,01,207**	**5,03,053**	**23.3**	**1058**	**14.59**	**11,20,976**	**10,99,535**
2004-05	**11.2**	**2410**	**16.56**	**16,98,428**	**5,18,715**	**11.3**	**780**	**14.79**	**15,85,585**	**11,40,071**
2005-06	**16.7**	**5172**	**16.98**	**30,22,191**	**8,16,074**	**15.6**	**1516**	**15.69**	**28,13,201**	**15,69,556**
2006-07	**11.1**	**5723**	**20.73**	**35,45,041**	**9,56,185**	**10.4**	**1591**	**19.51**	**33,67,350**	**19,45,285**
2005-06										
April	2.4	472	15.25	16,35,766	37,809	2.8	167	14.16	15,17,908	82,718
May	2.1	520	14.94	17,83,221	43,359	2.3	171	13.77	16,54,995	86,802
June	2.3	538	15.75	18,50,377	58,480	2.1	156	14.02	17,27,502	1,11,397
July	1.9	490	16.01	19,87,170	61,899	1.8	140	14.31	18,48,740	1,23,008
August	1.0	264	16.00	21,23,901	75,933	1.0	85	14.61	19,57,491	1,45,731
September	3.0	774	17.11	22,54,378	81,291	2.6	205	15.58	20,98,263	1,45,393
October	4.0	1114	16.77	20,65,612	59,102	4.1	347	15.26	19,27,645	1,20,810
November	3.3	1051	16.75	23,23,065	52,694	3.5	325	15.47	21,66,823	1,09,578
December	2.1	582	18.09	24,89,386	77,356	2.1	182	16.72	23,22,392	1,49,908
January	2.0	682	18.54	26,16,194	79,316	1.8	192	17.27	24,34,395	1,49,442
February	1.5	628	18.64	26,95,543	70,070	1.2	134	17.97	25,12,083	1,35,374
March	2.0	798	20.05	30,22,191	1,18,765	2.6	302	19.25	28,13,201	2,09,395
2006-07										
April	1.9	805	21.35	32,55,565	87,846	1.8	228	20.59	29,90,200	1,77,372
May	6.8	2214	20.41	28,42,049	95,820	7.0	683	19.53	26,12,639	2,01,409
June	4.3	1680	17.90	27,21,677	72,013	4.3	495	16.65	25,24,659	1,51,050
July	2.5	923	19.02	27,12,144	54,698	2.6	264	17.95	25,14,261	1,18,698
August	2.7	972	19.59	29,93,780	63,084	2.8	283	18.55	27,77,401	1,30,796
September	2.0	904	20.73	31,85,680	71,629	1.7	222	20.09	29,94,132	1,44,339
October	1.9	820	21.56	33,70,676	69,627	2.0	254	20.92	31,38,319	1,38,382
November	1.8	741	22.07	35,77,308	1,01,840	1.7	202	20.72	33,73,652	1,89,863
December	2.0	977	22.41	36,24,357	85,512	2.2	299	20.95	34,26,236	1,70,105
January	1.8	921	22.63	37,79,742	87,605	1.9	297	21.24	35,71,487	1,75,147
February	3.1	1714	21.56	34,89,214	88,844	3.1	479	19.64	32,96,931	1,80,170
March	2.0	893	19.74	35,45,041	78,028	2.2	299	17.95	33,67,350	1,67,954
2007-08										
April	3.9	1774	20.75	38,28,337	78,693	4.1	544	19.28	36,50,368	1,68,567
May	1.9	779	20.84	40,74,552	98,821	1.8	229	19.74	38,98,078	2,07,585
June	1.4	647	20.67	41,68,272	95,268	1.4	205	20.08	39,78,381	1,93,648
July	2.2	1131	21.78	N.A.	N.A.	2.1	307	21.30	43,17,571	2,67,227

@ : 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.
N.A. : Not Available.
Source : Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited (NSE).

APPENDIX TABLE 46 : TURNOVER IN THE EQUITY DERIVATIVES MARKET

(Rupees crore)

Year/Month	The Bombay Stock Exchange Ltd. (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
2003-04	**6,572**	**0**	**5,171**	**332**	**5,54,446**	**52,816**	**13,05,939**	**2,17,207**	**202**
2004-05	**13,600**	**2,297**	**213**	**3**	**7,72,147**	**1,21,943**	**14,84,056**	**1,68,836**	**0**
2005-06	**6**	**3**	**1**	**0**	**1,513,755**	**3,38,469**	**27,91,697**	**1,80,253**	**0**
2006-07	**55,490**	**0**	**3,515**	**0**	**2,539,574**	**7,91,906**	**38,30,967**	**1,93,795**	**0**
2005-06									
April	0	3	0	0	65,595	13,274	1,06,128	10,966	0
May	0	0	0	0	70,465	14,782	1,12,878	10,250	0
June	0	0	0	0	77,215	16,133	1,63,097	14,797	0
July	0	0	0	0	77,395	16,770	1,99,637	14,358	0
August	0	0	0	0	1,00,805	21,992	2,34,817	14,665	0
September	0	0	0	0	1,18,904	27,921	2,36,941	15,984	0
October	0	0	0	0	1,70,096	35,584	2,14,396	13,575	0
November	0	0	0	0	1,35,474	31,074	2,16.524	12,773	0
December	0	0	0	0	1,83,290	42,988	2,80,280	17,245	0
January	0	0	0	0	1,66,126	38,522	2,65,037	17,895	0
February	1	0	1	0	1,56,358	32,332	2,88,712	15,262	0
March	5	0	0	0	1,92,032	47,097	4,73,250	22,463	0
2006-07									
April	1	0	0	0	2,04,236	52,421	4,60,552	20,623	0
May	0	0	0	0	2,57,326	58,789	4,09,401	16,874	0
June	18	0	0	0	2,43,572	57,969	2,43,950	11,306	0
July	26	0	0	0	1,86,760	54,711	2,22,539	13,245	0
August	68	0	0	0	1,73,333	53,103	2,29,184	14,042	0
September	265	0	0	0	1,77,518	53,647	2,75,430	16,351	0
October	196	0	0	0	1,66,974	49,744	2,72,516	16,425	0
November	7,986	0	0	0	1,80,781	60,018	3,88,800	20,229	0
December	9,270	0	234	0	2,25,288	79,719	3,47,747	16,408	0
January	9,932	0	1,020	0	1,90,592	66,646	3,50,817	19,401	0
February	12,116	0	1,073	0	2,42,237	91,817	3,52,653	16,785	0
March	15,612	0	1,188	0	2,90,957	1,13,322	2,77,378	12,106	0
2007-08									
April	14,385	0	1,200	0	2,05,458	97,150	2,96,629	17,050	0
May	15,764	0	1,252	0	2,14,523	85,465	4,00,096	23,358	0
June	16,566	28	1,161	0	2,40,797	92,503	4,51,314	21,928	0
July	–	–	–	–	2,38,577	94,561	6,47,356	34,582	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 on the BSE and NSE.

Source : Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited. (NSE).

APPENDIX TABLE 47 : SELECT ECONOMIC INDICATORS – WORLD

Item	1999	2000	2001	2002	2003	2004	2005	2006	2007$	2008$
1	2	3	4	5	6	7	8	9	10	11
I. World Output (Per cent change)	**3.7**	**4.8**	**2.5**	**3.1**	**4.0**	**5.3**	**4.9**	**5.5**	**5.2**	**5.2**
i) Advanced economies	3.5	4.0	1.2	1.6	1.9	3.3	2.6	3.1	2.6	2.8
ii) Other emerging market and developing countries	4.1	6.0	4.3	5.0	6.7	7.7	7.5	8.1	8.0	7.6
a) Developing Asia	6.4	7.0	6.0	7.0	8.4	8.7	9.2	9.7	9.6	9.1
b) Africa	2.7	3.1	4.4	3.7	4.7	5.8	5.6	5.5	6.4	6.2
c) Middle East	1.8	5.4	3.0	3.9	6.5	5.6	5.3	5.7	5.4	5.5
d) Western Hemisphere	0.3	3.9	0.5	0.3	2.4	6.0	4.6	5.5	5.0	4.4
II. Inflation-CPI (Per cent change)										
i) Advanced economies	1.4	2.2	2.1	1.5	1.8	2.0	2.3	2.3	2.0	2.1
ii) Other emerging market and developing countries	10.3	7.1	6.7	5.8	5.8	5.6	5.4	5.3	5.7	5.0
a) Developing Asia	2.5	1.8	2.7	2.0	2.5	4.1	3.6	4.0	3.9	3.4
III. Fiscal Balance #										
i) Advanced Economies	-1.0	0.1	-0.9	-2.4	-3.1	-2.8	-2.4	-1.8	-1.7	-1.7
ii) Other emerging market and developing countries (Weighted Average)	-3.8	-3.0	-3.1	-3.4	-2.7	-1.6	-0.9	-0.4	-1.1	-0.8
IV. Net Capital Flows* (US $ billion)										
Emerging market and developing countries**										
i) Net private capital flows (a+b+c)	89.7	14.7	95.4	104.0	143.2	193.6	165.3	126.7	176.5	181.8
a) Net private direct investment	157.6	151.3	172.0	158.0	151.5	193.4	252.3	255.8	275.1	280.7
b) Net private portfolio investment	-1.2	-18.3	-46.7	-39.0	8.4	54.5	63.6	-7.1	-23.8	-13.7
c) Net other private capital flows	-104.7	-90.3	-45.6	-18.3	15.5	-9.1	-36.6	32.8	12.1	12.6
ii) Net official flows	40.5	-26.1	18.3	6.5	-30.0	-43.5	-111.8	-130.9	-77.7	-96.4
V. World Trade @										
Imports										
i) Advanced Economies	8.0	11.7	-0.6	2.6	4.1	9.1	6.1	7.4	4.7	5.7
ii) Newly industrialised Asian economies	8.4	17.7	-5.7	9.0	10.0	16.8	7.8	9.5	7.6	8.4
Exports										
i) Advanced economies	5.6	11.8	-0.6	2.3	3.3	8.9	5.6	8.4	5.5	5.8
ii) Newly industrialised Asian economies	9.3	17.3	-3.8	10.2	13.6	17.6	9.4	11.0	7.7	7.9
Terms of Trade										
i) Advanced economies	-0.3	-2.5	0.3	0.8	0.9	-0.2	-1.4	-1.3	-0.1	n.a.
ii) Newly industrialised Asian economies	-2.4	-3.1	-0.6	n.a.	-1.7	-1.8	-2.2	-1.7	-1.1	n.a.
VI. Current Account Balance (US $ billion)										
i) Advanced economies	-114.2	-267.9	-213.0	-229.0	-220.6	-255.2	-473.4	-563.2	-587.2	-637.8
ii) Other emerging market and developing countries	-21.2	85.8	39.4	77.3	147.6	212.6	428.0	544.2	455.1	470.7
a) Developing Asia	38.3	38.1	36.6	64.6	82.5	88.5	165.2	253.1	308.9	358.6

