Macroeconomic and Monetary Developments in 2001-02

Contents

I. Growth, Saving and Investment

Growth Rates

According to the advance estimates released by the Central Statistical Organisation (CSO), real GDP growth is likely to have recovered to 5.4 per cent in 2001-02 from 4.0 per cent (quick estimates) in 2000-01. This reflects a sharp increase in the real GDP originating from 'agriculture and allied activities' by 5.7 per cent from (-) 0.2 per cent and 1.3 per cent recorded in 2000-01 and 1999-2000, respectively. The turnaround in agriculture was mainly on account of production of foodgrains, oilseeds and cotton. The industrial sector, in terms of gross value added, is estimated to have grown at a lower rate of 3.3 per cent in 2001-02 as against 6.2 per cent in 2000-01 and 4.2 per cent in 1999-2000. The industrial slowdown permeated all constituent sub-sectors, particularly the manufacturing sector which decelerated to 3.3 per cent in 2001-02 from 6.7 per cent in 2000-01. The growth in 'mining and quarrying' is expected to have slowed down considerably, while 'electricity, gas and water supply' would have shown a moderate deceleration during 2001-02 (Table 1).

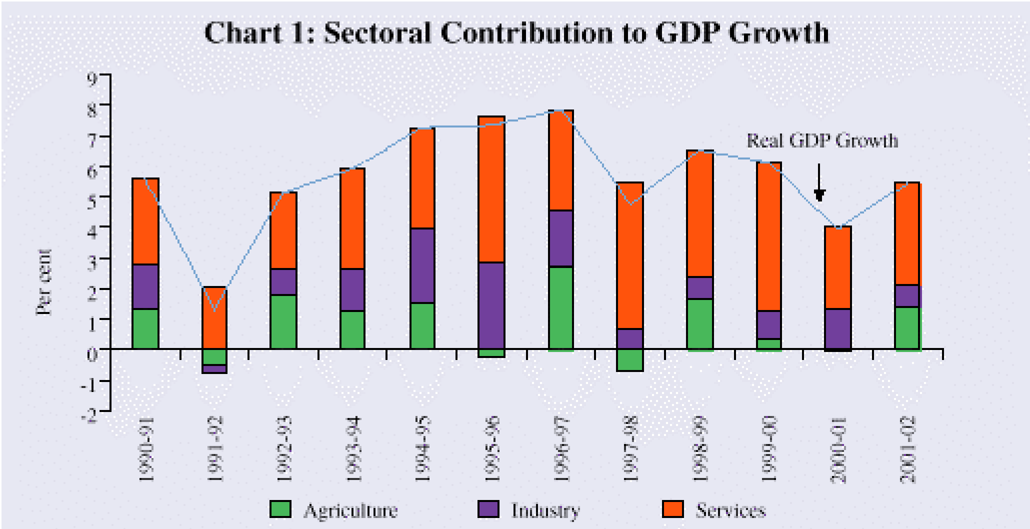
Table 1: Growth Rates and Sectoral Composition of GDP
(at 1993-94 prices)

(Per cent)

Sector	Growth Rate			Share in GDP		
	1999-2000@	2000-01*	2001-02#	1999-2000@	2000-01*	2001-02#
1	2	3	4	5	6	7
1. Agriculture & Allied Activities	1.3	-0.2	5.7	25.2	24.2	24.3
1.1 Agriculture	1.0	-0.4	—	23.2	22.2	—
2. Industry	4.2	6.2	3.3	21.6	22.1	21.6
2.1 Manufacturing	4.2	6.7	3.3	16.8	17.2	16.8
2.2 Mining and Quarrying	2.0	3.3	1.4	2.3	2.3	2.2
2.3 Electricity, Gas & Water Supply	6.1	6.2	5.2	2.5	2.5	2.5
3. Services	9.4	5.0	6.2	53.2	53.7	54.1
3.1 Trade, Hotels, Restaurants, Transport and Communication	7.6	5.3	6.3	22.1	22.3	22.5
3.2 Financing, Insurance, Real Estate & Business Services	10.6	2.9	7.5	12.7	12.6	12.8
3.3 Community, Social and Personal Services	11.6	6.0	6.0	13.3	13.5	13.6
3.4 Construction	8.1	6.8	2.9	5.1	5.3	5.1
4. GDP at factor cost	6.1	4.0	5.4	100.0	100.0	100.0

@ Provisional estimates. * Quick estimates. # Advance estimates. — Not Available.
Source : Central Statistical Organisation.

Services, on the other hand, are expected to have recorded a higher growth at 6.2 per cent in 2001-02 as against 5.0 per cent in 2000-01, though the pace remains slow in relation to a growth of 9.4 per cent attained in 1999-2000. The relative contribution of services to the real GDP growth has increased over the 1990s and it would have contributed 3.3 percentage points to the estimated real GDP growth of 5.4 per cent during 2001-02 (Chart 1).



The real GDP growth recorded an improvement in the first three quarters of 2001-02 (Chart 2). The real GDP growth in 'agriculture and allied activities' registered a growth of 7.1 per cent in the third quarter of 2001-02 as compared to (-)0.8 per cent in the corresponding quarter of 2000-01. The services sector also recorded some improvement in growth during the first three quarters of 2001-02. The industrial sector, on the other hand, witnessed a deceleration in growth during this period as compared with the corresponding period of the preceding year (Table 2).

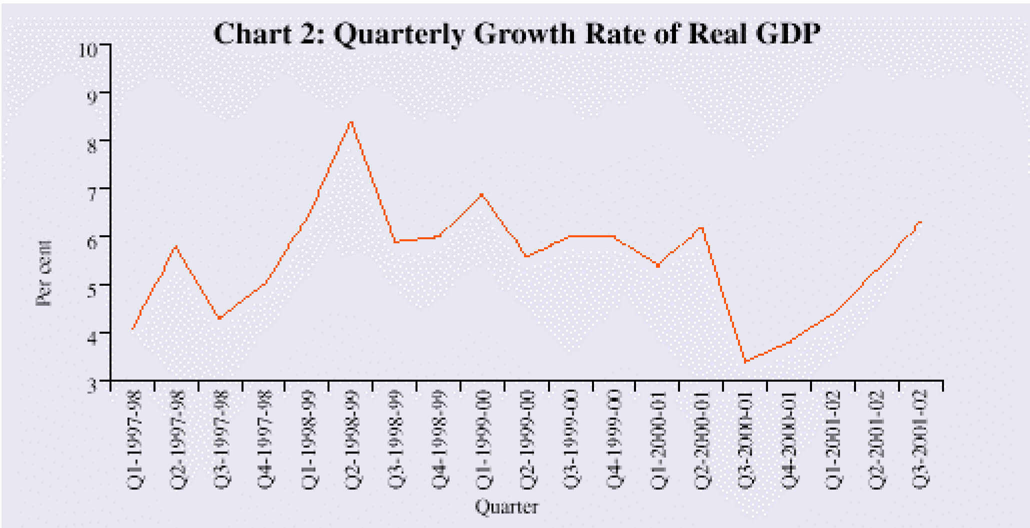


Table 2: Quarterly Estimates of Gross Domestic Product
(at 1993-94 prices)

Sector	GDP at Factor Cost (Rupees crore)						Percentage change over previous year					
	2000-01			2001-02			2000-01			2001-02		
	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Agriculture & Allied Activities	70,779	51,821	93,454	72,428	53,562	1,00,044	1.8	3.9	-0.8	2.3	3.4	7.1
2. Industry	63,759	64,081	66,359	65,157	65,649	68,311	7.6	6.4	7.0	2.2	2.4	2.9
2.1 Mining & quarrying	6,572	6,582	7,099	6,569	6,621	7,298	4.8	3.6	4.3	0.0	0.6	2.8

	2,2 Manufacturing	49,706	49,989	51,542	50,857	51,154	52,985	8.1	7.1	7.1	2.3	2.3	2.8
	2.3 Electricity, Gas and Water Supply	7,481	7,510	7,718	7,731	7,874	8,028	7.1	4.5	9.3	3.3	4.8	4.0
3.	Services	1,49,754	1,52,052	1,60,733	1,59,183	1,62,850	1,72,404	6.3	6.9	4.4	6.3	7.1	7.3
	3.1 Construction	15,837	15,216	15,681	16,238	15,833	16,520	12.4	10.0	7.2	2.5	4.1	5.3
	3.2 Trade, Hotels, Transport and Communication	63,535	62,142	69,971	66,868	66,006	74,769	8.1	6.3	4.8	5.2	6.2	6.9
	3.3 Financing, Insurance, Real Estate and Business Services	35,977	36,467	37,639	39,526	40,468	41,402	3.7	3.9	2.1	9.9	11.0	10.0
	3.4 Community, Social and Personal Services	34,405	38,227	37,442	36,551	40,543	39,713	3.2	9.8	5.0	6.2	6.1	6.1
4.	**GDP at factor cost**	**2,84,292**	**2,67,954**	**3,20,545**	**2,96,768**	**2,82,061**	**3,40,759**	**5.4**	**6.2**	**3.4**	**4.4**	**5.3**	**6.3**

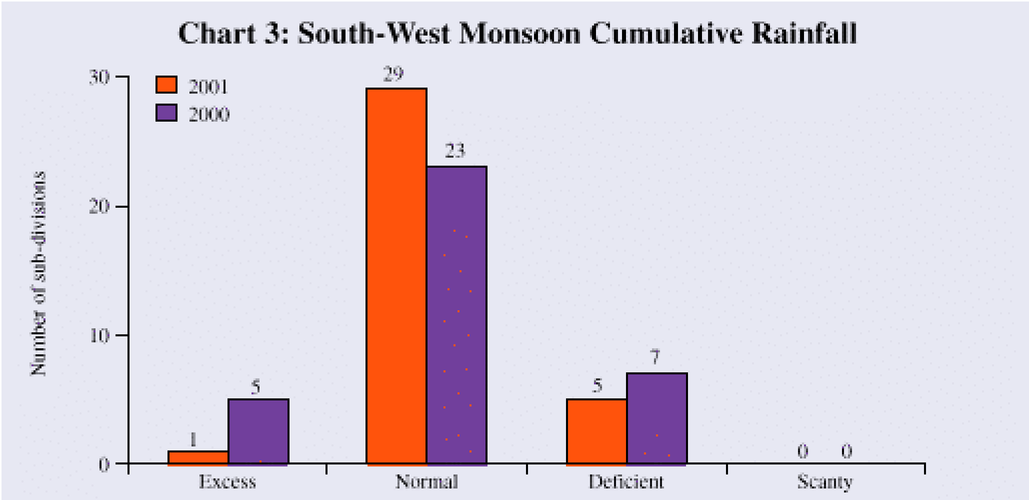
Note : Q1-Quarter 1 (April-June), Q2-Quarter 2 (July-September) and Q3-Quarter 3 (October-December).
Source : Central Statistical Organisation.

Agricultural Situation

The real GDP growth from 'agriculture and allied activities' improved from 2.3 per cent in the first quarter to 3.4 per cent and 7.1 per cent in the second and third quarters of 2001-02, respectively (Table 2). The turnaround in agricultural sector spread across all crops barring a moderate decline in sugarcane. In terms of the index of agricultural production (base: triennium ending 1981-82 = 100), agriculture witnessed an impressive growth of 7.4 per cent during the year 2001-02 as against the decline of 6.6 per cent during the previous year.

During the South-West monsoon season of 2001, 30 meteorological subdivisions received excess/normal rainfall as compared with 28 sub-divisions in the previous season indicating better spatio-temporal distribution of rainfall (Chart 3). The North-East monsoon also turned out to be better during 2001-02. Cumulative rainfall during the North-East monsoon (October-December), which was excess/normal in 23 out of 35 sub-divisions as compared with four subdivisions in 2000, boosted the production of crops such as coarse cereals and pulses.

According to the third advance estimates of the Union Ministry of Agriculture, the foodgrains production is expected to peak at 211.2 million tonnes in 2001-02 from 195.9 million tonnes in the preceding year. The record foodgrains production was led by rice, wheat, pulses and coarse cereals. Non-foodgrains production also recorded improvement over the previous year on account of increased production of oilseeds, cotton and jute and mesta, even though production of sugarcane declined marginally.



The *kharif* foodgrains production attained a new peak at 109.5 million tonnes in 2001-02 surpassing the previous record of 105.5 million tonnes in 1999-2000. Production of *kharif* rice and pulses increased by 6.8 per cent to 78.3 million tonnes and 23.0 per cent to 5.5 million tonnes, respectively. The output of *kharif* coarse cereals increased marginally by 0.6 percent over the previous year's level to 25.7 million tonnes.

The estimated production of *rabi* foodgrains at 101.7 million tonnes in 2001-02 is higher than the previous year's level mainly due to increase in wheat output. *Rabi* production of the rain-dependent coarse cereals, pulses and major *rabi* oilseeds are also expected to have increased during 2001-02 (Table 3).

Table 3 : Season-Wise Agricultural Production

(Million Tonnes)

Crops	1997-98		1998-99		1999-2000		2000-01		2001-02 AE	
	Kharif	*Rabi*	*Kharif*	*Rabi*	*Kharif*	*Rabi*	*Kharif*	*Rabi*	*Kharif*	*Rabi*
1	2	3	4	5	6	7	8	9	10	11
Rice	72.5	10.0	72.7	13.4	77.5	12.2	73.3	11.5	78.3	4.4
Wheat	—	66.4	—	71.3	—	76.4	—	68.8	—	73.5
Coarse Cereals	24.8	5.6	25.1	6.3	23.2	7.1	25.6	6.1	25.7	7.4
Pulses	4.3	8.7	5.1	9.8	4.8	8.6	4.5	6.2	5.5	8.3
Total Foodgrains	101.6	90.7	102.9	100.7	105.5	104.3	103.4	92.6	109.5	101.7
Nine Oilseeds	14.1	7.2	15.8	9.0	12.5	8.2	11.8	6.6	13.0	8.1

AE : Advance Estimates as on April 5, 2002.
Source : Ministry of Agriculture, Government of India.

The total production of rice is estimated to have peaked at 90.8 million tonnes during 2001-02 consequent upon the anticipated improvement in performance in both *kharif* and *rabi* seasons, although it is short of the target of 92.0 million tonnes. The production of wheat is estimated to have increased by 6.9 per cent to 73.5 million tonnes in 2001-02 as against the target of 78.0 million tonnes. During 2001-02, output of pulses would have recorded a significant growth of 29.2 per cent to reach 13.8 million tonnes, while coarse cereals at 33.1 million tonnes would have shown a rise of 4.7 per cent. Non-foodgrains output is also expected to have increased in 2001-02 mainly on account of major oilseeds, cotton, and jute and mesta; the production of sugarcane at 289.4 million tonnes in 2001-02 may, however, witness a decline of 3.3 per cent over the previous year's level (Table 4).