n.a. : Not Available
$: 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 not classified as advanced countries.
@ : Annual percentage change in world trade volume of goods and services.

Source : World Economic Outlook, April 2007 and World Economic Outlook Update, July 2007, IMF.

APPENDIX TABLE 48 : INDIA'S OVERALL BALANCE OF PAYMENTS

Item	Rupees crore			US $ million		
	2004-05	2005-06 PR	2006-07 P	2004-05	2005-06 PR	2006-07 P
1	2	3	4	5	6	7
A. CURRENT ACCOUNT						
1. Exports, f.o.b.	381,785	465,705	574,917	85,206	105,152	127,090
2. Imports, c.i.f.	533,550	695,131	868,675	118,908	156,993	191,995
3. Trade Balance	-151,765	-229,426	-293,758	-33,702	-51,841	-64,905
4. Invisibles, Net	139,591	188,704	249,435	31,232	42,655	55,296
a) 'Non-Factor' Services	68,831	105,619	147,804	15,426	23,881	32,727
of which :						
Software Services	75,825	98,678	130,090	16,900	22,262	28,798
b) Income	-22,375	-24,588	-21,991	-4,979	-5,510	-4,846
c) Private Transfers	91,971	106,860	122,635	20,525	24,102	27,195
d) Official Transfers	1,164	813	987	260	182	220
5. Current Account Balance	-12,174	-40,722	-44,323	-2,470	-9,186	-9,609
B. CAPITAL ACCOUNT						
1. Foreign Investment, Net (a+b)	58,057	76,319	70,083	13,000	17,224	15,499
a) Direct Investment	16,745	20,962	38,193	3,713	4,730	8,437
of which:						
i) In India	26,947	33,967	87,725	5,987	7,661	19,442
Equity	16,741	25,549	72,077	3,714	5,759	15,976
Reinvested Earnings	8,555	7,420	13,284	1,904	1,676	2,936
Other Capital	1,651	998	2,364	369	226	530
ii) Abroad	-10,202	-13,005	-49,532	-2,274	-2,931	-11,005
Equity	-7,359	-8,169	-42,259	-1,637	-1,841	-9,398
Reinvested Earnings	-1,114	-1,612	-3,331	-248	-364	-736
Other Capital	-1,729	-3,224	-3,942	-389	-726	-871
b) Portfolio Investment	41,312	55,357	31,890	9,287	12,494	7,062
In India	41,419	55,357	31,630	9,311	12,494	7,004
Abroad	-107	0	260	-24	0	58
2. External Assistance, Net	8,525	7,505	7,951	1,923	1,682	1,770
Disbursements	16,988	16,116	16,805	3,809	3,627	3,728
Amortisation	8,463	8,611	8,854	1,886	1,945	1,958
3. Commercial Borrowings, Net	23,113	11,462	72,207	5,194	2,723	16,084
Disbursements	40,679	64,387	95,675	9,084	14,547	21,291
Amortisation	17,566	52,925	23,468	3,890	11,824	5,207
4. Short term Credit, Net	16,957	7,591	14,835	3,792	1,708	3,275
5. Banking Capital						
of which:	17,040	5,795	9,193	3,874	1,373	2,087
NRI Deposits, Net	-4,439	12,457	17,641	-964	2,789	3,895
6. Rupee Debt Service	-1,858	-2,557	-725	-417	-572	-162
7. Other Capital, Net @	3,533	-3,146	28,691	656	-738	6,391
8. Total Capital Account	125,367	102,969	202,235	28,022	23,400	44,944
C. Errors & Omissions	2,714	3,649	5,722	607	838	1,271
D. Overall Balance [A(5)+B(8)+C]	**115,907**	**65,896**	**163,634**	**26,159**	**15,052**	**36,606**
E. Monetary Movements (F+G)	-115,907	-65,896	-163,634	-26,159	-15,052	-36,606
F. I.M.F., Net	0	0	0	0	0	0
G. Reserves and Monetary Gold (Increase - / Decrease +)	**-115,907**	**-65,896**	**-163,634**	**-26,159**	**-15,052**	**-36,606**

PR : Partially Revised.
P : Provisional.
@ : 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 49 : INDIA'S FOREIGN TRADE

Item	Rupees crore			US $ million			SDR million		
	2004-05	2005-06 R	2006-07 P	2004-05	2005-06 R	2006-07 P	2004-05	2005-06 R	2006-07 P
1	2	3	4	5	6	7	8	9	10
I. Exports	**3,75,340**	**456,418**	**571,642**	**83,536**	**103,091**	**126,331**	**56,081**	**70,774**	**84,998**
	(27.9)	**(21.6)**	**(25.2)**	**(30.8)**	**(23.4)**	**(22.5)**	**(25.6)**	**(26.2)**	**(20.1)**
a. POL @	31,404	51,533	83,946	6,989	11,640	18,552	4,692	7,991	12,482
	(91.5)	(64.1)	(62.9)	(95.9)	(66.5)	(59.4)	(88.0)	(70.3)	(56.2)
b. Non-oil	3,43,935	404,885	487,695	76,547	91,451	107,779	51,389	62,783	72,516
	(24.2)	(17.7)	(20.5)	(27.0)	(19.5)	(17.9)	(21.9)	(22.2)	(15.5)
II. Imports	**5,01,065**	**660,409**	**862,302**	**1,11,517**	**149,166**	**190,566**	**74,866**	**102,405**	**128,216**
	(39.5)	**(31.8)**	**(30.6)**	**(42.7)**	**(33.8)**	**(27.8)**	**(36.9)**	**(36.8)**	**(25.2)**
a. Oil and POL	1,34,094	194,640	258,259	29,844	43,963	57,074	20,036	30,182	38,401
	(41.9)	(45.2)	(32.7)	(45.1)	(47.3)	(29.8)	(39.2)	(50.6)	(27.2)
b. Non-oil	3,66,971	465,769	604,042	81,673	105,203	133,492	54,830	72,224	89,815
	(38.7)	(26.9)	(29.7)	(41.8)	(28.8)	(26.9)	(36.1)	(31.7)	(24.4)
III. Trade Balance (I-II)	**-1,25,725**	**-203,991**	**-290,660**	**-27,981**	**-46,075**	**-64,235**	**-18,785**	**-31,632**	**-43,218**
a. Oil Balance (I.a-II.a)	1,02,690	-143,107	-174,313	-22,855	-32,323	-38,523	-15,343	-22,191	-25,919
b. Non-oil Balance (I.b-II.b)	-23,035	-60,884	-116,347	-5,127	-13,752	-25,712	-3,442	-9,441	-17,300

P : Provisional. R : Revised.
@ : Petroleum Oil and Lubricants.
Note : Figures in brackets relate to percentage variations over the previous year.
Source : DGCI&S.

APPENDIX TABLE 50 : INDIA'S EXPORTS OF PRINCIPAL COMMODITIES

Commodity Group	Rupees crore					US $ million				
	April-March			Percentage Variation		April-March		Percentage Variation		
	2004-05	2005-06 R	2006-07 P	2005-06	2006-07	2004-05	2005-06 R	2006-07 P	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10	11
I. Primary Products	**60,897**	**72,508**	**88,453**	**19.1**	**22.0**	**13,553**	**16,377**	**19,548**	**20.8**	**19.4**
	(16.2)	**(15.9)**	**(15.5)**			**(16.2)**	**(15.9)**	**(15.5)**		
A. Agricultural & Allied Products	**38,078**	**45,220**	**56,628**	**18.8**	**25.2**	**8,475**	**10,214**	**12,515**	**20.5**	**22.5**
	(10.1)	**(9.9)**	**(9.9)**			**(10.1)**	**(9.9)**	**(9.9)**		
of which :										
1. Tea	1,840	1,731	1,956	-6.0	13.0	410	391	432	-4.6	10.6
2. Coffee	1,069	1,589	1,969	48.6	23.9	238	359	435	50.8	21.3
3. Rice	6,769	6,221	7,036	-8.1	13.1	1,507	1,405	1,555	-6.7	10.7
4. Oil Meal	3,178	4,875	5,503	53.4	12.9	707	1,101	1,216	55.7	10.4
5. Marine Products	6,469	7,036	7,890	8.8	12.1	1,440	1,589	1,744	10.4	9.7
B. Ores & Minerals	**22,819**	**27,288**	**31,825**	**19.6**	**16.6**	**5,079**	**6,164**	**7,033**	**21.4**	**14.1**
	(6.1)	**(6.0)**	**(5.6)**			**(6.1)**	**(6.0)**	**(5.6)**		
II. Manufactured Goods	**272,872**	**321,261**	**374,746**	**17.7**	**16.6**	**60,731**	**72,563**	**82,818**	**19.5**	**14.1**
	(72.7)	**(70.4)**	**(65.6)**			**(72.7)**	**(70.4)**	**(65.6)**		
of which :										
A. Leather & Manufactures	**10,881**	**11,943**	**13,272**	**9.8**	**11.1**	**2,422**	**2,698**	**2,933**	**11.4**	**8.7**
	(2.9)	**(2.6)**	**(2.3)**			**(2.9)**	**(2.6)**	**(2.3)**		
B. Chemicals & Related Products	**55,911**	**65,390**	**75,689**	**17.0**	**15.8**	**12,444**	**14,770**	**16,727**	**18.7**	**13.3**
	(14.9)	**(14.3)**	**(13.2)**			**(14.9)**	**(14.3)**	**(13.2)**		
1. Basic Chemicals, Pharmaceuticals & Cosmetics	32,077	40,409	47,267	26.0	17.0	7,139	9,127	10,446	27.8	14.4
2. Plastic & Linoleum	13,627	12,482	14,441	-8.4	15.7	3,033	2,819	3,191	-7.0	13.2
3. Rubber, Glass, Paints & Enamels *etc.*	7,906	9,320	10,587	17.9	13.6	1,760	2,105	2,340	19.6	11.1
4. Residual Chemicals & Allied Products	2,302	3,178	3,394	38.1	6.8	512	718	750	40.1	4.5
C. Engineering Goods	**77,949**	**96,157**	**131,581**	**23.4**	**36.8**	**17,348**	**21,719**	**29,079**	**25.2**	**33.9**
	(20.8)	**(21.1)**	**(23.0)**			**(20.8)**	**(21.1)**	**(23.0)**		
D. Textiles and Textile Products	**60,906**	**72,618**	**76,968**	**19.2**	**6.0**	**13,555**	**16,402**	**17,010**	**21.0**	**3.7**
	(16.2)	**(15.9)**	**(13.5)**			**(16.2)**	**(15.9)**	**(13.5)**		
of which :										
1. Cotton Yarn, Fabrics, Made-ups, *etc.*	15,502	17,465	18,718	12.7	7.2	3,450	3,945	4,137	14.3	4.9
2. Natural Silk Yarn, Fabrics, Made-ups *etc.* including Silk Waste	1,820	1,915	1,956	5.2	2.1	405	433	432	6.8	-0.1
3. Manmade Yarn, Fabrics, Made-ups, *etc.*	8,819	8,668	9,795	-1.7	13.0	1,963	1,958	2,165	-0.3	10.6
4. Readymade Garments	29,481	38,154	39,343	29.4	3.1	6,561	8,618	8,695	31.3	0.9
5. Jute & Jute Manufactures	1,241	1,312	1,165	5.7	-11.2	276	296	258	7.2	-13.1
6. Coir & Coir Manufactures	474	590	708	24.5	19.9	106	133	156	26.3	17.3
7. Carpets	2,860	3,775	4,015	32.0	6.4	636	853	887	34.0	4.1
E. Gems and Jewellery	**61,834**	**68,753**	**70,524**	**11.2**	**2.6**	**13,762**	**15,529**	**15,586**	**12.8**	**0.4**
	(16.5)	**(15.1)**	**(12.3)**			**(16.5)**	**(15.1)**	**(12.3)**		
F. Handicrafts	**1,696**	**2,045**	**1,682**	**20.6**	**-17.8**	**377**	**462**	**372**	**22.4**	**-19.5**
	(0.5)	**(0.4)**	**(0.3)**			**(0.5)**	**(0.4)**	**(0.3)**		
III. Petroleum, Crude & Products	**31,404**	**51,533**	**83,946**	**64.1**	**62.9**	**6,989**	**11,640**	**18,552**	**66.5**	**59.4**
	(8.4)	**(11.3)**	**(14.7)**			**(8.4)**	**(11.3)**	**(14.7)**		
IV. Others	**10,166**	**11,116**	**24,497**	**9.3**	**120.4**	**2,263**	**2,511**	**5,414**	**11.0**	**115.6**
	(2.7)	**(2.4)**	**(4.3)**			**(2.7)**	**(2.4)**	**(4.3)**		
Total Exports (I+II+III+IV)	**375,340**	**456,418**	**571,642**	**21.6**	**25.2**	**83,536**	**103,091**	**126,331**	**23.4**	**22.5**

P : Provisional. R : Revised.

Note : 1. Figures in parentheses 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.*, (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 51 : INDIA'S IMPORTS OF PRINCIPAL COMMODITIES