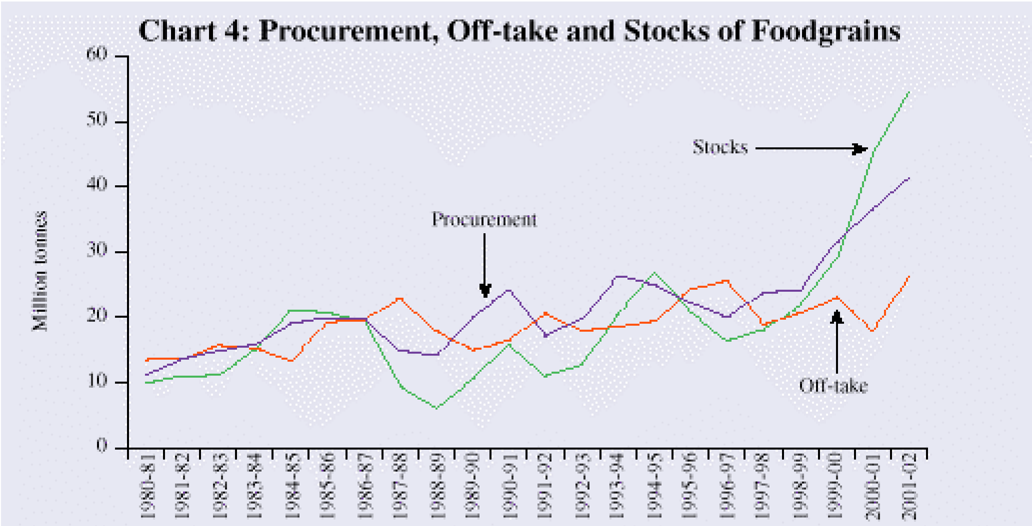
Table 4 : Crop-Wise Achievements/Targets

(Million Tonnes)

Crops	1997-98		1998-99		1999-2000		2000-01		2001-02 AE	
	T	A	T	A	T	A	T	A	T	A
1	2	3	4	5	6	7	8	9	10	11
Rice	83.0	82.5	84.2	86.1	86.0	89.7	90.0	84.9	92.0	90.8
Wheat	68.5	66.4	70.0	71.3	74.0	76.4	74.0	68.8	78.0	73.5
Coarse Cereals	33.5	30.4	34.3	31.3	34.5	30.3	33.0	31.6	33.0	33.1
Pulses	15.0	13.0	15.5	14.9	15.5	13.4	15.0	10.7	15.0	13.8
Total Foodgrains	200.0	192.3	204.0	203.6	210.0	209.8	212.0	195.9	218.0	211.2
Nine Oilseeds	25.5	21.3	27.0	24.8	28.0	20.7	28.0	18.4	28.0	21.2
Sugarcane	280.0	279.5	300.0	288.7	305.0	299.3	325.0	299.2	325.0	289.4
Cotton*	14.8	10.9	14.8	12.3	15.0	11.5	14.5	9.7	14.5	11.3
Jute & Mesta**	9.8	11.0	9.8	9.8	11.0	10.6	10.0	10.5	11.0	10.7

T : Target. A : Achievement. AE : Advance Estimates as on April 5, 2002.
* in million bales of 170 k.g. each. ** in million bales of 180 k.g. each.
Source: Ministry of Agriculture, Government of India.

In recent years, the procurement of foodgrains (rice and wheat) has been consistently rising; however, the off-take has been uneven leading to substantial accretion to foodgrain stocks (Chart 4). Foodgrain procurement during 2001-02 increased by 13.9 per cent to 41.3 million tonnes. During 2001-02 (up to February), the off-take of foodgrains rose by 71.9 per cent to 26.4 million tonnes and reversed the declining trend, mainly on account of increased off-take under Open Market Sales (OMS) and Other Welfare Schemes (OWS). Notwithstanding the increased off-take, stocks of both rice and wheat recorded an increase of 16.6 per cent to reach 54.5 million tonnes (Table 5). This works out to around three-and-a-half times the end-March norm of 15.8 million tonnes.



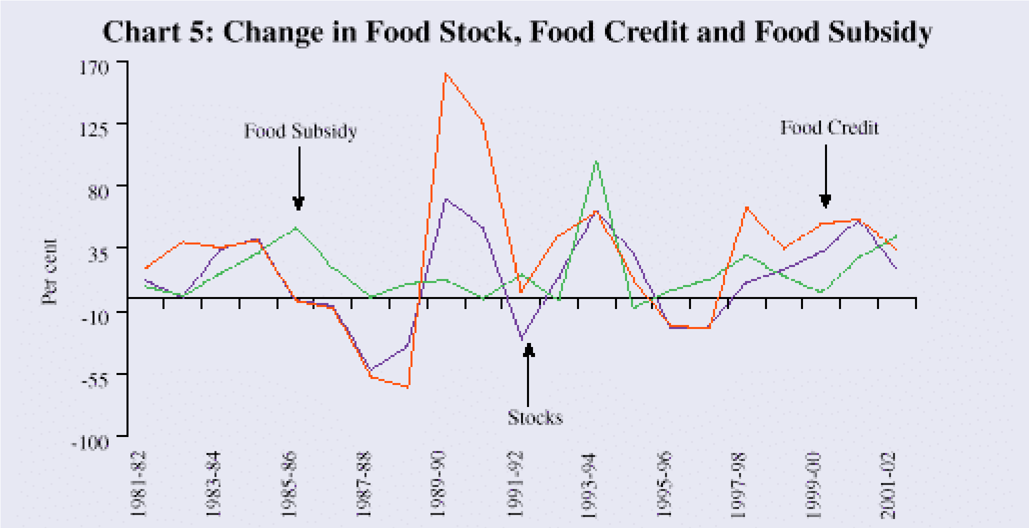
The continuous accretion to food stocks has entailed substantial increases both in food subsidy and food credit. The food subsidy rose from Rs.6,066 crore in 1996-97 to Rs.12,010 crore in 2000-01, while the outstanding food credit extended by commercial banks increased from Rs.7,597 crore as at end-March 1997 to Rs.39,991 crore as at end-March 2001 and further to Rs.53,978 crore as at end-March, 2002 (Chart 5).

Table 5: Procurement, Off-take and Stocks of Foodgrains

(Million tonnes)

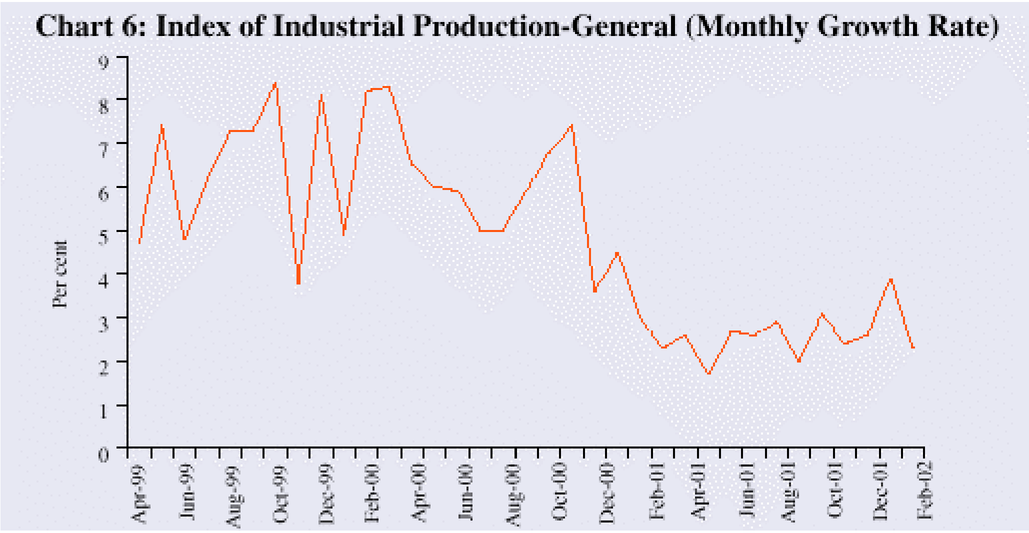
Year	Procurement			Off-take			Stocks*		
	Rice	Wheat	Total@	Rice	Wheat	Total@	Rice	Wheat	Total@
1	2	3	4	5	6	7	8	9	10
1995-96	9.9	12.3	22.2	11.6	12.7	24.4	13.1	7.8	20.8
1996-97	11.9	8.2	20.0	12.3	13.3	25.7	13.2	3.2	16.4
1997-98	14.5	9.3	23.8	11.2	7.8	19.1	13.1	5.1	18.1
1998-99	11.6	12.7	24.2	11.8	8.9	20.7	12.2	9.7	21.8
1999-2000	17.3	14.1	31.4	12.4	10.6	23.1	15.7	13.2	28.9
2000-01	20.1	16.4	36.5	10.2	7.7	18.0	23.2	21.5	45.0
2001-02#	20.7	20.6	41.3	12.8	13.6	26.4	26.0	28.5	54.5

* Stocks are at end-March. @ includes coarse cereals.
\# Data on procurement are up to end-March, 2002 while those on off-take and stocks are up to February, 2002.
Source : Ministry of Food, Consumer Affairs and Public Distribution, Government of India.

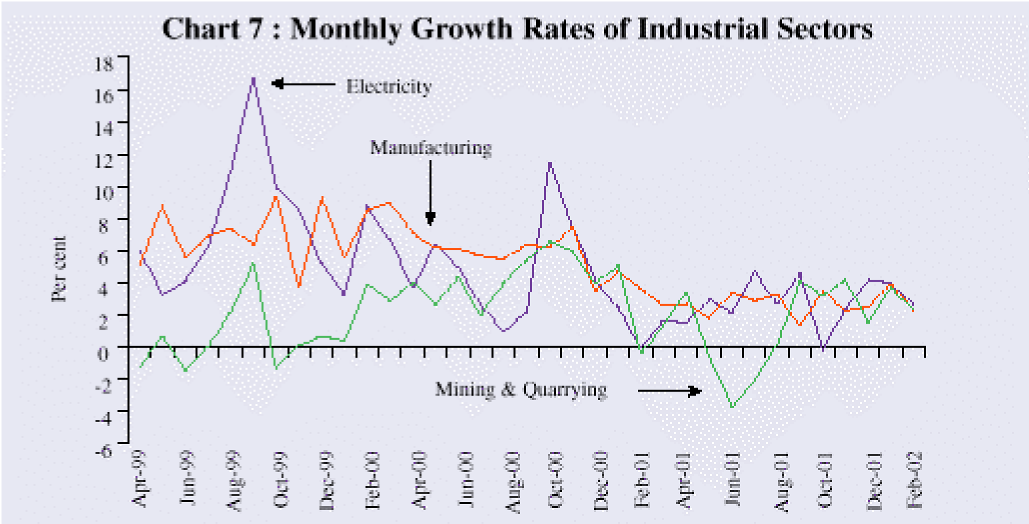


Industrial Performance

The downturn in the real GDP originating from industry experienced since the first quarter of 2000-01 continued in 2001-02 although there was a marginal improvement in the growth rate in the third quarter of 2001-02 to 2.9 per cent from 2.2 per cent in the first quarter and 2.4 per cent in the second quarter (Table 2). The pronounced deceleration in industrial performance is also reflected in the Index of Industrial Production (IIP) which rose by 2.6 per cent during 2001-02 (April-February) as compared with 5.4 per cent during the corresponding period of the previous year (Chart 6).

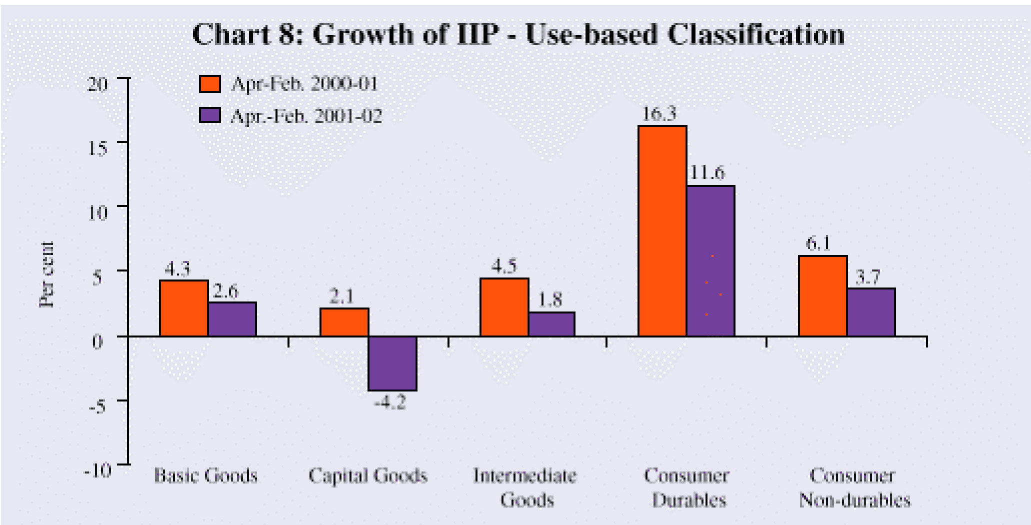


A sectoral analysis of industrial performance shows that the manufacturing sector recorded a decelerated growth in all the months of 2001-02 (up to February). Although electricity showed an increase during the second quarter of 2001-02, its growth rate decelerated during the third quarter mainly on account of a fall in electricity generation from the hydro sector. The mining and quarrying sector recorded a decline of 0.3 per cent during the first quarter of 2001-02. There was a moderate turnaround in the second and third quarters of 2001-02 with growth of 0.7 per cent and 2.9 per cent, respectively (Chart 7).



According to the use-based classification, the capital goods sector registered an absolute decline of 4.2 per cent during April-February 2001-02 as against a growth of 2.1 per cent during April-February 2000-01, reflecting weak investment demand in the economy (Chart 8). Some signs of recovery in the capital goods sector were observed with a positive growth in November 2001 (Chart 9); however, in December 2001 and January 2002, the capital goods sector again recorded declines of 4.1 per cent and 4.3 per cent, respectively, recovering in February 2002 with a positive growth of 1.6 per cent.

At a disaggregated level of industry groups within the manufacturing sector, five out of seventeen two-digit industry groups recorded declines, while six industry groups witnessed low growth ranging between 0 to 4 per cent. Growth in another three groups remained between 4.0 per cent to 10.0 per cent.



The three industry groups, which recorded growth of above 10 per cent during April-February

2001-02 were 'rubber, plastic, petroleum and coal products', 'beverages, tobacco and related products', and 'other manufacturing industries' (Table 6).

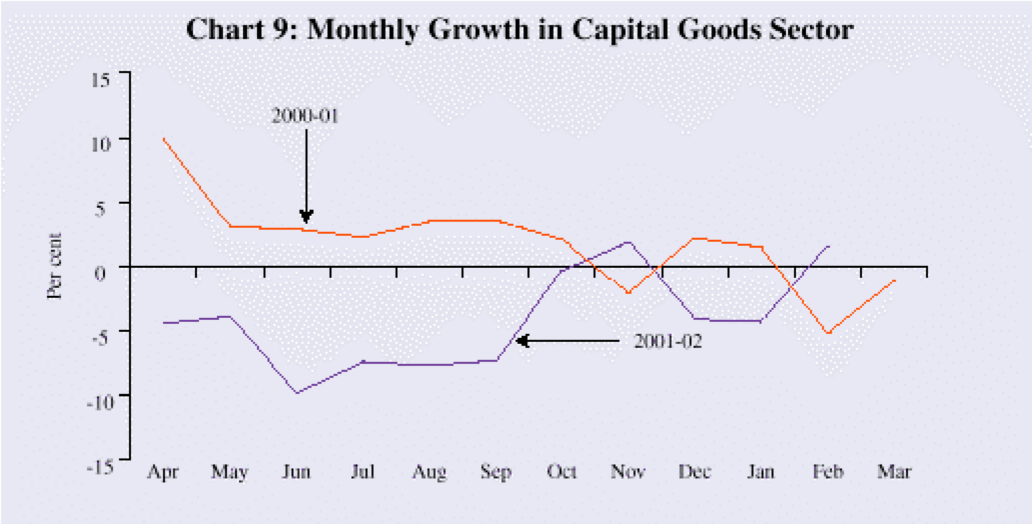


Table 6: Frequency Distribution of Industry Groups on the Basis of Growth Rates (April-February, 2001-02)

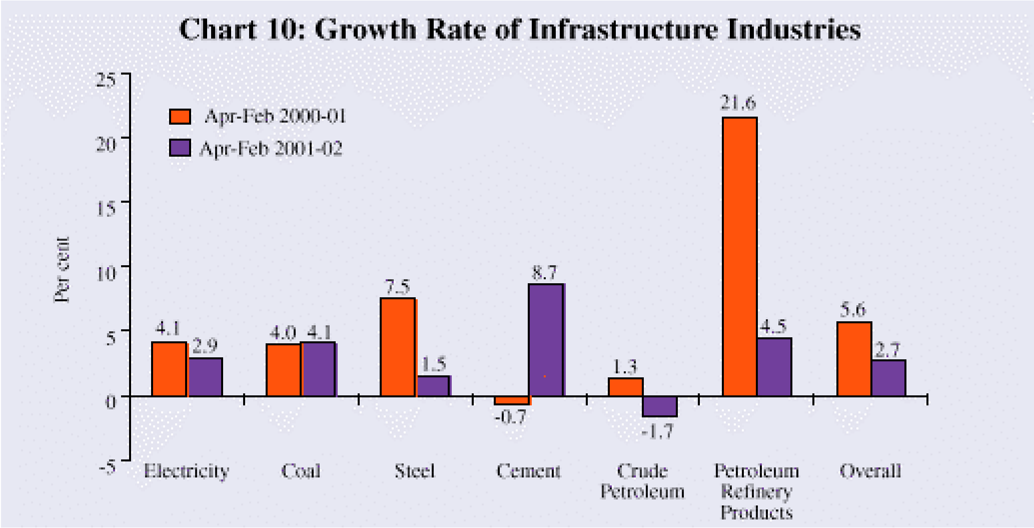
Negative	0 - 4 per cent	4 - 10 per cent	Above 10 per cent
1	2	3	4
1. Wood and wood Products, furniture & fixtures (2.70)	1. Machinery and equipment other than transport equipment (9.57)	1. Basic chemicals & chemical products (14.00)	1. Other Manufacturing industries (2.56)
2. Metal products and parts (except machinery and equipment) (2.81)	2. Non-metallic mineral products (4.40)	2. Transport equipment and parts (3.98)	2. Beverages, tobacco and related products (2.38)
3. Jute and other vegetable fibre, textiles (except cotton) (0.59)	3. Textile products (including wearing apparel) (2.54)	3. `Leather and leather & fur products (1.14)	3. Rubber, plastic, petroleum and coal products (5.73)
4. Cotton textiles (5.52)	4. Paper and paper products and printing, publishing & allied activities (2.65)		
5. Food products (9.08)	5. Basic metal and alloy industries (7.45)		

	6. Wool, silk and man made fibre textiles (2.26)

Note: Figures in brackets indicate weights in the IIP.

The infrastructure industries recorded a lower growth of 2.7 per cent during April-February 2001-02 as against 5.6 per cent during April-February 2000-01. Crude petroleum recorded a decline while electricity, steel and petroleum refinery products recorded lower growth than in the corresponding period of the previous year. Contrary to the general trend, cement and coal recorded a higher growth during April-February 2001-02 (Chart 10).

Reflecting the deceleration in industrial growth, the financial results of the Indian corporate sector during 2001-02 (up to September 2001) indicated a steep deceleration in sales and profits (Chart 11). Growth of sales and post-tax profits of a sample of 1,209 non-government non-financial public limited companies decelerated to 3.2 per cent and 4.1 per cent in the first half of 2001-02 from 15.3 per cent and 11.3 per cent (for 1,060 companies), respectively, in the corresponding period of the previous year.



The growth of non-food credit continued to be subdued in reflection of the behaviour of manufacturing output (Chart 12). Resource mobilisation through primary market and assistance sanctioned and disbursed by All India Financial Institutions (AIFIs) remained depressed during April-February 2001-02.

Chart 11: Growth Rate of Select Indicators of Corporate Performance

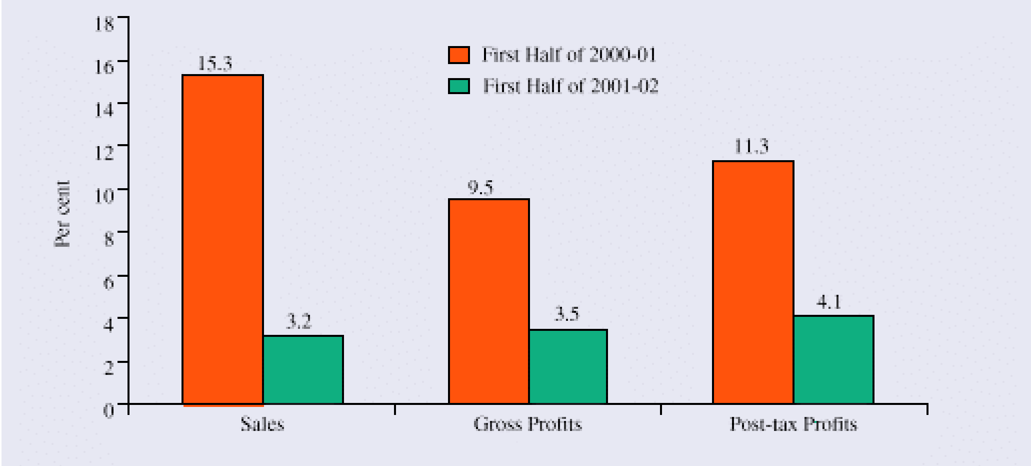
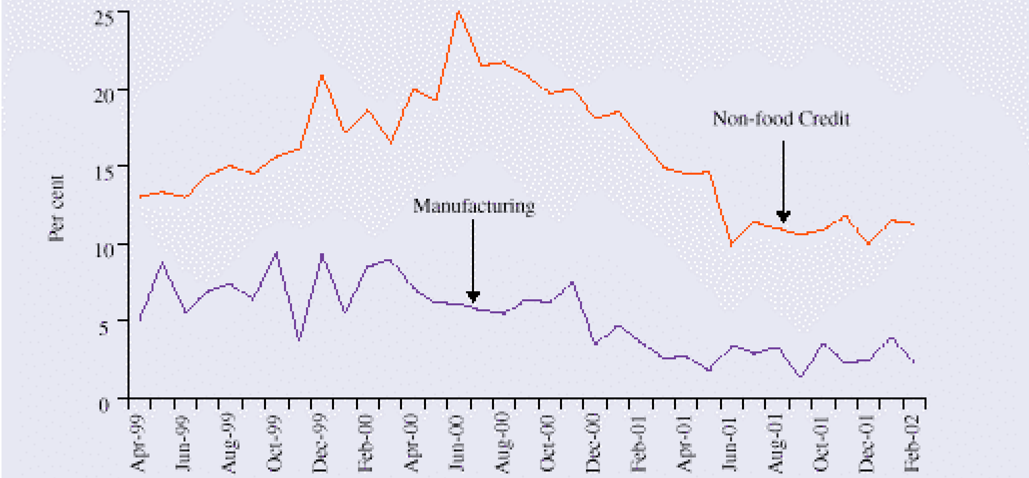


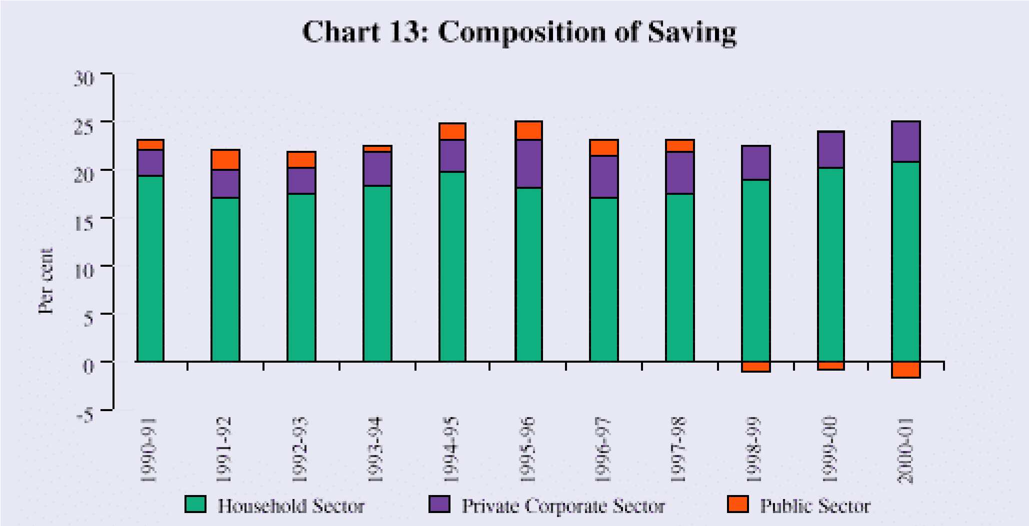
Chart 12: Monthly Growth of Manufacturing Sector and Non-Food Credit



Saving and Investment

According to the quick estimates released by the CSO, the rate of gross domestic saving improved marginally to 23.4 per cent in 2000-01 from 23.2 per cent recorded a year ago mainly on account of increases in the rate of household saving and private corporate sector saving. The household sector saving rate moved up to 20.9 per cent in 2000-01 from 20.3 per cent in 1999-2000 reflecting increased holdings of both financial and physical assets. The rate of saving of the private corporate sector also increased to 4.2 per cent in 2000-01 from 3.7 per cent in 1999-2000. The public sector dis-savings deteriorated to 1.7 per cent from 0.9 per cent in 1999-2000 and 1.0 per cent in 1998-99 (Chart 13).

The investment rate declined to 24.0 per cent in 2000-01 from 24.3 per cent in 1999-2000 (Chart 14). The overall saving-investment gap narrowed to (-)0.6 per cent of GDP in 2000-01 from (-)1.1 per cent of GDP in 1999-2000. While the public sector saving-investment gap widened to (-) 8.7 per cent of GDP in 2000-01 from (-) 8.0 per cent of GDP recorded in the previous year, the private sector surplus increased to 9.2 per cent of GDP from 7.9 per cent of GDP over the same period.



The final consumption expenditure, which had increased from 75.8 per cent of GDP in 1997-98 to 78.4 per cent of GDP in 1999-2000, decreased to 77.4 per cent of GDP in 2000-01. This reflected a fall in private final consumption expenditure from 65.6 per cent of GDP in 1999-2000 to 64.2 per cent in 2000-01. The government final consumption expenditure, on the other hand, recorded a steady increase (Table 7).

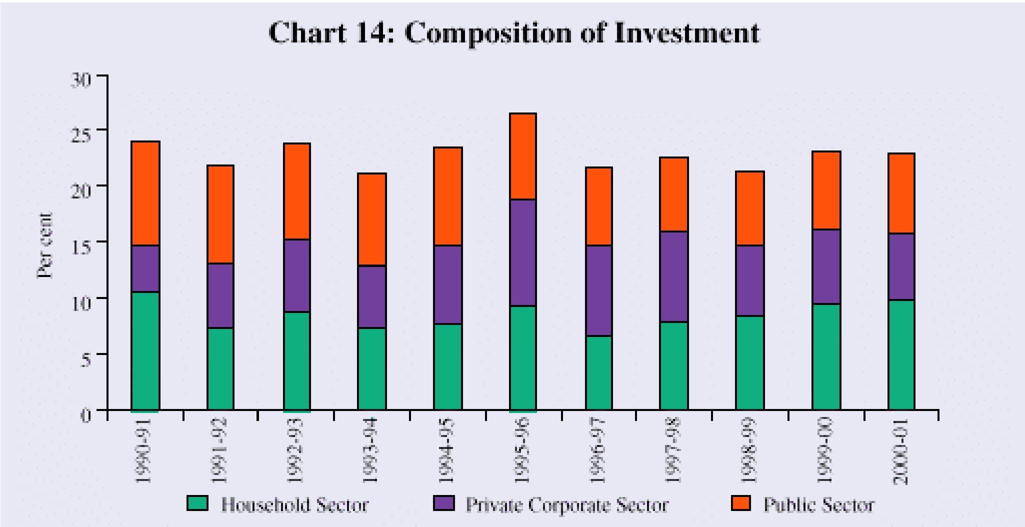


Table 7: Gross Domestic Saving and Investment

Item	Per cent of GDP (at current market prices)				Amount in Rupees crore			
	1997-98@	1998-99@	1999-00@	2000-01*	1997-98@	1998-99@	1999-00@	2000-01*
1	2	3	4	5	6	7	8	9
1. Household Saving	17.6	18.9	20.3	20.9	2,68,437	3,29,414	3,92,632	4,35,926

1.1) Financial Assets	9.6	10.5	10.8	11.0	1,46,777	1,82,958	2,07,538	2,28,862
1.2) Physical Assets	8.0	8.4	9.6	9.9	1,21,660	1,46,456	1,85,094	2,07,064
2. Private corporate sector	4.2	3.7	3.7	4.2	63,486	65,026	71,882	86,881
3. Public sector	1.3	-1.0	-0.9	-1.7	20,255	-17,169	-17,326	-34,479
4. Gross Domestic Saving (GDS)	23.1	21.7	23.2	23.4	3,52,178	3,77,271	4,47,188	4,88,328
5. Net capital inflow	1.5	1.0	1.1	0.6	22,302	18,090	21,988	12,977
6. Gross Domestic Capital Formation (GDCF)	24.6	22.7	24.3	24.0	3,74,480	3,95,361	4,69,176	5,01,305
7. Total Consumption Expenditure	75.8	77.7	78.4	77.4	11,53,860	13,53,444	15,13,480	16,16,857
7.1) Private final consumption expenditure	64.5	65.4	65.6	64.2	9,81,671	11,39,411	12,65,349	13,40,962
7.2) Government final consumption expenditure	11.3	12.3	12.9	13.2	1,72,189	2,14,033	2,48,131	2,75,895
Memo Items Saving-Investment gap (4-6)	-1.5	-1.0	-1.1	-0.6	-22,302	-18,090	-21,988	-12,977
Public Sector	-5.3	-7.6	-8.0	-8.7	-80,398	-1,31,714	-1,54,996	-1,82,585
Private Sector	5.8	7.9	7.9	9.2	88,864	1,36,776	1,53,033	1,92,721
Private Corporate Sector	-3.8	-2.7	-2.8	-1.7	-57,913	-46,182	-54,505	-36,141
Household Sector	9.6	10.5	10.8	11.0	1,46,777	1,82,958	2,07,538	2,28,862

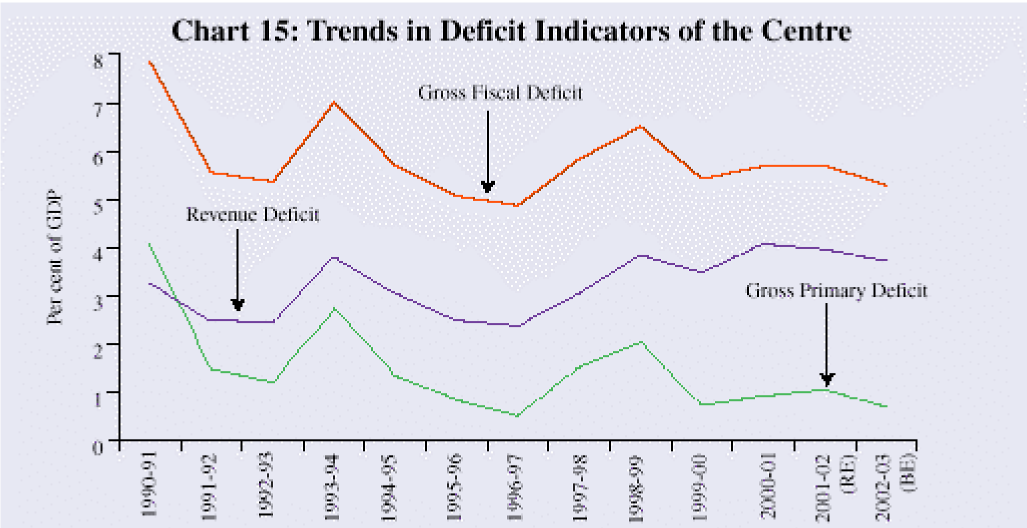
@ Provisional Estimates. * Quick Estimates.
Source : Central Statistical Organisation.

II. Fisсal Situation

Centre’s Fiscal Position

The Central Government budget for 2001-02 envisaged continued emphasis on fiscal consolidation. All the fiscal deficit indicators were budgeted lower than the previous year’s levels. The gross fiscal deficit, revenue deficit and primary deficit of the Centre were projected at 4.7 per cent, 3.2 per cent and 0.2 per cent of GDP, respectively.