Commodity Group	Rupees crore					US $ million				
	April-March			Percentage Variation		April-March			Percentage Variation	
	2004-05	2005-06 R	2006-07 P	2005-06	2006-07	2004-05	2005-06 R	2006-07P	2005-06	2006-07
1	2	3	4	5	6	7	8	9	10	11
I. Bulk Imports	**190,513 (38.0)**	**270,450 (41.0)**	**377,122 (43.7)**	**42.0**	**39.4**	**42,401 (38.0)**	**61,086 (41.0)**	**83,343 (43.7)**	**44.1**	**36.4**
A. Petroleum, Petroleum Products & Related Material	**134,094 (26.8)**	**194,640 (29.5)**	**258,259 (29.9)**	**45.2**	**32.7**	**29,844 (26.8)**	**43,963 (29.5)**	**57,074 (29.9)**	**47.3**	**29.8**
B. Bulk Consumption Goods	**13,950 (2.8)**	**12,248 (1.9)**	**14,890 (1.7)**	**-12.2**	**21.6**	**3,105 (2.8)**	**2,767 (1.9)**	**3,291 (1.7)**	**-10.9**	**18.9**
1. Cereals & Cereal Preparations	119	160	145	34.5	-9.2	26	36	32	36.6	-11.1
2. Edible Oil	11,077	8,961	9,416	-19.1	5.1	2,465	2,024	2,081	-17.9	2.8
3. Pulses	1,778	2,476	3,851	39.3	55.5	396	559	851	41.4	52.2
4. Sugar	976	652	3	-33.3	-99.5	217	147	1	-32.3	-99.5
C. Other Bulk Items	**42,469 (8.5)**	**63,561 (9.6)**	**103,974 (12.1)**	**49.7**	**63.6**	**9,452 (8.5)**	**14,356 (9.6)**	**22,978 (12.1)**	**51.9**	**60.1**
1. Fertilisers	6,188	9,417	14,223	52.2	51.0	1,377	2,127	3,143	54.5	47.8
a) Crude	1,301	1,407	1,632	8.2	16.0	290	318	361	9.8	13.5
b) Sulphur & unroasted iron pyrites	576	602	494	4.6	-18.0	128	136	109	6.2	-19.8
c) Manufactured	4,311	7,408	12,097	71.8	63.3	960	1,673	2,673	74.4	59.8
2. Non-ferrous Metals	5,887	8,166	11,792	38.7	44.4	1,310	1,844	2,606	40.8	41.3
3. Paper, Paperboard & Mgfd. including Newsprint	3,270	4,180	5,457	27.8	30.6	728	944	1,206	29.7	27.8
4. Crude Rubber, including Synthetic & Reclaimed	1,839	1,833	2,840	-0.3	54.9	409	414	628	1.2	51.6
5. Pulp & Waste Paper	2,200	2,537	2,875	15.3	13.3	490	573	635	17.0	10.9
6. Metalliferrous Ores & Metal Scrap	11,091	17,186	37,710	55.0	119.4	2,469	3,882	8,334	57.3	114.7
7. Iron & Steel	11,995	20,243	29,076	68.8	43.6	2,670	4,572	6,426	71.3	40.5
II. Non-Bulk Imports	**310,552 (62.0)**	**389,959 (59.0)**	**485,179 (56.3)**	**25.6**	**24.4**	**69,117 (62.0)**	**88,080 (59.0)**	**107,223 (56.3)**	**27.4**	**21.7**
A. Capital Goods	**112,936 (22.5)**	**166,761 (25.3)**	**239,571 (27.8)**	**47.7**	**43.7**	**25,135 (22.5)**	**37,666 (25.3)**	**52,944 (27.8)**	**49.9**	**40.6**
1. Manufactures of Metals	4,128	5,362	7,258	29.9	35.4	919	1,211	1,604	31.8	32.4
2. Machine Tools	2,788	4,765	6,701	70.9	40.6	620	1,076	1,481	73.5	37.6
3. Machinery except Electrical & Electronics	30,633	44,317	62,665	44.7	41.4	6,818	10,010	13,849	46.8	38.4
4. Electrical Machinery except Electronics	5,369	6,660	8,849	24.0	32.9	1,195	1,504	1,956	25.9	30.0
5. Electronic Goods incl. Computer Software	47,895	62,619	76,413	30.7	22.0	10,660	14,144	16,887	32.7	19.4
6. Transport Equipments	19,444	39,131	69,746	101.3	78.2	4,327	8,838	15,414	104.2	74.4
7. Project Goods	2,679	3,908	7,938	45.9	103.1	596	883	1,754	48.1	98.7
B. Mainly Export Related Items	**76,813 (15.3)**	**82,530 (12.5)**	**80,782 (9.4)**	**7.4**	**-2.1**	**17,096 (15.3)**	**18,641 (12.5)**	**17,853 (9.4)**	**9.0**	**-4.2**
1. Pearls, Precious & Semi-precious Stones	42,338	40,441	33,880	-4.5	-16.2	9,423	9,134	7,487	-3.1	-18.0
2. Chemicals, Organic & Inorganic	25,610	30,921	35,346	20.7	14.3	5,700	6,984	7,811	22.5	11.8
3. Textile Yarn, Fabrics, *etc.*	7,060	9,078	9,736	28.6	7.2	1,571	2,051	2,152	30.5	4.9
4. Cashew Nuts, Raw	1,805	2,089	1,821	15.8	-12.9	402	472	402	17.5	-14.7
C. Others	**120,804 (24.1)**	**140,667 (21.3)**	**164,826 (19.1)**	**16.4**	**17.2**	**26,886 (24.1)**	**31,772 (21.3)**	**36,426 (19.1)**	**18.2**	**14.6**
of which :										
1. Gold and Silver	50,099	50,108	66,269	0.02	32.25	11,150	11,318	14,645	1.5	29.4
2. Artificial Resins & Plastic Materials	6,546	10,040	11,773	53.4	17.3	1,457	2,268	2,602	55.7	14.7
3. Professional, Scientific & Optical Goods	6,877	8,734	10,539	27.0	20.7	1,530	1,973	2,329	28.9	18.1
4. Coal, Coke & Briquittes *etc.*	14,371	17,128	20,794	19.2	21.4	3,198	3,869	4,595	21.0	18.8
5. Medicinal & Pharmaceutical Products	3,169	4,551	5,867	43.6	28.9	705	1,028	1,297	45.7	26.1
6. Chemical Materials & Products	3,682	4,660	6,005	26.6	28.9	819	1,052	1,327	28.4	26.1
7. Non-Metallic Mineral Manufactures	2,120	2,754	3,535	29.9	28.4	472	622	781	31.8	25.6
III. Total Imports (I+II)	**501,065**	**660,409**	**862,302**	**31.8**	**30.6**	**111,517**	**149,166**	**190,566**	**33.8**	**27.8**

P : Provisional. R : Revised.

Note : Figures in parentheses represent percentage to total imports.

Source : DGCI&S.

APPENDIX TABLE 52 : INVISIBLES BY CATEGORY OF TRANSACTIONS

Item	Rupees crore				US $ million			
	2003-04	2004-05	2005-06 PR	2006-07 P	2003-04	2004-05	2005-06 PR	2006-07 P
1	2	3	4	5	6	7	8	9
I. Non Factor Services, net	**46,381**	**68,831**	**105,619**	**147,804**	**10,144**	**15,426**	**23,881**	**32,727**
Receipts	123,175	193,711	272,220	367,111	26,868	43,249	61,404	81,330
Payments	76,794	124,880	166,601	219,307	16,724	27,823	37,523	48,603
Travel, net	6,520	6,287	6,198	9,751	1,435	1,417	1,389	2,188
Receipts	23,054	29,858	34,871	42,477	5,037	6,666	7,853	9,423
Payments	16,534	23,571	28,673	32,726	3,602	5,249	6,464	7,235
Transportation, net	4,026	658	-6,872	-3,548	879	144	-1,550	-788
Receipts	14,714	21,021	27,874	36,481	3,207	4,683	6,291	8,069
Payments	10,688	20,363	34,746	40,029	2,328	4,539	7,841	8,857
Insurance, net	250	664	69	2,527	56	148	22	559
Receipts	1,922	3,913	4,641	5,425	419	870	1,050	1,200
Payments	1,672	3,249	4,572	2,898	363	722	1,028	641
G.N.I.E., net	129	-46	-869	-653	28	-10	-197	-144
Receipts	1,105	1,797	1,374	1,235	240	401	309	273
Payments	976	1,843	2,243	1,888	212	411	506	417
Miscellaneous , net	35,456	61,268	107,093	139,727	7,746	13,727	24,217	30,912
Receipts	82,380	137,122	203,460	281,493	17,965	30,629	45,901	62,365
Payments	46,924	75,854	96,367	141,766	10,219	16,902	21,684	31,453
II. Income, net	**-20,708**	**-22,375**	**-24,588**	**-21,991**	**-4,505**	**-4,979**	**-5,510**	**-4,846**
Receipts	17,909	20,638	25,124	40,499	3,904	4,593	5,662	8,972
Payments	38,617	43,013	49,712	62,490	8,409	9,572	11,172	13,818
III. Private Transfers, net	**99,165**	**91,971**	**106,860**	**122,635**	**21,608**	**20,525**	**24,102**	**27,195**
Receipts	101,798	94,439	108,891	127,282	22,182	21,075	24,560	28,223
Payments	2,633	2,468	2,031	4,647	574	550	458	1,028
IV. Official Transfers, net	**2,531**	**1,164**	**813**	**987**	**554**	**260**	**182**	**220**
Receipts	2,531	2,762	2,965	2,877	554	616	668	638
Payments	0	1,598	2,152	1,890	0	356	486	418
V. Invisibles, net (I to IV)	**127,369**	**139,591**	**188,704**	**249,435**	**27,801**	**31,232**	**42,655**	**55,296**
Receipts	245,413	311,550	409,200	537,769	53,508	69,533	92,294	119,163
Payments	118,044	171,959	220,496	288,334	25,707	38,301	49,639	63,867

PR : Partially Revised.
P : Provisional.
GNIE : Government, Not Included Elsewhere.

APPENDIX TABLE 53 : COMPOSITION OF CAPITAL INFLOWS

Item	1990-91	1995-96	2001-02	2002-03	2003-04	2004-05	2005-06PR	2006-07P
1	2	3	4	5	6	7	8	9
Total Capital Inflows (Net) US $ million	**7,056**	**4,089**	**8,551**	**10,840**	**16,736**	**28,022**	**23,400**	**44,944**
of which:								(in per cent)
1. Non- Debt Creating Inflows	**1.5**	**117.5**	**95.2**	**55.5**	**93.7**	**54.6**	**86.1**	58.8
a) Foreign Direct Investment *	1.4	52.4	71.6	46.5	25.8	21.4	32.7	43.3
b) Portfolio Investment	0.1	65.1	23.6	9.0	67.9	33.2	53.4	15.5
2. Debt Creating Inflows	**83.3**	**57.7**	**12.4**	**-12.3**	**-6.0**	**35.2**	**37.0**	**56.1**
a) External Assistance	31.3	21.6	14.1	-28.6	-16.5	7.2	7.5	4.0
b) External Commercial Borrowings #	31.9	31.2	-18.6	-15.7	-17.5	19.4	12.7	36.5
c) Short term Credits	15.2	1.2	-9.3	8.9	8.5	13.5	7.3	7.3
d) NRI Deposits @	21.8	27.0	32.2	27.5	21.8	-3.4	11.9	8.7
e) Rupee Debt Service	-16.9	-23.3	-6.1	-4.4	-2.2	-1.5	-2.4	-0.4
3. Other Capital ±	**15.2**	**-75.2**	**-7.6**	**56.8**	**12.3**	**10.2**	**-23.1**	**-14.9**
4. Total (1 to 3)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Memo: **Stable flows +**	**84.7**	**33.7**	**85.6**	**82.0**	**23.7**	**53.2**	**39.3**	**77.1**

PR : Partially Revised. P : Provisional.

* : 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 these 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 54 : EXTERNAL ASSISTANCE

Item	Rupees crore			US $ million		
	2004-05	2005-06	2006-07 P	2004-05	2005-06	2006-07 P
1	2	3	4	5	6	7
1. Loans	14,630	16,098	16,803	3,259	3,639	3,691
2. Grants	2,453	2,733	2,485	546	618	546
3. Gross Utilisation (1+2)	17,083	18,831	19,288	3,805	4,257	4,237
4. Repayments	9,568	8,360	8,980	2,218	1,887	1,970
5. Interest Payments	3,259	3,655	4,453	725	825	977
6. Net (3-4-5)	4,256	6,816	5,855	952	1,545	1,290

P : Provisional.

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 48.

Source : Controller of Aid, Accounts and Audit, Government of India.

APPENDIX TABLE 55 : INDIA'S EXTERNAL DEBT

(As at end-March)

Item	Rupees crore			US $ million		
	2005	2006R	2007P	2005	2006R	2007P
1	2	3	4	5	6	7
I. Multilateral	**1,38,915**	**1,45,503**	**1,55,374**	**31,702**	**32,559**	**35,641**
A. Government borrowing	1,27,782	1,33,800	1,43,154	29,161	29,940	32,837
i) Concessional	1,05,114	1,05,853	1,09,517	23,988	23,686	25,121
a) IDA	1,03,671	1,04,457	1,08,073	23,659	23,374	24,790
b) Others #	1,443	1,396	1,444	329	312	331
ii) Non-concessional	22,668	27,947	33,637	5,173	6,254	7,716
a) IBRD	16,500	19,625	22,091	3,765	4,392	5,067
b) Others ##	6,168	8,322	11,546	1,408	1,862	2,649
B. Non-Government borrowing	11,133	11,703	12,220	2,541	2,619	2,804
i) Concessional	0	0	0	0	0	0
ii) Non-concessional	11,133	11,703	12,220	2,541	2,619	2,804
a) Public sector	8,000	8,510	9,188	1,826	1,904	2,108
IBRD	4,462	4,594	4,390	1,018	1,028	1,007
Others ##	3,538	3,916	4,798	808	876	1,101
b) Financial institutions	2,789	2,628	2,437	636	588	559
IBRD	252	630	661	57	141	152
Others ##	2,537	1,998	1,776	579	447	407
c) Private sector	344	565	595	79	127	137
IBRD	0	0	0	0	0	0
Others	344	565	595	79	127	137
II. Bilateral	**74,174**	**70,272**	**70,200**	**16,930**	**15,727**	**16,104**
A. Government borrowing	57,458	54,593	54,274	13,113	12,216	12,450
i) Concessional	57,207	54,468	54,274	13,055	12,188	12,450
ii) Non-concessional	251	125	0	58	28	0
B. Non-Government borrowing	16,716	15,679	15,926	3,817	3,511	3,654
i) Concessional	7,472	6,949	1,739	1,705	1,555	399
a) Public sector	5,653	5,285	1,254	1,290	1,183	288
b) Financial institutions	1,819	1,664	485	415	372	111
c) Private sector	0	0	0	0	0	0
ii) Non-concessional	9,244	8,730	14,187	2,112	1,956	3,255
a) Public sector	4,354	3,628	7,314	995	813	1,678
b) Financial institutions	2,844	2,386	3,866	649	534	887
c) Private sector	2,046	2,716	3,007	468	609	690
III. International Monetary Fund	**0**	**0**	**0**	**0**	**0**	**0**
IV. Trade Credit	**21,798**	**24,088**	**30,357**	**4,980**	**5,398**	**6,964**
a) Buyers' credit	12,900	16,006	22,773	2,948	3,588	5,224
b) Suppliers' credit	3,923	3,346	2,865	897	750	657
c) Export credit component of bilateral credit	4,975	4,736	4,719	1,135	1,060	1,083
d) Export credit for defence purposes	0	0	0	0	0	0
V. COMMERCIAL BORROWING	**1,18,243**	**1,19,849**	**1,86,502**	**27,024**	**26,869**	**42,780**
a) Commercial bank loans	60,448	73,190	1,12,538	13,815	16,408	25,814
b) Securitised borrowings @ (including FCCBs)	54,152	43,306	68,413	12,376	9,709	15,693
c) Loans/securitised borrowings, *etc.* with multilateral/bilateral guarantee and IFC (W)	3,643	3,353	5,551	833	752	1,273
d) Self Liquidating Loans	0	0	0	0	0	0

(Continued)

APPENDIX TABLE 55 : INDIA'S EXTERNAL DEBT *(Concld.)*

(As at end-March)

Item	Rupees crore			US $ million		
	2005	2006R	2007P	2005	2006R	2007P
1	2	3	4	5	6	7
VI. NRI & FC(B&O) Deposits (above one-year maturity)	**1,43,267**	**1,56,715**	**1,72,741**	**32,743**	**35,134**	**39,624**
VII. Rupee Debt *	**10,070**	**9,064**	**8,495**	**2,301**	**2,031**	**1,949**
a) Defence	8,887	7,992	7,511	2,031	1,791	1,723
b) Civilian +	1,183	1,072	984	270	240	226
VIII. Total Long-term Debt (I to VII)	**5,06,467**	**5,25,491**	**6,23,669**	**115,680**	**117,718**	**143,062**
IX. Short-term Debt	**32,922**	**38,789**	**52,188**	**7,524**	**8,696**	**11,971**
a) NRI deposits (upto 1 year maturity)	0	0	0	0	0	
b) Others (trade related)	32,922	38,789	52,188	7,524	8,696	11,971
X. GROSS TOTAL	**5,39,389**	**5,64,280**	**6,75,857**	**123,204**	**126,414**	**155,033**
Concessional Debt	**1,79,863**	**1,76,334**	**1,74,025**	**41,049**	**39,460**	**39,919**
As percentage of Total Debt	33.3	31.2	25.7	33.3	31.2	25.7
Short Term Debt						
As percentage of Total Debt	6.1	6.9	7.7	6.1	6.9	7.7
Memo:						
Debt Indicators :						
1. Debt Stock - GDP Ratio (in per cent)	17.3	15.8	16.4	17.3	15.8	16.4
2. Debt Service Ratio (per cent) (for fiscal year) (including debt-servicing on non-civilian credits)	6.1	9.9	4.8	6.1	9.9	4.8

R : Revised. P : Provisional.

: 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. 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 56 : 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	3,190	3,61,470	4	3,534	71,890	672	76,100	55,394	11,518
Mar-04	10	18,216	4,66,215	5,688	4,90,129	2	4,198	107,448	1,311	112,959	76,298	20,904
Mar-05	20	19,686	5,93,121	6,289	6,19,116	5	4,500	135,571	1,438	141,514	93,666	17,368
Jun-05	18	19,375	5,75,864	6,791	6,02,048	4	4,453	132,352	1,561	138,370	94,995	1,329
Sep-05	19	20,727	6,02,309	6,260	6,29,315	4	4,712	136,920	1,423	143,059	98,698	5,032
Dec-05	20	23,770	5,90,497	4,096	6,18,383	5	5,274	131,018	909	137,206	95,997	2,331
Mar-06	12	25,674	6,47,327	3,374	6,76,387	3	5,755	145,108	756	151,622	105,231	11,565
Jun-06	2	28,479	7,18,701	3,518	7,50,700	–	6,180	155,968	764	162,912	110,123	4,892
Sep-06	6	28,506	7,27,733	3,502	7,59,747	1	6,202	158,340	762	165,305	111,967	6,736
Dec-06	4	28,824	7,52,738	2,416	7,83,982	1	6,517	170,187	546	177,251	117,822	12,591
Mar-07	8	29,573	8,36,597	2,044	8,68,222	2	6,784	191,924	469	199,179	131,890	26,659
Jun-07	6	27,655	8,39,913	1,875	8,69,449	1	6,787	206,114	460	213,362	140,780	8,890

– : Negligible.

: Gold has been valued close to international market price.

* : Variations over the previous March.

Note : 1. Gold holdings include acquisition of gold worth US $ 191million from the Government during 1991-92, US $ 29.4 million during 1992-93, US $ 139.3 million during 1993-94, US $ 315.0 million during 1994-95 and US $ 17.9 million during 1995-96. On the other hand, 1.27 tonnes of gold amounting to Rs 43.55 crore (US $11.97 million), 38.9 tonnes of gold amounting to Rs 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 57 : INTEREST RATES ON EXPORT CREDIT

(Per cent per annum)