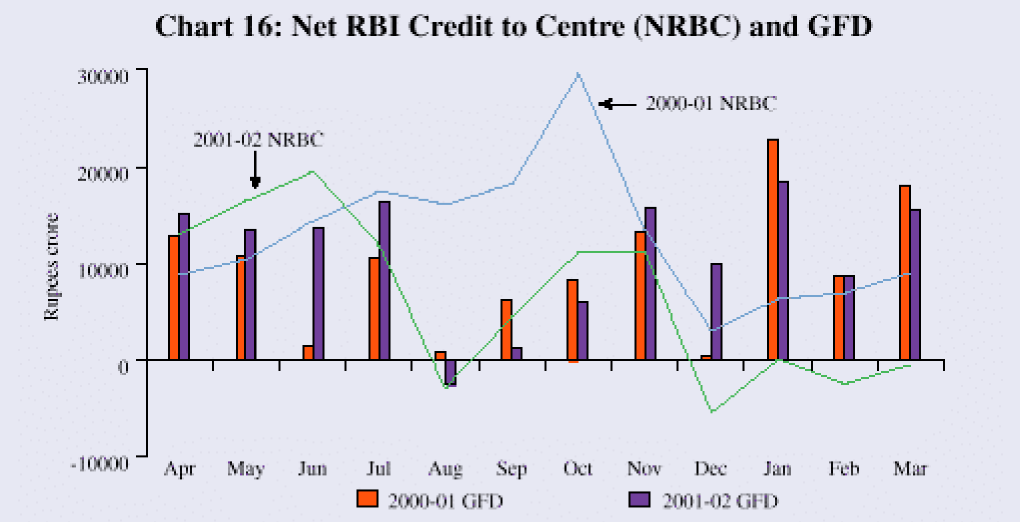
Despite the containment of expenditure, there was an increase in the deficit indicators in the revised estimates for 2001-02 due to shortfall in tax revenue and disinvestment receipts. The gross fiscal deficit (GFD) in the revised estimates for 2001-02 at Rs.1,31,721 crore surpassed the budgeted level of Rs.1,16,314 crore by 13.2 per cent, and at 5.7 per cent of GDP, it was higher by one percentage point over the budgeted level. The revenue deficit in the revised estimates for 2001-02 at Rs.91,733 crore exceeded the budgeted level of Rs.78,821 crore by 16.4 per cent and stood at 4.0 per cent of GDP as against the budgeted level of 3.2 per cent. The primary deficit was placed at Rs.24,464 crore (1.1 per cent of GDP) as against budget estimates of Rs.4,014 crore (0.2 per cent of GDP) (Chart 15).



Revenue receipts at Rs.2,12,572 crore in the revised estimates for 2001-02 were lower by 8.3 per cent than the budget estimates of Rs.2,31,745 crore. Tax revenue at Rs.1,42,348 crore declined by 12.7 per cent, while non-tax receipts registered an increase of 2.2 per cent over the budget estimates. Capital receipts at Rs.1,51,864 crore were higher by 5.8 per cent during 2001-02 than the budgeted level of Rs.1,43,478 crore. Among the non-debt capital receipts, recoveries of loans at Rs.15,143 crore were marginally lower than the budgeted level. Realisation of receipts from disinvestment was Rs.5,000 crore as against the target of Rs.12,000 crore.

According to the revised estimates for 2001-02, the aggregate expenditure at Rs.3,64,436 crore was lower by 2.9 per cent than the budgeted level of Rs.3,75,223 crore as both the revenue expenditure and the capital expenditure declined by 2.0 per cent and 7.0 per cent, respectively, from the budget estimates. Plan expenditure (both revenue and capital taken together) rose by 4.3 per cent over the budgeted level, while non-Plan expenditure declined by 3.6 per cent.

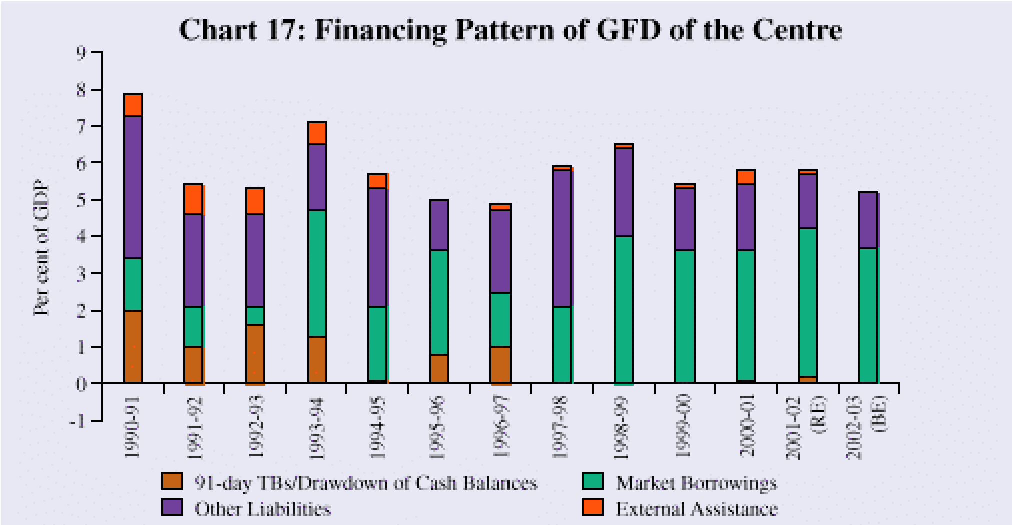
The average utilisation of WMA at Rs.7,137 crore was higher during 2001-02 than in the previous year (Rs.4,881 crore). The net Reserve Bank credit to the Centre during the fiscal year 2001-02, however, declined by Rs.506 crore (before closure of accounts) (Chart 16).



The Union Budget for 2002-03 projects all the major deficit indicators lower than the levels in the revised estimates for 2001-02 (as a proportion of GDP). In absolute terms, the GFD is budgeted at Rs.1,35,524 crore for 2002-03, higher by 2.9 per cent over the revised estimates of Rs.1,31,721 crore for 2001-02. As a proportion of GDP, the gross fiscal deficit for 2002-03 is placed lower at 5.3 per cent as against 5.7 per cent in the revised estimates for 2001-02.

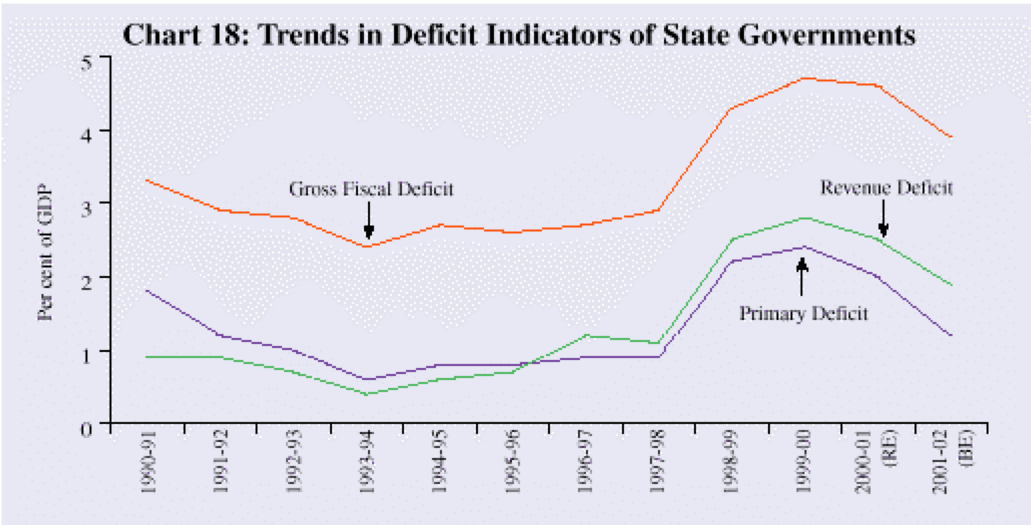
The revenue deficit is estimated to increase by 4.0 per cent to Rs.95,377 crore; as a proportion of GDP, it is expected to decline to 3.8 per cent of GDP from 4.0 per cent in the revised estimates for 2001-02. The primary deficit is projected at Rs.18,134 crore (0.7 per cent of GDP) as against Rs.24,464 crore (1.1 per cent of GDP) in 2001-02 (revised estimates). The process of fiscal consolidation during 2002-03 is envisaged through a higher growth in revenue receipts (15.3 per cent) and a relatively moderate growth in aggregate expenditure (12.6 per cent).

The financing pattern of GFD indicates that during 2002-03, net market borrowings at Rs.95,859 crore would finance 70.7 per cent of GFD, marginally higher than 69.4 per cent (Rs.91,480 crore) in the revised estimates for 2001-02. Financing through other liabilities would increase to 28.7 per cent from 26.1 per cent and external finance would contribute 0.6 per cent as against 1.6 per cent in the previous year (Chart 17).



State Finances

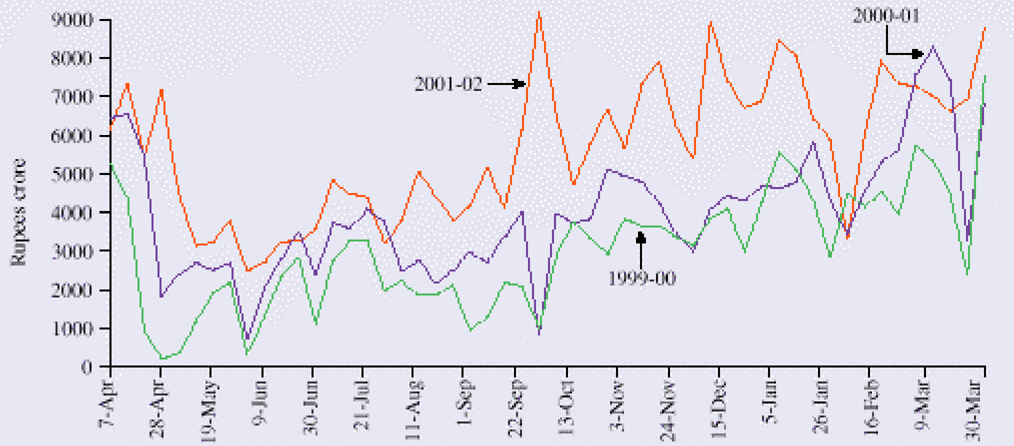
The finances of State Governments were budgeted to show an improvement during 2001-02 over the previous year. The revenue deficit for 2001-02 was budgeted lower at 1.9 per cent of GDP as compared with 2.5 per cent of GDP in the revised estimates for 2000-01. With the compression in revenue deficit, the gross fiscal deficit was also budgeted to decline from 4.6 per cent of GDP in 2000-01 to 3.9 per cent of GDP in 2001-02. The primary deficit was estimated at 1.2 per cent of GDP, lower by 0.8 percentage points than the previous year's level (Chart 18). The revenue receipts were budgeted higher by 14.2 per cent with States' own revenue receipts (tax revenue and non-tax revenue) expected to finance 53.0 per cent of the revenue expenditure and 43.9 per cent of the aggregate expenditure in 2001-02 as compared with 50.0 per cent and 41.1 per cent, respectively, in 2000-01 (revised estimates).



On the expenditure front, revenue expenditure continued to absorb a major portion of receipts. The non-developmental expenditure (revenue and capital) was estimated to show a higher growth of 17.2 per cent in 2001-02 as compared with 12.5 per cent in the previous year. The growth of developmental expenditure (revenue and capital) was estimated to decelerate from 19.6 per cent in 2000-01 to 4.7 per cent in 2001-02.

Details regarding the fiscal outturn of the State Governments during 2001-02 are not available. Available information on WMA/overdraft position of States, however, suggests continued pressure on the States' finances. The recourse to WMA from the Reserve Bank in 2001-02 was generally higher than that in the previous year. The outstanding WMA and overdrafts from the Reserve Bank at end-March 2002 were Rs.8,758 crore as against Rs.6,811 crore as at end-March 2001 (Chart 19). Overall, the cash management of the States showed that 20 States had resorted to overdraft during 2001-02 as against 19 States during 2000-01.

Chart 19: Outstanding WMA and Overdrafts to States (Weekly)



Note: The relevant date of weeks specified pertains to 2000-01: for other years it relates to corresponding weeks.

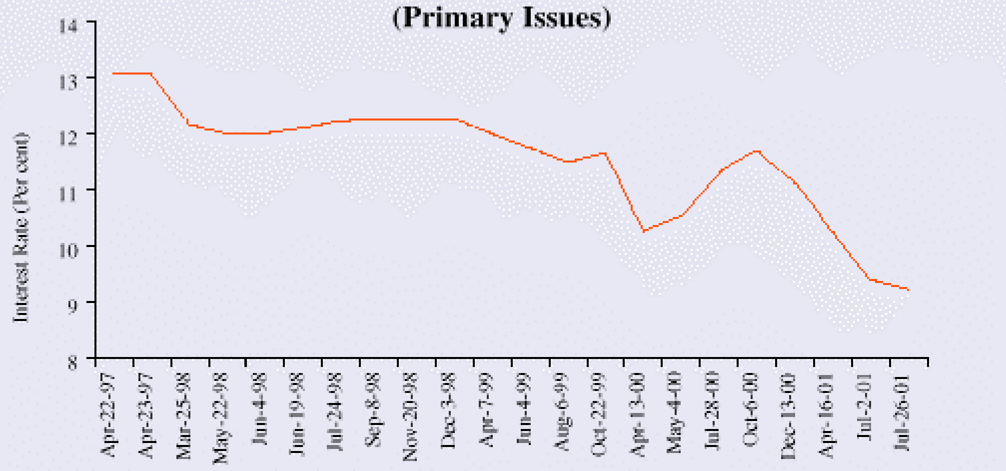
Fiscal consolidation and reforms at the State level have received considerable attention during recent years. Many of the States have proposed measures for fiscal reforms such as setting up consolidated sinking funds, expenditure review/reforms committees, guarantee redemption funds, placing statutory limits on guarantees, restructuring public sector undertakings and comprehensive rationalisation of posts in government offices.

Market Borrowing

According to the revised estimates for 2001-02, the gross and net market borrowings of the Central Government at Rs.1,32,979 crore and Rs.91,480 crore were 11.9 per cent and 18.3 per cent higher than the budgeted levels of Rs.1,18,852 crore and Rs.77,353 crore, respectively. The actual net market borrowings of the Central Government during the year 2001-02 amounted to Rs.92,302 crore. For the fiscal year 2002-03, gross and net market borrowings of the Central Government are budgeted to increase by 7.4 per cent and 4.8 per cent to Rs.1,42,867 crore and Rs.95,859 crore, respectively.

With a view to avoiding undue strain on yields, the Reserve Bank continued its practice of combining auctions with private placement. During the fiscal year 2001-02, the Reserve Bank took devolvement/private placement to the tune of Rs.28,892 crore. These were, however, more than offset by subsequent net open market sales amounting to Rs.30,335 crore. As a result, the net RBI credit to the Central Government declined by 0.3 per cent during 2001-02. Reflecting comfortable liquidity conditions, there was a persistent decline in the interest rates on market borrowings across the maturity spectrum during the year. For instance, the interest rate on primary issue of 10-year government securities declined from 10.25 per cent on April 12, 2001 to 9.22 per cent on July 25, 2001 (Chart 20). The yields in the secondary market declined to 7.36 per cent by end-March 2002 (Section V). Similarly, the cut-off yield in 91-day treasury bills auctions declined from 8.50 per cent on April 4, 2001 to 6.13 percent on March 27, 2002.

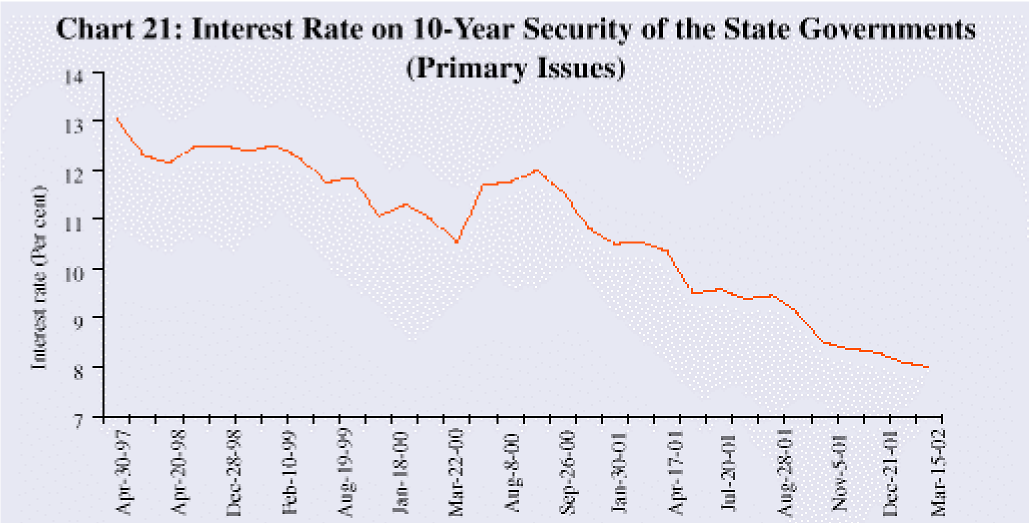
Chart 20: Interest Rate on 10-Year Security of the Central Government (Primary Issues)



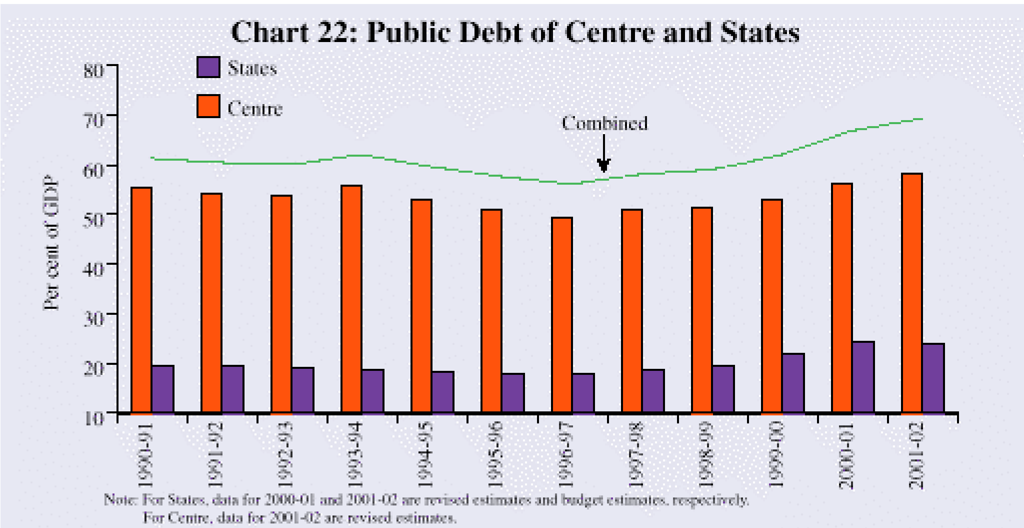
State Governments were allocated gross and net market borrowings of Rs.19,030 crore and Rs.17,583 crore, respectively, for the year 2001-02 which were higher by 43.1 per cent and 36.5 per cent, respectively, over the levels in the previous year. During the year 2001-02, an amount of Rs.18,707 crore constituting 98.3 per cent of gross market borrowings programme budgeted for the full fiscal year was raised through pre-announced fixed coupon tranches, tap method as well as through auctions. The interest rate on market borrowings of the State Governments showed a persistent declining trend during the year in tune with the interest rate on the Centre's market borrowings. The interest rate on primary issue of 10 year securities declined to 8.0 per cent on March 13, 2002 from 12.0 per cent on September 26, 2000 (Chart 21). The interest rate varied from 7.80 per cent to 10.53 per cent in 2001-02 as compared with 10.50 per cent to 12.00 per cent during 2000-01. The weighted average interest rate worked out to 9.20 per cent during 2001-02 as compared with 10.99 per cent in the previous year.

Public Debt

The Centre's debt-GDP ratio, which was 55.3 per cent at end-March 1991, recorded a significant consolidation over the first half of the 1990s and declined almost 6 percentage points to 49.4 per cent by end-March 1997. In the subsequent period, however, it increased to 56.4 per cent by end-March 2001 and is estimated at 58.1 per cent at end-March 2002 (Chart 22). The high level of public debt is mirrored in interest payments/GDP ratio which increased from 3.8 per cent during 1990-91 to 4.6 per cent by 2001-02.



As in the case of the Centre, the debt-GDP ratio of State Governments initially recorded an improvement, although modest, falling from 19.4 per cent at end-March 1991 to 17.8 per cent by end-March 1997; subsequently, the ratio increased significantly and was placed at 24.2 per cent at end-March 2001 in the revised estimates. According to the budget estimates of State Governments, the debt-GDP ratio is estimated at 23.9 per cent at end-March 2002. Concomitantly, the interest payments-GDP ratio of States rose from 1.5 per cent during 1990-91 to a budgeted level of 2.6 per cent during 2001-02.

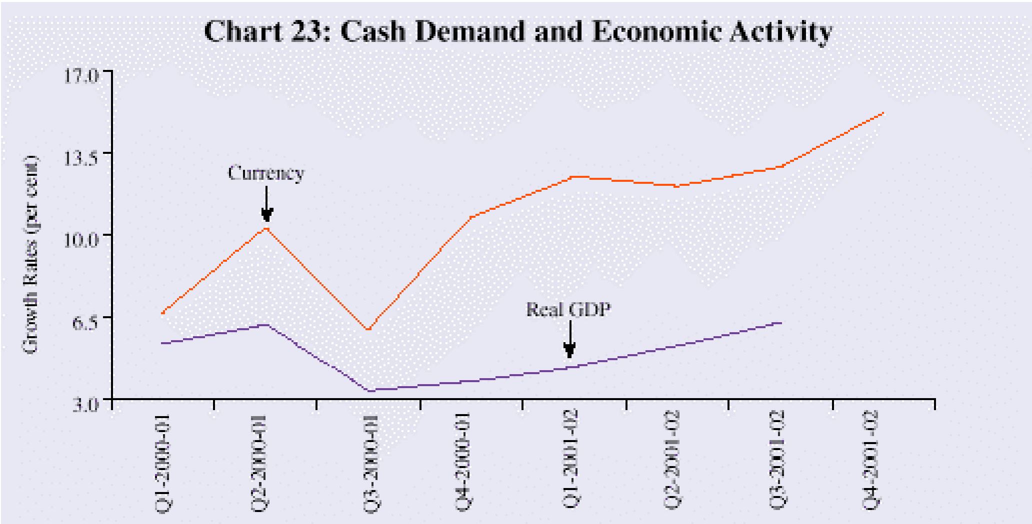


The combined debt of the Centre and States was placed at 69.7 per cent of GDP at end-March 2002, significantly higher than 56.5 per cent at end-March 1997. The sharp increase in the debt-GDP ratio in 2001-02 is mainly attributable to the increase in total liabilities of the Central Government. The continuing high level of public debt leads to increasing interest payments, which, in turn, necessitate higher market borrowings and put pressure on fiscal deficits.

III. Monetary and Liquidity Conditions

Monetary Trends

Broad money (M_3) increased by 14.0 per cent during 2001-02, on a point-to-point basis, as against 16.8 per cent (14.5 per cent, net of India Millennium Deposits (IMDs)) during 2000-01. Currency growth at 15.2 per cent during 2001-02 was higher than that of 10.8 per cent recorded during the previous year reflecting the modest pick-up in economic activity (Chart 23). Aggregate deposits increased by 13.9 per cent during 2001-02, which was lower than that of 15.3 per cent (net of IMDs) recorded during the previous year. The accretion to aggregate deposits was largely on account of time deposits of commercial banks which increased by 15.7 per cent (15.8 per cent, net of IMDs, in 2000-01). Demand deposits of the commercial banks, on the other hand, decelerated to 6.4 per cent from 11.9 per cent in 2000-01.



The broad money growth of 14.0 per cent was in alignment with the indicativeprojection of 14.5 per cent set out in the Monetary and Credit Policy Statement for 2001-02 (Table 8 and Chart 24). On a monthly average basis, the year-on-year M_3 (net of RIBs/IMDs) growth rate at 15.2 per cent during 2001-02 was almost the same as that of 15.0 per cent recorded during 2000-01.

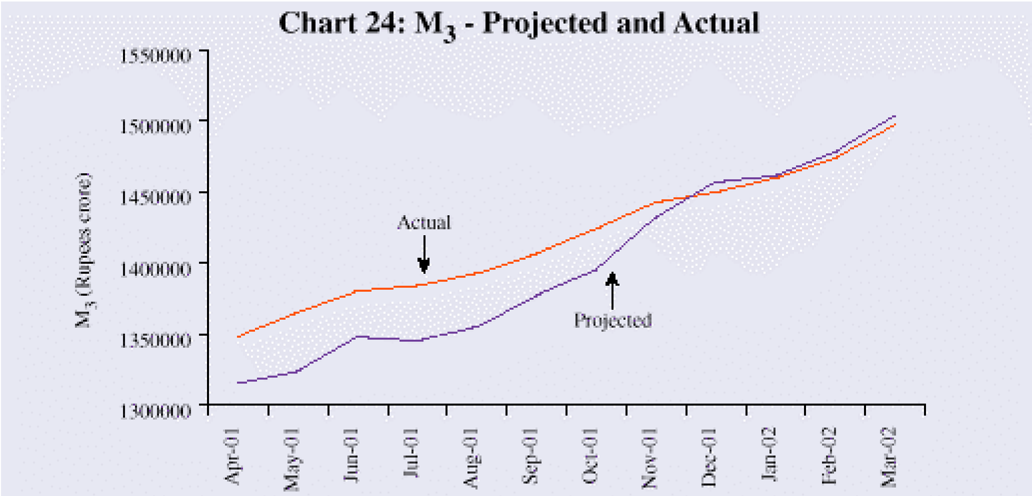


Table 8: Monetary Indicators

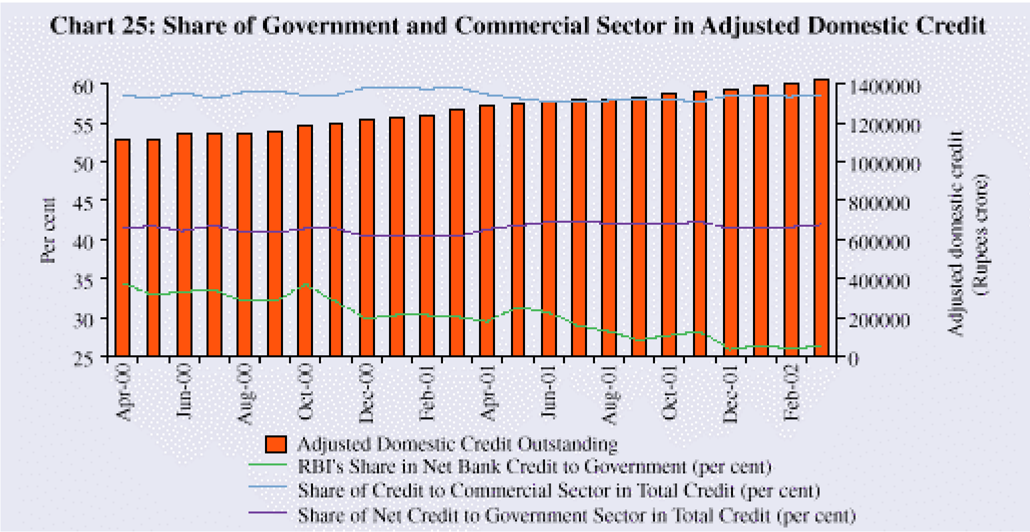
(Variation in per cent)

	Variable	Outstanding as on March 31, 2002 (Rupees crore)	Point-to-point basis		Monthly average basis	
			2000-01	2001-02	2000-01	2001-02
	1	2	3	4	5	6
1.	Reserve Money	3,37,825	8.1	11.4	7.8	11.1
2.	Narrow Money (M_1)	4,21,202	11.0	11.0	11.2	11.4
3.	Broad Money (M_3)	14,97,133	16.8	14.0	15.8	16.2
	a) M_3 net of IMDs and RIBs	14,53,526	14.8	14.5	15.0	15.2
4.	Major Components of Broad Money					
	a)Currency with the Public	2,41,441	10.8	15.2	9.2	12.7
	b)Aggregate Deposits	12,52,847	18.0	13.9	17.3	16.9
	Of which: Scheduled Commercial Banks' (SCBs') Aggregate Deposits (i+ii)	11,00,454	18.4	14.3	16.7	17.3
	i) SCBs' Demand Deposits	1,51,681	11.9	6.4	14.7	10.4
	ii) SCBs' Time Deposits	9,48,773	19.5	15.7	17.1	18.4
5.	Major Sources of Broad Money					
	a)Net Bank Credit to the Government (i+ii)	5,87,808	16.0	14.8	13.8	16.5
	i) Net Reserve Bank Credit to the Government	1,54,471	3.8	0.4	0.9	1.7
	Of which: to the Centre	1,46,028	4.8	-0.3	0.3	0.9
	ii) Other Banks' Credit to the Government	4,33,338	22.2	21.0	21.2	23.6
	b)Bank Credit to Commercial Sector	7,54,209	15.8	11.0	20.1	12.6
	Of which:					
	Scheduled commercial banks' credit	5,85,832	17.3	14.5	21.4	14.2
	Of which: Non-food Credit	5,31,854	14.9	12.8	19.7	11.7
	c)Net Foreign Exchange Assets of the Banking Sector	3,14,733	21.5	26.0	17.9	24.6

Data are provisional.
Figures pertaining to March 31, 2002 are before closure of the Government accounts.

Credit Trends

The growth in adjusted domestic credit (domestic credit inclusive of commercial banks' non-SLR investments) decelerated to 12.2 per cent during 2001-02 from 16.3 per cent during 2000-01. This was due to a deceleration in adjusted non-food credit off-take (11.6 per cent during 2001-02 as against 16.0 per cent in 2000-01) due to subdued industrial activity. Food credit increased by Rs.13,987 crore (35.0 per cent) during 2001-02 as against Rs.14,300 crore (55.7 per cent) during 2000-01. Net bank credit to the Government increased by 14.8 per cent during 2001-02, which was lower than that of 16.0 per cent during the previous year. The share of net bank credit to the Government was consistently around 42.0 per cent of adjusted domestic credit. The higher net bank credit to the Government was largely provided by commercial banks; the share of the Reserve Bank in outstanding net bank credit to the Government sector, on the other hand, declined from 30.1 per cent at end-March 2001 to 26.3 per cent at end-March 2002 (Chart 25).



New Monetary and Liquidity Aggregates

The new broad money aggregates (NM_3) [compiled on the basis of the recommendations of the Working Group on Money Supply: Analytics and Methodology of Compilation (Chairman: Dr. Y.V. Reddy)] registered a growth of 15.8 per cent as on February 22, 2002 as against an increase of 13.9 per cent a year ago. The trends in NM3, by and large, mirrored those of the existing broad money aggregates (M_3), netted for the IMDs. The three liquidity aggregates (L_1, L_2 and L_3) introduced along with new monetary aggregates suggest an increase in liquidity in the system during 2001-02 as compared with the previous year (Table 9).