Export Credit	Rates Effective										
	January 01, 1998	April 30, 1998	August 06, 1998	April 01, 1999	October 29, 1999	May 26, 2000	January 06, 2001	May 05, 2001#	September 26, 2001#	May 18, 2004 #	May 01, 2006 #
1	2	3	4	5	6	7	8	9	10	11	12
1. Pre-shipment Credit											
i) Up to 180 days*	12.00	11.00	9.00	10.00	10.00	10.00	10.00	≤ PLR-1.5 PP	≤ PLR-2.5 PP	≤ BPLR-2.5 PP	BPLR-2.5 PP
ii) Beyond 180 days and up to 270 days	14.00	14.00	12.00	13.00	13.00	13.00	13.00	≤ PLR+1.5 PP	≤ PLR+0.5 PP	Free	Free
iii) Against incentives receivable from Government covered by ECGC Guarantee up to 90 days	12.00	11.00	9.00	10.00	10.00	10.00	10.00	< PLR-1.5 PP	< PLR-2.5 PP	< BPLR-2.5 PP	< BPLR-2.5 PP
2. Post-shipment Credit											
i) Demand Bills for transit period (as specified by FEDAI)*	≤ 11.00	≤ 11.00	9.00	≤ 10.00	≤ 10.00	≤ 10.00	≤ 10.00	≤ PLR-1.5 PP	≤ PLR-2.5 PP	≤ BPLR-2.5 PP	BPLR-2.5 PP
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 *	≤ 11.00	≤ 11.00	9.00	≤ 10.00	≤ 10.00	≤ 10.00	≤ 10.00	≤ PLR-1.5 PP	≤ PLR-2.5 PP	≤ BPLR-2.5 PP	BPLR-2.5 PP
b) Beyond 90 days and up to six months from the date of shipment	13.00	13.00	11.00	12.00	12.00	12.00	12.00	≤ PLR+1.5 PP	≤ PLR+0.5 PP	Free	Free
c) Beyond six months from the date of shipment	20.00$ (Min.)	—	—	—	—	—	—	—	—	—	—
d) Upto 365 days for exporters under the Gold Card Scheme										≤ BPLR-2.5 PP	≤ BPLR-2.5 PP
iii) Against incentives receivable from Government covered by ECGC Guarantee (up to 90 days)	≤ 11.00	≤ 11.00	9.00	≤ 10.00	≤ 10.00	≤ 10.00	≤ 10.00	≤ PLR-1.5 PP	≤ PLR-2.5 PP	≤ BPLR-2.5 PP	≤ BPLR-2.5 PP
iv) Against undrawn balance (up to 90 days)	≤ 11.00	≤ 11.00	9.00	≤ 10.00	≤ 10.00	≤ 10.00	≤ 10.00	≤ PLR-1.5 PP	≤ PLR-2.5 PP	≤ BPLR-2.5 PP	≤ BPLR-2.5 PP
v) Against retention money (for supplies portion only) payable within one year from the date of shipment (up to 90 days)	≤ 11.00	≤ 11.00	9.00	≤ 10.00	≤ 10.00	≤ 10.00	≤ 10.00	≤ PLR-1.5 PP	≤ PLR-2.5 PP	≤ BPLR-2.5 PP	≤ BPLR-2.5 PP
3. Deferred Credit											
Deferred credit for the period beyond 180 days	Free (FDA)	Free (FDA)	Free	Free	Free	Free	Free	Free	Free	Free	Free
4. Export Credit, not otherwise specified											
a) Pre-shipment credit		Free	Free	Free	Free	Free	Free	Free	Free	Free	@
b) Post-shipment credit	20.00 (Min.)	20.00 (Min.)	20.00 (Min.)	20.00 (Min.)	Free	25.00 (Min.)	Free	Free	Free	Free	@

FDA : From the date of advance. Min. : Minimum. PLR : Prime Lending Rate. BPLR : Benchmark Prime Lending Rate.

≤ : Not Exceeding. — : Not Applicable. PP : Percentage Points.

$: Chronic cases, *i.e.*, overdues as on July 1, 1997 are exempted. # : These are ceiling rates, banks would be free to charge any rate below the ceiling rate.

* : Interest rates for the above-mentioned categories beyond the tenors as prescribed above are free effective May 1, 2006.

@ : ECNOS abolished w.e.f. May 1, 2006. Banks are free to set own interest rates.

Note : 1. 'Free' means banks are free to charge interest rates keeping in view the BPLR and spread guidelines.

2. Following the Government's decision to provide interest subvention of 2 percentage points per annum to all scheduled commercial banks in respect of rupee export credit to the specified categories of exporters, the Reserve Bank on July 13, 2007, accordingly issued amended instructions relating to interest rates on rupee export credit for exporters of nine categories of exports *viz.*, Textiles (including Handlooms), Readymade Garments, Leather Products, Handicrafts, Engineering Products, Processed Agricultural Products, Marine Products, Sports Goods and Toys and all exporters from SME sectors defined as micro enterprises, small enterprises and medium enterprises. Accordingly, banks would charge interest rate not exceeding BPLR *minus* 4.5 per cent on pre-shipment credit up to 180 days and post-shipment credit up to 90 days on the outstanding amount for the period April 1, 2007 to December 31, 2007 to all SME sectors and the nine categories of exports as mentioned above.

APPENDIX TABLE 58 : PROFILE OF TREASURY BILLS

(Amount in Rupees crore)

	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5
1. Implicit Yield at Cut-Off Price (Per cent)				
91-day Treasury Bills				
Minimum	4.16	4.37	5.12	5.41
Maximum	5.47	5.61	6.69	8.10
Weighted Average	4.63	4.89	5.51	6.80
182-day Treasury Bills				
Minimum	..	..	5.29	5.61
Maximum	..	..	6.74	8.20
Weighted Average	..	..	5.65	6.87
364-day Treasury Bills				
Minimum	4.31	4.43	5.58	5.90
Maximum	5.49	5.77	6.81	7.98
Weighted Average	4.67	5.15	5.87	7.07
2. Gross Issues				
91-day Treasury Bills	36,789	1,00,592 (67,955)	1,03,424 (52,057)	1,31,577 (48,222)
182-day Treasury Bills	..	..	26,828 (13,078)	36,912 (16,125)
364-day Treasury Bills	26,136	47,132 (20,981)	45,018 (16,000)	53,813 (20,440)
3. Net Issues				
91-day Treasury Bills	2,485	20,653 (19,500)	-11,474 (-19,500)	28,911 (14,473)
182-day Treasury Bills	..	..	9,771 (3,000)	7,435 (4,950)
364-day Treasury Bills	10	20,997 (20,981)	-2,114 (-4,981)	8,795 (4,440)
4. Outstanding at Year/Period End				
91-day Treasury Bills	7,139	27,792 (19,500)	16,318 (0)	45,229 (14,473)
182-day Treasury Bills	..	..	9,771 (3,000)	17,206 (7,950)
364-day Treasury Bills	26,136	47,132 (20,981)	45,018 (16,000)	53,813 (20,440)

.. : Not applicable.

Note : 1. Figures in parentheses indicate issuances under the MSS.
2. Auction of 182-day Treasury Bills were re-introduced on April 6, 2005.

APPENDIX TABLE 59 : ISSUANCES OF CENTRAL GOVERNMENT DATED SECURITIES

(Amount in Rupees crore)