Table 9: Select New Monetary and Liquidity Aggregates

(Rupees crore)

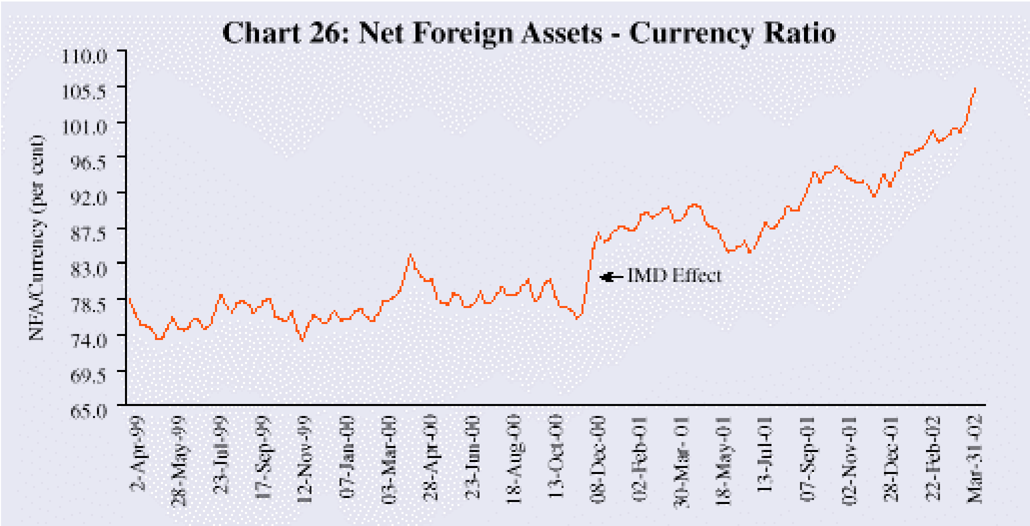
Aggregate	Definitional changes	Outstanding as at end-	Year-on-year variations (per cent)

		February 2002	2000-01	2001-02
1	2	3	4	5
NM_3	M_3– Non-resident repatriable foreign currency Fixed deposits + Non-bank call/term borrowings	13,97,814	13.9	15.8
L_1	NM_3 + Post Office deposits (excluding National Savings Certificates)	14,38,017	14.2	15.9
L_2	L_1 + Term deposits with term-lending and refinancing institutions (FIs) + Term borrowing by FIs + Certificates of deposit issued by FIs	14,49,645	14.4	15.7
L_3*	L_2 + Public deposits of NBFCs	14,37,053	14.2	14.7
Domestic Credit	Domestic credit (existing) + RBI's credit to NABARD + Banks' investments in all securities other than approved securities + Banks' net credit to primary dealers (PDs)	14,57,067	16.4	12.6
NFA of the Banking Sector	Net foreign assets (NFA) of the banking sector (existing) – Non-resident repatriable foreign currency fixed deposits – Banks' overseas foreign currency borrowing	2,12,093	23.7	30.2

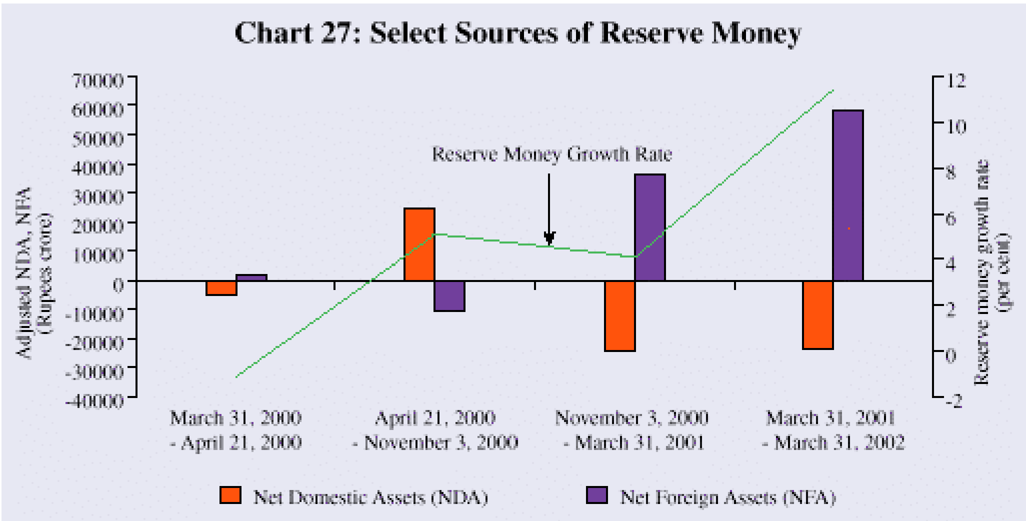
Data are provisional. * As at end-December 2001.

Reserve Money

Reserve money expansion during 2001-02 was 11.4 per cent (Rs.34,514 crore) as against 8.1 per cent (Rs.22,757 crore) during the previous year. The increase in reserve money was driven primarily by a steady accretion to the Reserve Bank's foreign currency assets which, net of revaluation, rose by Rs.55,836 crore during 2001-02 as against Rs.27,463 crore in 2000-01. The year-on-year expansion in reserve money was 12.9 per cent as on April 19, 2002 as against 9.7 per cent a year ago. The ratio of net foreign assets of the Reserve Bank to currency increased steadily during the year to reach 105.2 per cent as on March 31, 2002 (Chart 26).



The net domestic assets (NDA) of the Reserve Bank (adjusted for revaluation), on the other hand, declined by Rs.23,480 crore during 2001-02 on top of a decline of Rs.4,444 crore during the previous year (Chart 27).



All the major components of net domestic assets (NDA) recorded a decline. Although the Reserve Bank's subscription to the Centre's fresh dated securities amounted to Rs.28,892 crore (at face value), it was more than offset by net open market sales amounting to Rs.30,335 crore. As a result, the net Reserve Bank credit to the Central Government declined by 0.3 per cent during 2001-02 (before closure of the Government accounts) as against an increase of 4.8 per cent during 2000-01. Recourse to refinance by commercial banks and Primary Dealers also declined by Rs.2,119 crore and Rs.1,782 crore, respectively.

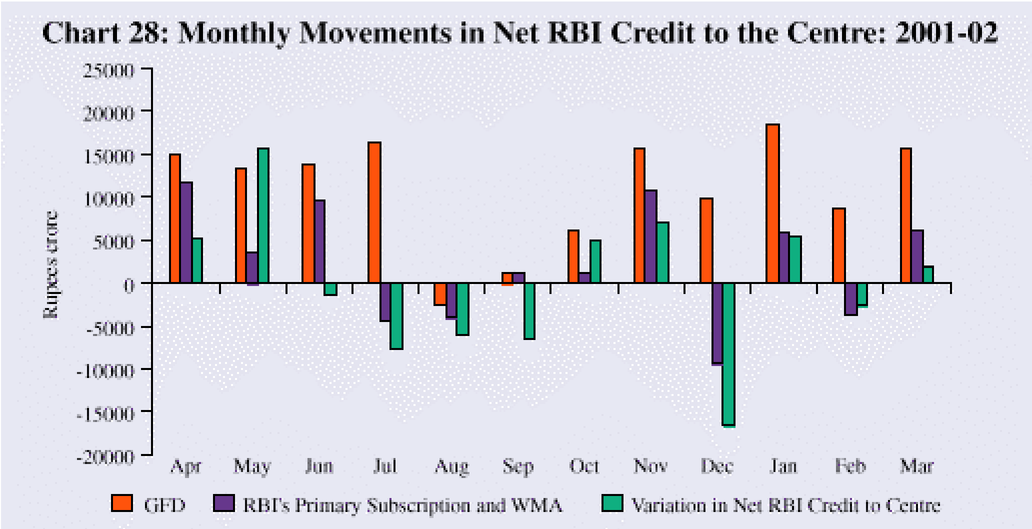
The Reserve Bank's net credit to the Centre can be viewed as a result of the interaction of direct monetisation of the fiscal deficit in terms of Reserve Bank's primary operations and strategic open market (including repo) operations, reflective of the Reserve Bank's assessment of the liquidity and absorptive capacity of the market rather than being passively determined by the budgetary gap, as was the case earlier (Table 10 and Chart 28).

Table 10: Net Reserve Bank Credit to the Centre: Variations

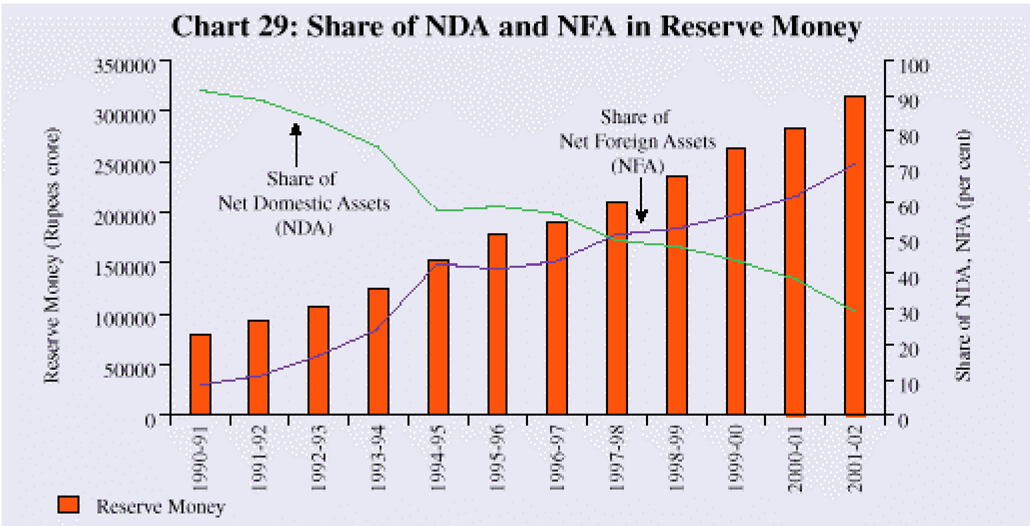
(Rupees crore)

Variable	2000-01	2001-02	June 29, 2001 over March 31, 2001	September 21, 2001 over June 29, 2001	December 28, 2001 over September 21, 2001	March 31, 2002 over December 28, 2001
1	2	3	4	5	6	7
Net Reserve Bank Credit to the Centre (1+2+3+4-5)	6,705 (4.8)	-506 (-0.3)	19,523 (13.3)	-20,140 (-12.1)	-4,770 (-3.3)	4,880 (3.5)
1. Loans and Advances	4,413	-219	3,619	-7,791	-1,223	5,176
2. Treasury Bills held by the Reserve Bank	-1,388	-464	-3	-480	0	18
3. Reserve Bank's holdings of Dated Securities	4,301	-2,223	13,150	-11,907	-3,529	63
4. Reserve Bank's holdings of Rupee Coins	-25	82	39	38	-18	24
5. Central Government Deposits	596	-2,319	-2,718	0	-1	400
*Memo Items**						
1. Market Borrowings of Dated Securities by the Centre #	1,00,183	1,14,213	46,000	31,000	24,000	13,213
2. Reserve Bank's Primary Subscription to Dated Securities	31,151	28,892	21,000	679	4,000	3,213
3. Repos (-) / Reverse Repos (+) (LAF), Net position	-1,355	-3,000	1,355	1,410	-1,160	-4,605
4. Net Open Market Sales #	19,218	30,335	10,929	13,985	5,273	148
5. Primary Operations	34,943	31,074	27,376	-7,074	2,759	8,013

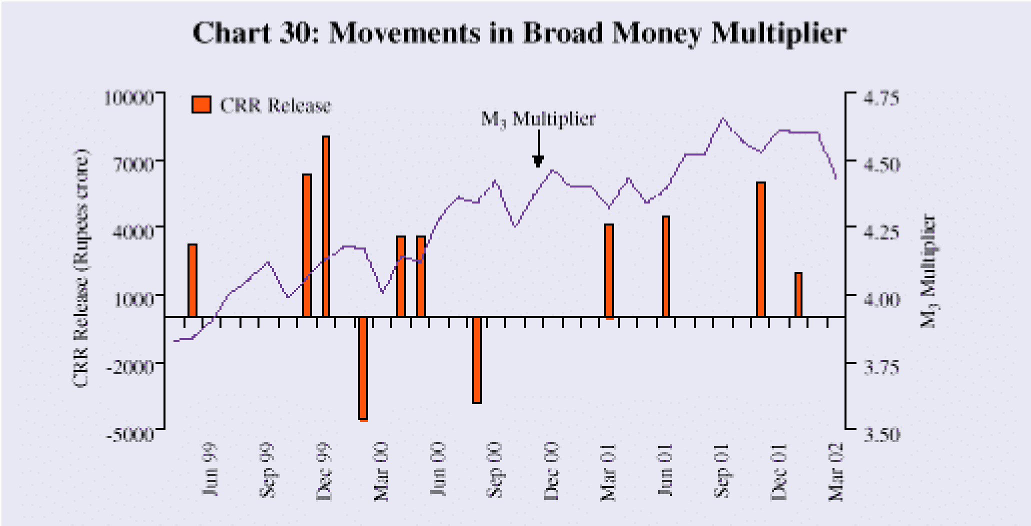
* At face value. # Excludes Treasury Bills. Figures in parentheses refer to percentage variations. Figures pertaining to March 31, 2002 are before closure of the Government accounts.



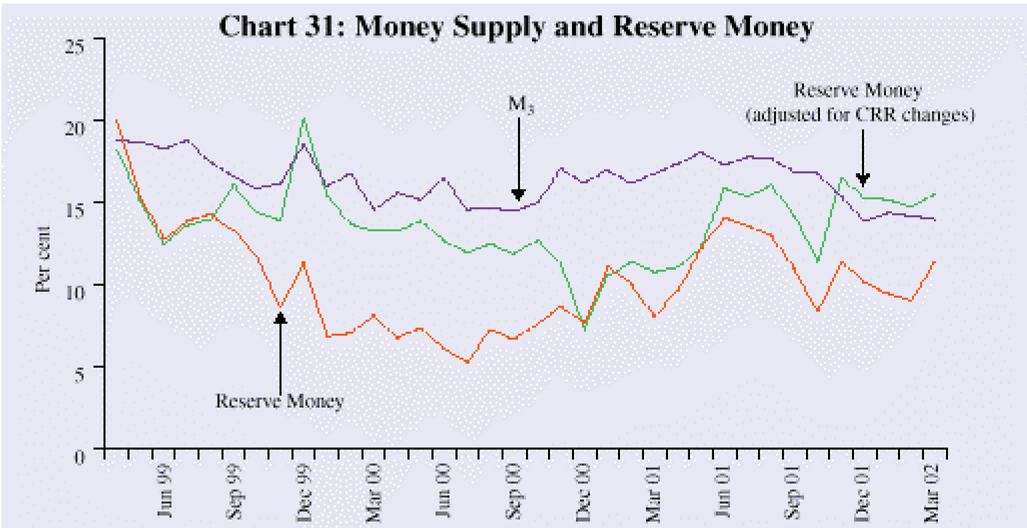
The net foreign exchange assets of the Reserve Bank formed only 8.5 per cent of the average outstanding reserve money in 1990-91. The proportion, however, increased sharply to 61.5 per cent by 2000-01 and further to 70.6 during 2001-02 with a corresponding decline in the share of net domestic assets (Chart 29).



The broad money multiplier increased from a monthly average of 4.3 in 2000-01 to 4.5 during 2001-02 reflecting reduction in the CRR (Chart 30).



Adjusted for the first round impact of CRR changes, the reserve money registered a year-on-year growth rate of 14.5 per cent, on a monthly average basis, during 2001-02, which was higher than that of 11.7 per cent during 2000-01 (Chart 31).



Liquidity Management

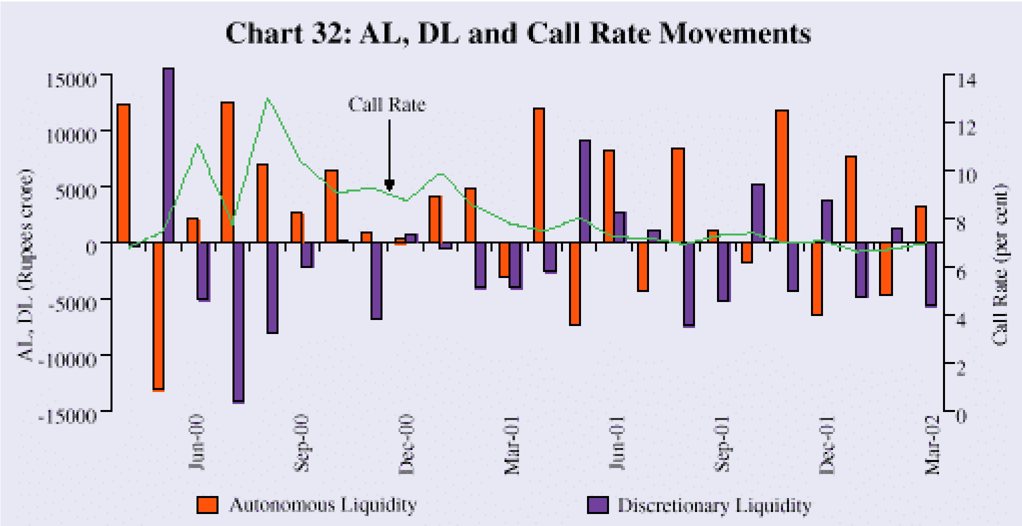
The shift from a regime of administered interest rates and direct credit control to indirect market-based monetary instruments in India has necessitated the institution of an efficient liquidity management framework that ensures stable financial market conditions. Most central banks attempt to estimate the market liquidity, autonomous of policy action, and then conduct money market operations to achieve a targeted quantum or price of liquidity or a combination of both depending upon the relative efficacy of monetary policy transmission channels (Table 11).

Table 11: Operating Procedures of Liquidity Management: Major Paradigms

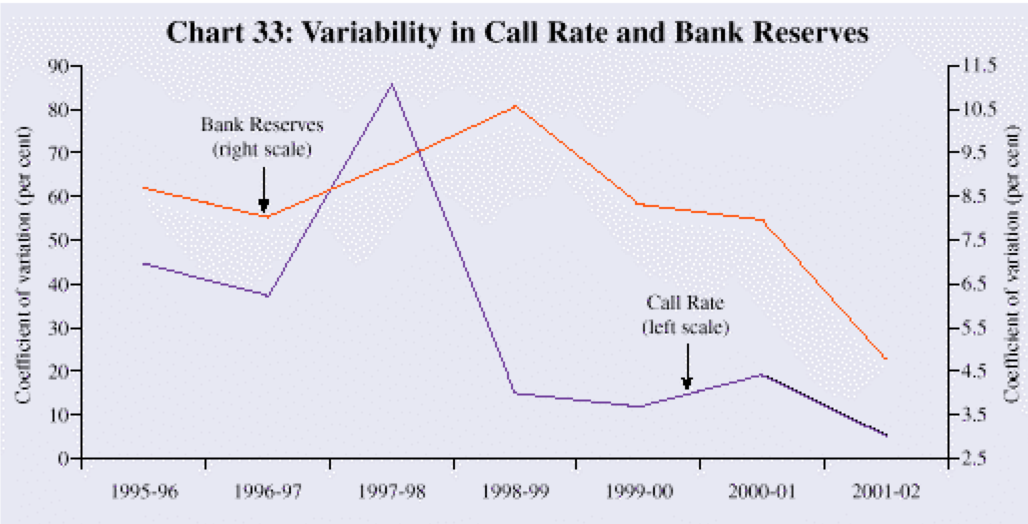
Central Bank/ Country	Operating Target	Dissemina-tion of estimate of Liquidity Forecast	Instruments	Frequency of Market Operations	Eligible Counter parties	Eligible Collateral
1	2	3	4	5	6	7
European Central Bank	No official operating target	Weekly	OMO, repos, marginal lending facility and deposit facility	One per week plus an additional one per month, on a regular basis	Credit institutions meeting certain operational requirements	Both marketable and non-marketable private and public instruments
Japan	Current account balances@	Daily	OMO, repos, comple-mentary lending facility	More than one per day	Major players in the market	Both private and public instruments
USA	Federal funds rate		Discount rate, OMO, repos, changes in required reserve ratios (rarely used)	Typically one per day	Primary dealers	Direct obligations of the government or those fully guaranteed by federal government agencies.

@ Effective March 2001, the Bank of Japan switched from its previous interest rate target (uncollateralised overnight call money rate) to the quantitative target (current account balances held by financial institutions at the Bank of Japan) in view of prevailing conditions.

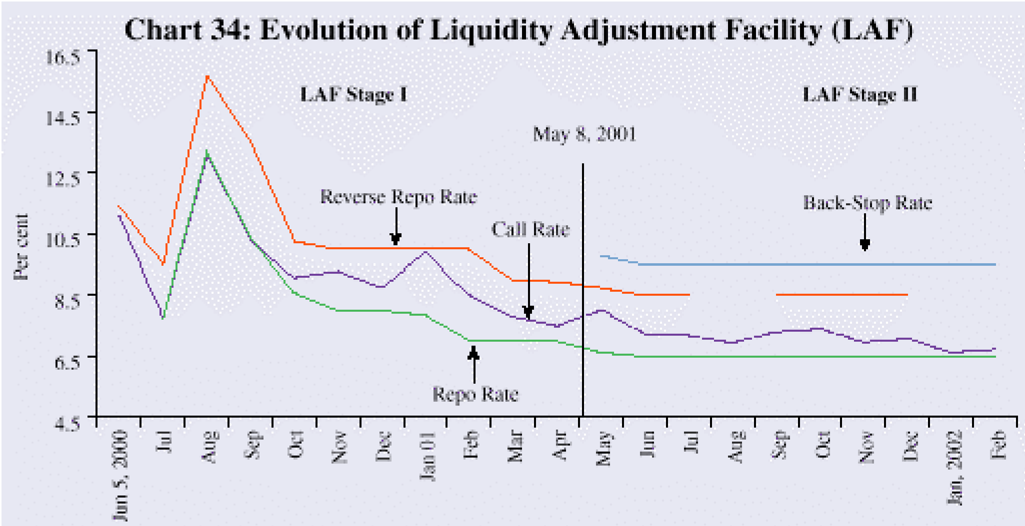
In line with the evolving international practices and keeping in view the characteristics of the Indian economy, the Reserve Bank has put in place a liquidity adjustment facility in which the liquidity in the system is modulated primarily through repo and reverse-repo operations. The repo operations are supplemented by open market operations (outright purchases/sales of government securities), changes in reserve requirements, access to the Reserve Bank's standing facilities and direct interest rate signals through changes in the Bank Rate/repo rates. Liquidity is modulated, to the extent feasible, by strategically counterbalancing autonomous liquidity (AL[1]) with changes in both the quantum and the price of discretionary liquidity (DL) in order to ensure stability in the money market conditions (Chart 32).



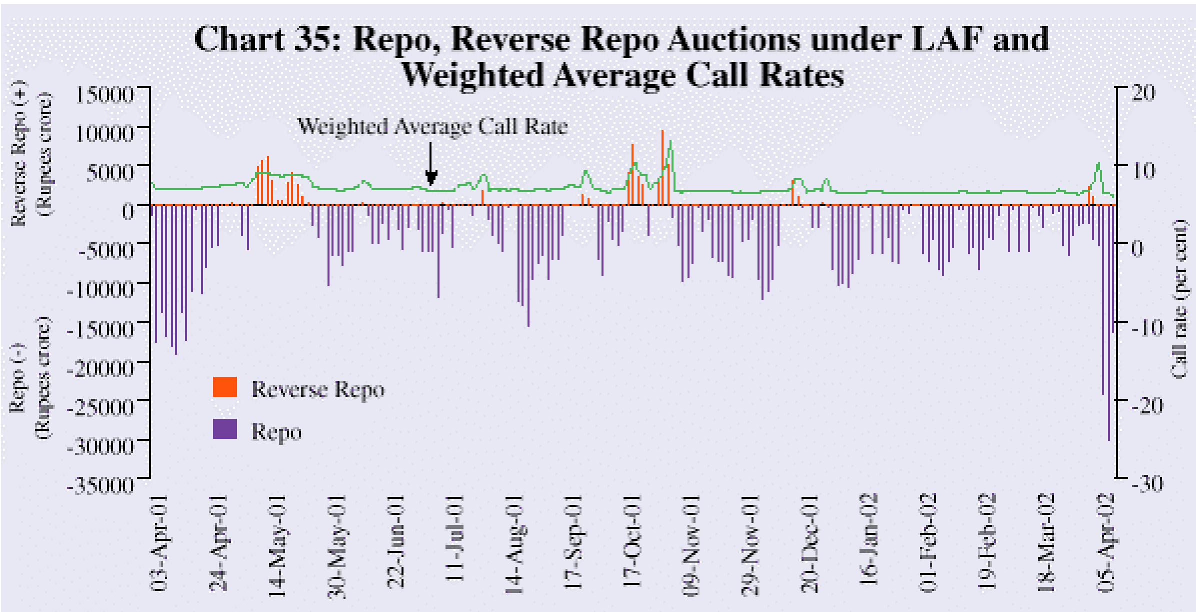
The volatility in the inter-bank call rates and bank reserves, as measured by the co-efficient of variation, has come down appreciably in recent years (Chart 33).



The liquidity adjustment facility (LAF), introduced since June 5, 2000, has emerged as an effective and flexible tool to modulate liquidity conditions on a day-to-day basis (Chart 34). While the Bank Rate provides the medium-term signal, the operation of LAF through repo and reverse repo rates in conjunction with all other operating instruments lends support to the direction of interest rates consistent with the monetary policy stance from time to time. The repo and reverse repo rates are expected to operate a flexible corridor around the Bank Rate. This enables the LAF operations to meet the system's mismatches in liquidity effectively and smoothens out aberrations in the short-term money market rates. The second stage of LAF with rationalisation of standing liquidity facilities, changes in the operating procedures and curtailment of call money lending by non-bank participants became effective in May 2001.



The liquidity conditions remained generally comfortable during 2001-02 prompting the Reserve Bank to absorb liquidity through repo operations. Injections of liquidity through reverse repos were, however, undertaken on a few occasions to manage temporary tightness in the money market (Chart 35).



The repo and reverse repo cut-off rates were reduced by 25 basis points to 6.75 per cent and 8.75 per cent, respectively, towards end-April 2001 signalling softer interest rate conditions. During the transitional period of switchover into the second stage of the LAF, monetary conditions were eased and a series of reverse repo injections were made during May 8-23, 2001 (averaging an outstanding amount of Rs. 3,340 crore) to stabilise the call money rates within an acceptable range. Repo and reverse repo cutoff rates were further reduced by 25 basis points each to 6.5 per cent and 8.5 per cent, respectively, during May-June 2001.

As monetary conditions eased, ample liquidity was available during the second half of 2001-02. A cut in the interest rate on small saving instrument in the Union Budget 2002-03 enabled the Reserve Bank to conduct a fixed rate repo auction at a lower cut-off rate of 6.0 per cent on March 5, 2002, which prevailed in the subsequent LAF auctions. The usual year-end tightening at end-March 2002 on account of balance sheet considerations and tax outflows was accommodated through liquidity injections by reverse repos.

The year 2002-03 commenced with a significant easing of liquidity conditions. This was reflected in higher repo bids received at the LAF auctions. The average daily repo outstanding amounted to Rs. 12,907 crore during the period April 2-16, 2002 with a peak repo outstanding amount of Rs. 30,055 crore recorded on April 4, 2002.

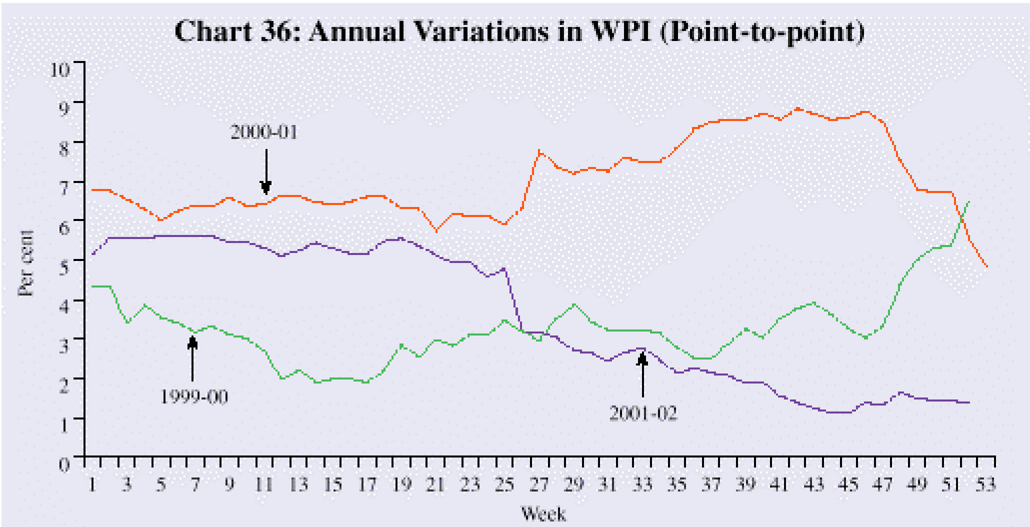
---

[1] AL = Reserve Bank's net claims on the Government (adjusted for net open market (including repo) operations) + Claims on banks (other than credit to scheduled commercial banks) + Credit to the commercial sector (other than credit to PDs) + Net foreign assets – Notes in circulation – 'Other' deposits – Net non-monetary liabilities, in flow terms.

DL = Net open market (including repo) operations + Credit to scheduled commercial banks and primary dealers netted for cumulative changes in reserve requirements, in flow terms.

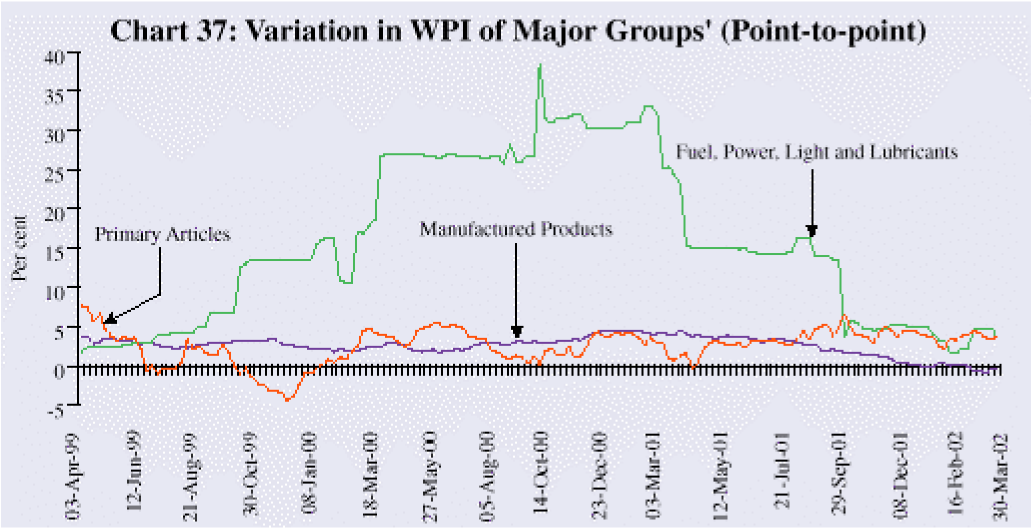
IV. Price Situation

The annual rate of inflation, measured on the basis of point-to-point variations in the wholesale price index (WPI), fell from above 5.0 per cent up to August 2001 to touch a low of 1.1 per cent on February 2, 2002, before ending the financial year 2001-02 at 1.4 per cent as compared with 4.9 per cent at the end of the previous year (Chart 36). On an average basis, WPI inflation ebbed during the year and stood at 3.6 per cent during 2001-02. At the retail level, the rate of inflation, as indicated by the consumer price index for industrial workers (CPI-IW), stood at 4.1 per cent during February 2002, on an annual average basis, close to that of the previous year.



Wholesale Price Inflation

On April 6, 2002, the annual point-to-point inflation rate was 1.3 per cent as compared with 5.1 per cent during the corresponding period of the previous year. An analysis of disaggregated data for the financial year 2001-02 indicates that, on a point-to-point basis, the annual fuel group inflation fell to 3.8 per cent in 2001-02 from 15.0 per cent during the previous year while 'manufacturing' inflation turned negative (-0.4 per cent) as against an increase of 3.8 per cent a year ago. The primary articles inflation accelerated to 3.8 per cent from a decline of 0.4 per cent during the same period (Chart 37).



Within the primary articles group, many commodities experienced moderation in inflation or even declines in prices; 'fruits and vegetables' were a notable exception with inflation increasing to 14.7 per cent in 2001-02 from a decline of 2.9 per cent a year ago. Within the fuel group, mineral oils inflation fell to 1.1 per cent from 17.0 per cent during the previous year, while that of electricity fell to 9.2 per cent from 11.5 per cent over the same period.