Auction Particulars					Bids/Application Received				Bids / Application Accepted						Gross Amount Raised (14+15)	Cut-off Price (Rs.) / Yield (%)	Nomenclature of Loan
Date of Auction	Date of Issue	Tenor (Years)	Re-sidual Matu-rity (years)	Notified Amount	Competitive		Non-Competitive		Competitive		Non-Competitive		Total (11+13)	Allocation to PDs (Devolvement)			
					No. +	Face Value	No. +	Face Value	No. +	Face Value	No. +	Face Value					
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2006-07																	
10-Apr-06	12-Apr-06	10	10.00	5000	208	11286.20	21	27.56	78	4972.44	21	27.59	5000		5000	7.5900	7.59 % G.S., 2016 # **
10-Apr-06	12-Apr-06	30	28.33	3000	119	6410.00	8	11.90	21	2664.00	8	11.90	2676	324.10	3000	94.73/7.9701	7.50 % G.S., 2034 $ **
25-Apr-06	26-Apr-06	10	6.02	6000	224	11593.00	14	12.46	126	5987.54	14	12.46	6000		6000	101.64/7.0604	7.40 % G.S., 2012 $ **
25-Apr-06	26-Apr-06	30	26.34	4000	160	9399.50	14	18.15	61	3981.85	14	18.15	4000		4000	99.33/8.0038	7.95 % G.S., 2032 $ **
04-May-06	05-May-06	10	9.94	6000	284	11304.11	23	29.20	145	5971.00	23	29.20	6000		6000	100.26/7.5512	7.59 % G.S., 2016 $ **
04-May-06	05-May-06	30	28.26	4000	185	8638.61	5	4.75	97	3995.00	5	4.75	4000		4000	92.90/8.1442	7.50 % G.S., 2034 $ **
23-May-06	24-May-06	15	15.00	5000	153	11368.50	22	28.68	69	4971.00	22	28.65	5000		5000	7.9400	7.94 % G.S., 2021 # ** U
06-Jun-06	07-Jun-06	30	30.00	4000	96	8778.50	3	1.33	28	3998.67	3	1.33	4000		4000	8.3300	8.33 % G.S., 2036 # ** U
06-Jun-06	07-Jun-06	10	5.07	6000	194	14732.00	11	9.93	60	5990.07	11	9.93	6000		6000	108.33/7.3877	9.39 % G.S., 2011 $ **
22-Jun-06	23-Jun-06	12	8.52	5000	216	8168.00	7	2.98	164	2997.02	7	2.98	5000		5000	96.84/7.9171	7.37 % G.S., 2014 $ **
22-Jun-06	23-Jun-06	15	14.95	4000	112	6632.98	31	16.28	86	3983.72	31	16.28	4000		4000	95.65/8.4573	7.94 % G.S., 2021 $ ** U
11-Jul-06	12-Jul-06	10	9.75	5000	159	7571.00	25	24.38	20	1590.00	25	24.38	1614	3385.62	5000	95.36/8.2902	7.59 % G.S., 2016 $ ** U
11-Jul-06	12-Jul-06	30	28.08	2000	64	4085.00	4	1.47	15	104.00	4	1.47	105	1894.54	2000	86.99/8.7504	7.50 % G.S., 2034 $ ** U
27-Jul-06	28-Jul-06	6	3.79	4000	218	9035.00	26	18.46	109	3981.54	26	18.46	4000		4000	99.53/7.6898	7.55 % G.S. , 2010 $ **
08-Aug-06	09-Aug-06	10	4.90	6000	239	15317.00	21	21.85	61	5978.15	21	21.85	6000		6000	105.76/7.9436	9.39% G.S. , 2011 $ **
08-Aug-06	09-Aug-06	10	9.68	3000	219	9714.00	18	22.34	25	2977.66	18	22.34	3000		3000	95.51/8.2706	7.59% G.S. , 2016 $ **
18-Aug-06	21-Aug-06	30	29.79	3000	141	7935.94	6	6.29	58	2993.71	6	6.29	3000		3000	95.76/8.7296	8.33% G.S., 2036 $ **
18-Aug-06	21-Aug-06	15	10.40	5000	314	15732.60	15	19.75	53	4980.25	15	19.75	5000		5000	99.62/8.1230	8.07% G.S., 2017 $ **
08-Sep-06	11-Sep-06	10	9.59	6000	323	16710.00	22	21.08	46	5978.92	22	21.08	6000		6000	98.85/7.7607	7.59% G.S. , 2016 $ **
08-Sep-06	11-Sep-06	30	27.91	3000	186	8151.50	10	13.25	34	2986.75	10	13.25	3000		3000	89.83/8.4533	7.50%G.S. , 2034 $ **
13-Oct-06	16-Oct-06	10	9.49	6000	193	10569.00	18	22.74	141	5977.26	18	22.74	6000		6000	99.71/7.6330	7.59%G.S., 2016 $ **
13-Oct-06	16-Oct-06	30	29.64	3000	121	6901.80	19	17.88	9	2982.12	19	17.87	3000		3000	102.50/8.1046	8.33% G.S., 2036 $ **
03-Nov-06	06-Nov-06	10	5.49	6000	274	15288.00	15	11.83	113	5988.18	15	11.83	6000		6000	99.54/7.5035	7.40 % G.S., 2012 $ **
03-Nov-06	06-Nov-06	30	27.76	3000	145	7318.88	7	7.50	8	2992.50	7	7.50	3000		3000	94.23/8.0199	7.50% G.S., 2034 $ **
24-Nov-06	27-Nov-06	15	10.13	5000	285	13679.41	30	31.38	141	4968.62	30	31.38	5000		5000	104.47/7.4323	8.07 % G.S., 2017 $ **
08-Dec-06	11-Dec-06	12	7.35	5000	257	10712.50	15	20.08	104	4979.92	15	20.08	5000		5000	100.32/7.3104	7.37% G.S., 2014$ **
08-Dec-06	11-Dec-06	30	29.49	4000	177	10439.43	5	7.50	29	3992.50	5	7.50	4000		4000	108.15/7.6312	8.33% G.S., 2036 $ **
12-Jan-07	15-Jan-07	30	29.39	4000	115	5705.00	14	19.60	105	3980.40	14	19.60	4000		4000	101.00/8.2379	8.33% G.S., 2036 $ **
25-Jan-07	29-Jan-07	15	14.32	5000	248	12031.50	11	10.69	114	4989.32	11	10.69	5000		5000	97.81/8.2005	7.94% G.S., 2021 $ **
09-Feb-07	12-Feb-07	12	7.18	6000	170	10048.73	19	17.24	82	5982.76	19	17.24	6000		6000	97.25/7.8759	7.37% G.S.,2014 $**
09-Feb-07	12-Feb-07	30	29.32	3000	220	8754.00	2	2.40	90	2997.60	2	2.40	3000		3000	101.53/8.1898	8.33% G.S., 2036 $**
06-Mar-07	07-Mar-07	7	2.08	6000	201	13340.00	0	0.00	86	6000.00	0	0.00	6000		6000	97.70/7.8670	6.55% G.S., 2009 $**@
09-Mar-07	09-Mar-07	15	9.84	4000	239	11720.25	20	20.61	45	3979.00	20	20.61	4000		4000	100.05/8.0600	8.07% G.S., 2017$**
09-Mar-07	12-Mar-07	30	20.24	3000	165	8200.50	5	3.77	50	2996.00	5	3.77	3000		3000	99.22/8.4000	8.33% G.S., 2036$**
14-Mar-07	15-Mar-07	7	2.06	2000	105	4972.50	0	0.00	60	2000.00	0	0.00	2000		2000	97.55/7.9622	6.65% G.S., 2009 $ ** @
22-Mar-07	23-Mar-07	7	2.03	2000	164	8774.00	1	0.70	27	1999.30	1	0.70	2000		2000	97.49/8.0100	6.65% G.S., 2009 $ ** @
28-Mar-07	29-Mar-07	7	2.02	6000	185	11012.00	1	0.50	132	5999.50	1	0.50	6000		6000	97.26/8.1496	6.65% G.S., 2009 $ ** @

** : Allotment to non-competitive bidders at weighted average yield/price of competitive bids.
@ : Issued under Market Stabilisation Scheme (MSS).
\+ : Number of applicants.
U : Uniform Price.
\# : Yield based auction.
$: Reissues.

APPENDIX TABLE 60 : A PROFILE OF CENTRAL GOVERNMENT DATED SECURITIES

(Amount in Rupees crore)

Item	2004-05	2005-06	2006-07
1	2	3	4
1. Gross Borrowing	80,350	1,31,000	1,46,000
2. Repayments	34,316	35,630	39,084
3. Net Borrowing	46,034	95,370	1,06,916
4. Weighted Average Maturity (in years)	14.13	16.90	14.75
5. Weighted Average Yield (per cent)	6.11	7.34	7.89
6. A. Maturity Distribution- Amount			
(a) Up to 5 Years	3,000	0	10,000
(b) Above 5 and Up to 10 Years	15,000	34,000	69,000
(c) Above 10 Years	62,350	97,000	67,000
Total	80,350	1,31,000	1,46,000
B. Maturity Distribution (per cent)			
(a) Up to 5 Years	4	0	7
(b) Above 5 and Up to 10 Years	19	26	47
(c) Above 10 Years	77	74	46
Total	100	100	100
7. Price Based Auctions - Amount	72350	1,25,000	1,32,000
8. Yield - Per cent			
(a) Minimum	4.49@ (12 years)	6.69 (5 years, 6 months)	7.06 (6 years, 1 months)
(b) Maximum	8.24 (27 years ,10 months)	7.98 (29 years, 3 months)	8.75 (28 years, 1 months)
9. Yield-Maturity Distribution - wise			
(a) Less than 10 Years			
Minimum	5.47 (9 years)	6.69 (5 years, 6 months)	7.06 (6 years, 1 months)
Maximum	7.20 (5 years, 6 months)	7.06 (8 years, 2 months)	8.29 (9 years, 9 months)
(b) 10 Years			
Minimum	nil	nil	7.59
Maximum	nil	nil	7.59
(c) Above 10 Years			
Minimum	4.49 (12 years)	6.91 (10 years, 10 months)	7.43 (10 years, 1 months)
Maximum	8.24 (27 years,10 months)	7.98 (29 years, 3 months)	8.75 (28 years, 1 months)
Memo Item :			
1. Initial Subscription by RBI	350	10,000	0
2. Open Market Operations by RBI- Net Sales	2,899	3,913	5,125
3. Ways and Means Advances to the Centre (Outstanding) (as on March 31)	nil	nil	nil

@ : Pertains to FRBs.
Note : Figures in parentheses represent residual maturity.

APPENDIX TABLE 61 : MARKET BORROWINGS PROGRAMME OF THE STATE GOVERNMENTS : 2006-07

(Amount in Rupees crore)

Sr. No.	Name of the State	Gross Allocations (=4+5+6)	Repayment	Net Allocations	Additional Allocations	Gross Borrowings*	Net Borrowings (=7-4)
1	2	3	4	5	6	7	8
1.	Andhra Pradesh	2726	530	1521	675	2726	2196
2.	Arunachal Pradesh	108	5	21	82	108	103
3.	Assam	857	179	632	46	857	678
4.	Bihar	1183	418	766	–	$	-418
5.	Chhattisgarh	476	95	381	–	$	-95
6.	Goa	159	19	140	–	100	81
7.	Gujarat	944	282	662	–	$	-282
8.	Haryana	598	147	451	–	$	-147
9.	Himachal Pradesh	512	44	468	–	512	468
10.	Jammu & Kashmir	691	73	167	450	691	617
11.	Jharkhand	401	141	259	–	401	259
12.	Karnataka	1376	233	1142	–	$	-233
13.	Kerala	2168	380	773	1015	2168	1788
14.	Madhya Pradesh	1421	357	1065	–	1420	1063
15.	Maharashtra	1738	468	1269	–	1738	1269
16.	Manipur	99	18	81	–	99	81
17.	Meghalaya	192	28	89	76	192	164
18.	Mizoram	125	17	38	71	125	108
19.	Nagaland	293	44	160	90	293	250
20.	Orissa	1047	393	653	–	$	-393
21.	Punjab	981	243	438	300	981	738
22.	Rajasthan	1499	434	1065	–	1499	1065
23.	Sikkim	115	17	97	–	115	97
24.	Tamil Nadu	1814	444	1371	–	1814	1371
25.	Tripura	123	20	104	–	35	15
26.	Uttar Pradesh	3248	979	2269	–	3248	2269
27.	Uttaranchal	369	52	317	–	369	317
28.	West Bengal	1336	492	844	–	1336	844
	Total	**26597**	**6551**	**17242**	**2804**	**20825**	**14273**

* : All the ammount were raised only through Auction, no amount was raised through Tap issuance.
$: States did not participate in the Market Borrowing Programme during 2006-07.

APPENDIX TABLE 62 : MARKET BORROWINGS OF THE STATE GOVERNMENTS RAISED THROUGH AUCTIONS : 2006-07

(Amount in Rupees crore)

Sr. No.	Date of Auction	State	Notified Amount	Amount Accepted	Market Rate (%)@	No of Bids Received	Amount Offered	Weighted Average Rate	Cut Off Rate (%)	Spread (Percentage points)
1	2	3	4	5	6	7	8	9	10	11(=10-6)
1.	27-04-2006	Kerala	300	300	7.43	72	1700	–	7.65	0.22
2.	11-05-2006	Andhra Pradesh	500	500	7.53	71	1438	7.81	7.89	0.36
3.	11-05-2006	Arunachal Pradesh	13	13	7.53	3	20	7.88	8.00	0.47
4.	11-05-2006	Assam	263	263	7.53	13	319	7.94	7.95	0.42
5.	11-05-2006	Jammu & Kashmir	150	150	7.53	10	150	7.91	8.04	0.51
6.	11-05-2006	Jharkhand	130	130	7.53	14	235	7.92	7.96	0.43
7.	11-05-2006	Kerala	400	400	7.53	64	1262	7.82	7.87	0.34
8.	11-05-2006	Madhya Pradesh	300	300	7.53	24	688	7.91	7.95	0.42
9.	11-05-2006	Maharashtra	500	500	7.53	58	1518	7.83	7.91	0.38
10.	11-05-2006	Manipur	57	57	7.53	6	121	7.96	7.98	0.45
11.	11-05-2006	Meghalaya	50	40	7.53	4	52	7.95	7.95	0.42
12.	11-05-2006	Mizoram	19	15	7.53	3	15	8.00	8.05	0.52
13.	11-05-2006	Nagaland	120	120	7.53	8	175	7.94	7.95	0.42
14.	11-05-2006	Punjab	438	438	7.53	52	1472	7.87	7.93	0.40
15.	11-05-2006	Uttar Pradesh	1633	1633	7.53	112	4219	7.98	8.00	0.47
16.	11-05-2006	Uttaranchal	159	159	7.53	13	242	7.91	7.95	0.42
17.	11-05-2006	West Bengal	869	869	7.53	89	2895	7.88	7.93	0.40
18.	13-07-2006	Andhra Pradesh	742	742	8.33	88	2902	8.63	8.65	0.32
19.	13-07-2006	Jharkhand	78	78	8.33	11	280	8.65	8.65	0.32
20.	13-07-2006	Madhya Pradesh	300	300	8.33	43	1330	8.63	8.66	0.33
21.	13-07-2006	Meghalaya	29	29	8.33	8	84	8.65	8.65	0.32
22.	13-07-2006	Mizoram	19	19	8.33	3	39	8.65	8.65	0.32
23.	13-07-2006	Rajasthan	450	225	8.33	67	1949	8.62	8.62	0.29
24.	13-07-2006	Sikkim	64	64	8.33	12	195	8.65	8.65	0.32
25.	25-08-2006	Assam	216	215	7.97	24	497	8.11	8.11	0.14
26.	25-08-2006	Kerala	300	300	7.97	59	1545	8.11	8.11	0.14
27.	25-08-2006	Rajasthan	500	500	7.97	69	2573	8.11	8.11	0.14
28.	25-08-2006	Tripura	35	35	7.97	11	112	8.11	8.11	0.14
29.	18-10-2006	Arunachal Pradesh	48	48	7.68	2	50	8.04	8.04	0.36
30.	18-10-2006	Kerala	153	153	7.68	22	424	7.99	7.99	0.31
31.	16-11-2006	Andhra Pradesh	400	400	7.53	69	1622	7.72	7.74	0.21
32.	16-11-2006	Himachal Pradesh	300	300	7.53	39	1024	7.74	7.74	0.21
33.	16-11-2006	Jammu & Kashmir	91	91	7.53	7	217	7.76	7.80	0.27
34.	16-11-2006	Maharashtra	500	500	7.53	62	2074	7.74	7.74	0.21
35.	16-11-2006	Manipur	42	42	7.53	7	119	7.76	7.82	0.29
36.	16-11-2006	Mizoram	21	21	7.53	7	76	7.76	7.82	0.29
37.	16-11-2006	Nagaland	43	43	7.53	6	111	7.76	7.82	0.29
38.	16-11-2006	Punjab	243	243	7.53	51	1101	7.73	7.74	0.21
39.	16-11-2006	Rajasthan	274	274	7.53	43	1174	7.73	7.74	0.21
40.	16-11-2006	Sikkim	50	50	7.53	6	130	7.74	7.82	0.29
41.	16-11-2006	West Bengal	467	467	7.53	51	1791	7.74	7.74	0.21
42.	14-12-2006	Andhra Pradesh	409	409	7.69	70	1110	7.88	7.93	0.24
43.	14-12-2006	Assam	166	166	7.69	15	449	7.80	7.89	0.20
44.	14-12-2006	Jharkhand	193	193	7.69	15	472	7.84	7.99	0.30
45.	14-12-2006	Kerala	400	400	7.69	55	923	7.87	7.94	0.25
46.	14-12-2006	Meghalaya	55	55	7.69	9	182	7.81	7.94	0.25
47.	14-12-2006	Nagaland	40	40	7.69	7	135	7.81	7.81	0.12
48.	14-12-2006	Rajasthan	300	300	7.69	46	1267	7.80	7.81	0.12
49.	14-12-2006	Tamil Nadu	400	400	7.69	72	1376	7.88	7.93	0.24
50.	18-01-2007	Andhra Pradesh	300	300	7.81	59	1146	7.96	7.99	0.18
51.	18-01-2007	Goa	100	100	7.81	22	365	7.95	7.99	0.18
52.	18-01-2007	Kerala	315	315	7.81	41	1071	7.97	7.99	0.18
53.	18-01-2007	Tamil Nadu	500	500	7.81	92	2421	7.95	7.96	0.15
54.	05-02-2007	Jammu & Kashmir	200	200	7.69	32	405	7.89	7.95	0.26
55.	22-02-2007	Andhra Pradesh	375	375	7.96	47	826	7.10	8.17	0.21
56.	22-02-2007	Arunachal Pradesh	47	47	7.96	9	206	8.09	8.10	0.14
57.	22-02-2007	Assam	213	213	7.96	16	655	8.12	8.20	0.24
58.	22-02-2007	Kerala	300	300	7.96	31	753	8.11	8.19	0.23
59.	22-02-2007	Madhya Pradesh	350	350	7.96	26	639	8.11	8.20	0.24
60.	22-02-2007	Tamil Nadu	500	500	7.96	56	1242	8.11	8.19	0.23
61.	22-02-2007	Uttar Pradesh	1615	1615	7.96	75	2242	8.37	8.45	0.49
62.	13-03-2007	Himachal Pradesh	212	212	7.97	30	798	8.26	8.35	0.38
63.	13-03-2007	Jammu & Kashmir	250	250	7.97	11	357	8.41	8.45	0.48
64.	13-03-2007	Madhya Pradesh	470	470	7.97	48	1043	8.35	8.40	0.43
65.	13-03-2007	Meghalaya	67	67	7.97	5	164	8.36	8.39	0.42
66.	13-03-2007	Mizoram	70	70	7.97	6	220	8.36	8.39	0.42
67.	13-03-2007	Nagaland	90	90	7.97	6	260	8.37	8.39	0.42
68.	13-03-2007	Punjab	300	300	7.97	43	1190	8.25	8.32	0.35
69.	13-03-2007	Rajasthan	200	200	7.97	32	856	8.19	8.25	0.28
70.	13-03-2007	Tamil Nadu	414	414	7.97	69	1460	8.22	8.32	0.35
71.	13-03-2007	Uttaranchal	211	211	7.97	23	649	8.29	8.38	0.41
72.	23-03-2007	Maharashtra	738	738	7.94	64	1805	8.31	8.35	0.41

@ : Secondry market yield of Central Governemnt securities of similar maturity.