In terms of analysis of commodity-wise inflation within the manufactures category, cement, electrical machinery, cotton textiles and man-made textiles witnessed negative inflation, on a point-to-point basis, of 4.3 per cent, 1.1 per cent, 6.6 per cent and 6.5 per cent, respectively, during 2001-02 as against price rises of 20.3 per cent, 11.8 per cent, 6.3 per cent and 2.0 per cent, respectively, during 2000-01. Sugar, *khandsari* and *gur* also recorded negative inflation of 3.2 per cent during 2001-02 on the top of a negative inflation of 6.1 per cent during 2000-01. Other items in the manufacturing group which experienced deceleration in inflation were fertilizers, chemical and chemical products, transport equipments and parts, non-electrical machinery and iron and steel. On the other hand, edible oils experienced increase in the inflation rate to 12.8 per cent during 2001-02 from that of (-) 4.8 per cent during the previous year (Table 12).

Table 12: Commodity-wise WPI Inflation

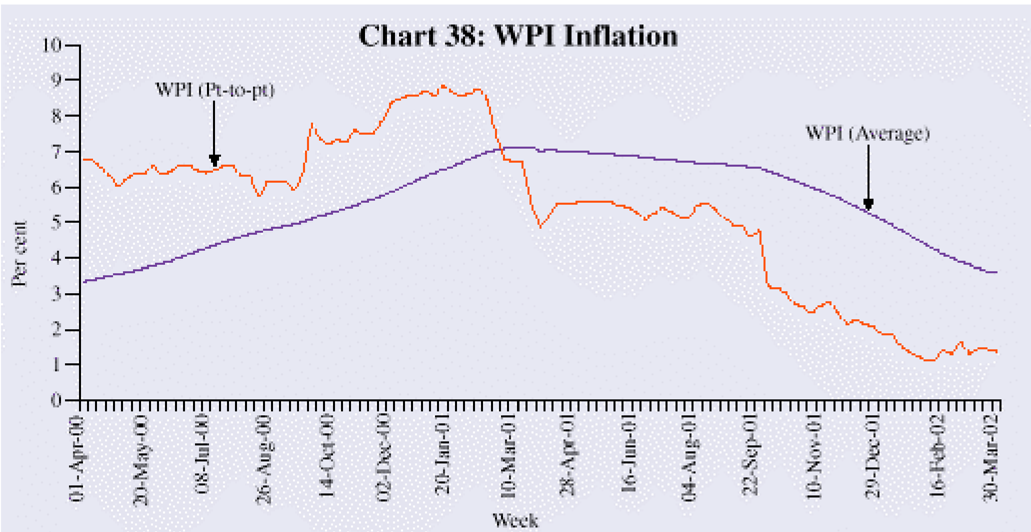
(Point-to-point basis)

Commodity		Weight	Annual Variation						
			1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02P
1		2	3	4	5	6	7	8	9
All Commodities		**100.0**	**4.4**	**5.4**	**4.5**	**5.3**	**6.5**	**4.9**	**1.4**
I)	**Primary Articles**	**22.0**	**3.1**	**9.2**	**4.6**	**7.6**	**4.00**	**-0.4**	**3.8**
i)	Cereals	4.4	5.2	15.9	-4.7	22.7	4.7	-5.5	0.8
ii)	Pulses	0.6	18.3	-1.3	5.2	0.1	10.7	7.1	-1.6
iii)	Fruits & Vegetables	2.9	18.5	9.1	5.8	2.6	-0.7	-2.9	14.7
iv)	Milk	4.4	2.7	6.4	7.0	8.1	15.8	0.4	2.8
v)	Eggs, Fish and Meat	2.2	4.2	23.2	3.6	4.1	10.1	-2.1	9.1
vi)	Condiments and Spices	0.7	22.1	-1.7	28.8	6.2	1.0	-13.8	2.5

	viii) Fibres	1.5	-16.6	-3.0	18.2	-6.3	-3.6	7.4	-17.6
	ix) Oilseeds	2.7	-4.7	4.4	3.7	4.9	-8.0	2.8	7.3
II)	**Fuel, Power, Light and Lubricants**	**14.2**	**5.1**	**13.3**	**13.7**	**3.3**	**26.7**	**15.0**	**3.8**
	i) Mineral Oils	7.00	0.2	20.8	13.5	-1.1	41.6	17.0	1.1
	ii) Electricity	5.5	12.5	4.5	13.7	9.6	15.1	11.5	9.2
	iii) Coal Mining	1.8	0.5	17.4	14.6	0.0	8.8	18.1	-1.6
III)	**Manufactured Products**	**63.8**	**4.7**	**2.4**	**2.3**	**4.9**	**2.4**	**3.8**	**-0.4**
	i) Sugar, *Khandsari* and Gur	3.9	3.7	11.2	6.3	14.6	2.9	-6.1	-3.2
	ii) Edible Oils	2.8	-6.0	1.0	6.9	12.7	-17.9	-4.8	12.8
	iii) Food Products	11.5	3.8	10.6	5.8	9.2	0.4	-3.7	0.5
	iv) Cotton Textiles	4.2	-5.1	-2.0	4.5	1.2	-1.9	6.3	-6.6
	v) Man-made Textiles	4.7	-1.4	-18.6	-2.7	-7.8	6.6	2.0	-6.5
	vi) Chemicals & Chemical Products	11.9	6.6	4.9	0.7	11.0	5.5	4.0	1.3
	vii) Fertilisers	3.7	7.1	4.9	0.0	4.0	8.7	3.4	1.8
	viii) Urea-N-Content	2.2	0.0	10.3	0.0	9.0	12.8	1.8	1.3
	ix) Cement	1.7	10.0	-6.9	-7.0	5.6	-0.7	20.3	-4.3
	x) Iron and Steel	3.6	5.2	7.0	4.6	0.9	1.4	1.3	0.0
	xi) Non-electrical Machinery	3.4	6.9	8.8	1.0	3.9	1.1	6.9	4.9
	xii) Electrical Machinery	5.0	2.0	-1.4	-3.5	-1.3	-1.9	11.8	-1.1
	xiii) Transport Equipment and parts	4.3	8.0	5.0	3.1	2.3	4.7	5.8	1.3

P Provisional.

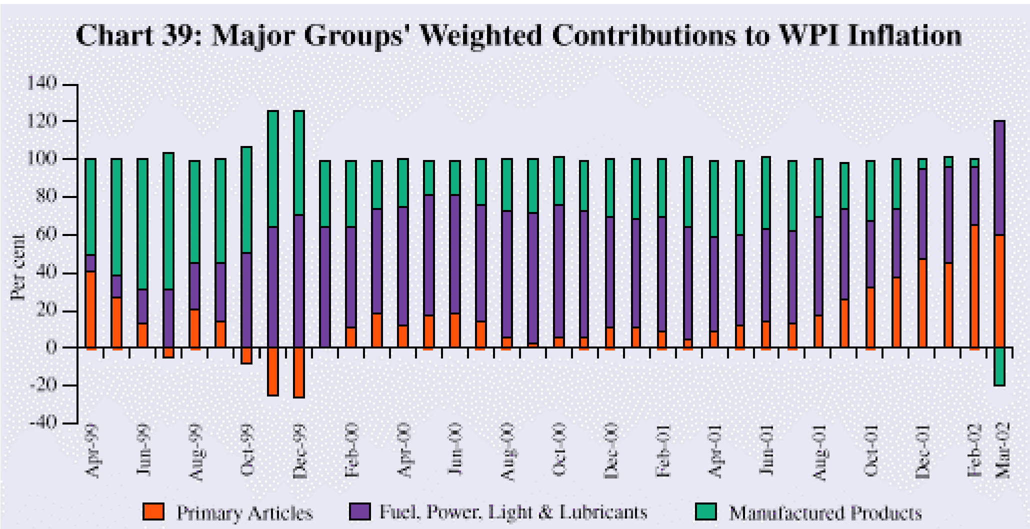
Inflation, measured on the basis of variation in the average wholesale price index – an indicator of underlying inflation conditions – persistently declined during 2001-02 (Chart 38).



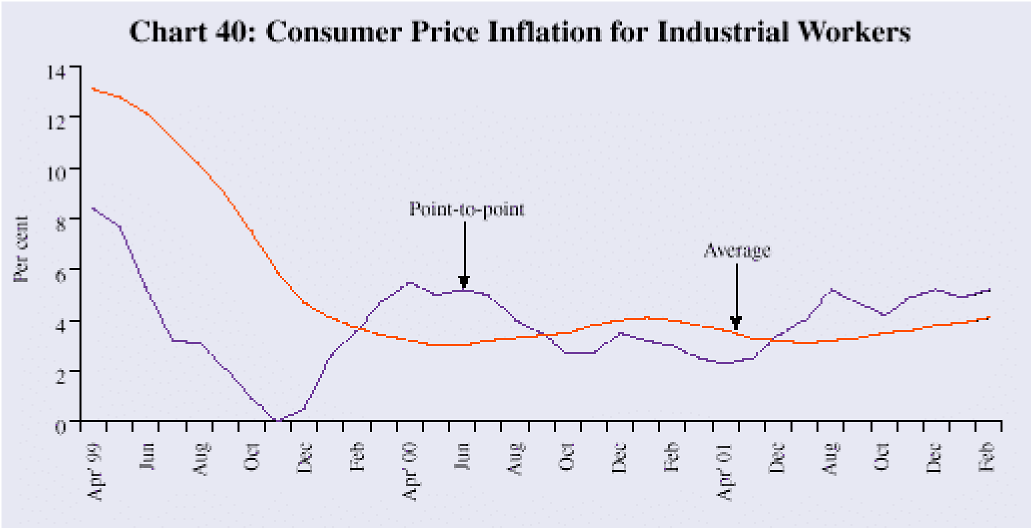
On an average basis, the WPI inflation rate was 3.6 per cent during 2001-02 as against 7.2 per cent during the previous year. The deceleration in the overall inflation was due to that of the fuel group and manufactured products groups which decelerated to 9.1 per cent and 1.8 per cent from 28.5 per cent and 3.3 per cent, respectively, during the previous year. The primary articles inflation, on the other hand, increased to 3.6 per cent from 2.9 per cent during the previous year. The weighted contribution of the fuel group in overall inflation decreased to 48.0 per cent from 63.1 per cent during the previous year; on the other hand, the contribution of the manufactured products groups increased marginally to 28.5 per cent from 27.6 per cent, while that of the primary articles group increased to 23.2 per cent from 9.7 per cent in the previous year (Chart 39).

Consumer Price Inflation

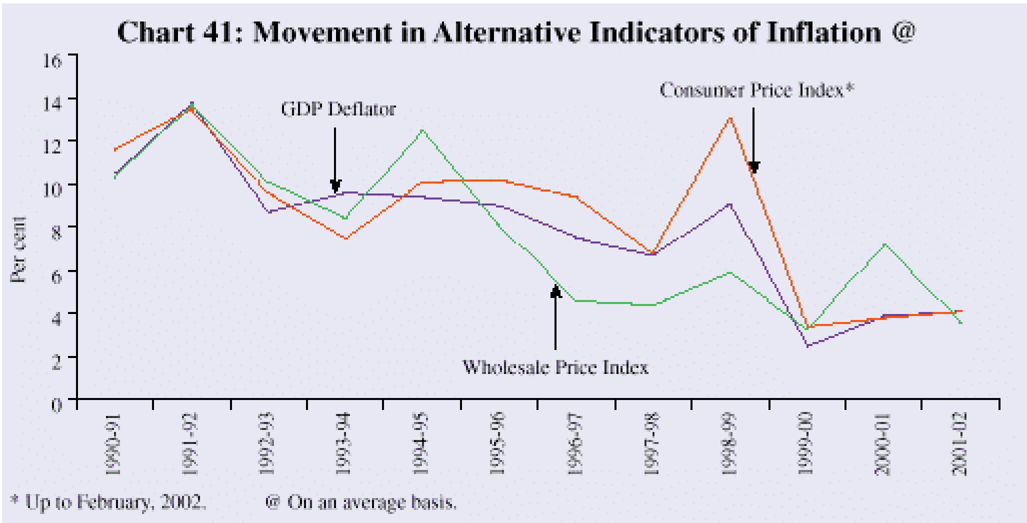
At the retail level, consumer price inflation as measured by the annual variation in the consumer price index for industrial workers (CPI-IW), on a point-to-point basis, increased to 5.2 per cent in February 2002 from 3.0 per cent in February 2001. On an average basis, the annual CPI inflation rate at 4.1 per cent in February 2002 was almost the same as that of 4.0 per cent in February 2001 (Chart 40).



The average CPI-IW inflation at 4.1 per cent during 2001-02 (up to February) closely tracked the movements in the average WPI (4.0 per cent up to February). This is in contrast to the second half of the 1990s when CPI and WPI inflation often displayed divergent trends. During the first half of the 1990s, the three indicators of inflation - WPI, CPI and GDP deflator - indicated strong co-movement averaging 11.0 per cent, 10.5 per cent and 10.4 per cent, respectively. On the other hand, during the second half of the 1990s (1995-96 to 1999-2000), the WPI inflation fell significantly to an average of 5.3 per cent while the CPI inflation averaged 8.6 per cent, leading to a wedge between the two indicators.



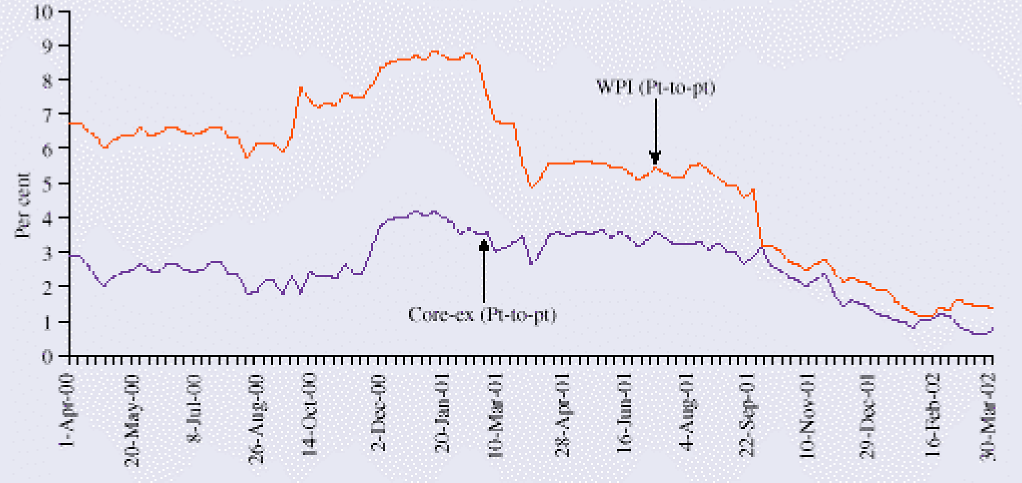
The inflation rate based on GDP deflator averaged 7.0 per cent during 1995-2000 ruling between inflation rates reflected by the CPI and WPI. During 2000-01, the pattern was reversed as WPI inflation exceeded the inflation rate based on the CPI as well as the GDP deflator (Chart 41).



Core Inflation

Headline measures of inflation are susceptible to exogenous influences like supply shocks/energy price shocks and may not fully reflect the changing/ shifting domestic demand conditions. Since formulation of forward looking monetary policy requires a proper assessment of the future inflationary outlook, central banks in recent period have been focusing on various measures of inflation excluding such exogenous shocks. These measures of inflation, called core inflation, can be constructed using alternative methodologies.

Chart 42: WPI Inflation and Core Inflation



In India, a measure of core inflation can be obtained by excluding the impact of price changes of items vulnerable to exogenous shocks whose prices are administered. Such administered items like fuel, mineral oils, electricity, coal mining and urea-N-content have a weightage of 16.4 per cent in the overall WPI. The inflation rate excluding such administered items remained below the headline point-to-point WPI inflation during the first half of 2001-02 on account of the base effects of price revisions in the administered prices of petroleum products effected during September 2000. In the second half of 2001-02, core inflation converged to the headline WPI inflation path reflecting the correction in the base effect. The core inflation, as defined above, was 0.8 per cent during 2001-02, on a point-to-point basis, as against the corresponding headline rate of 1.4 per cent (Chart 42). The loss of information content in the construction of such core inflation measures and the relatively greater public acceptability of headline measures make the former useful only as indicators of underlying inflationary process in the medium-term under normal output conditions rather than as policy targets.

V. Domestic Financial Markets

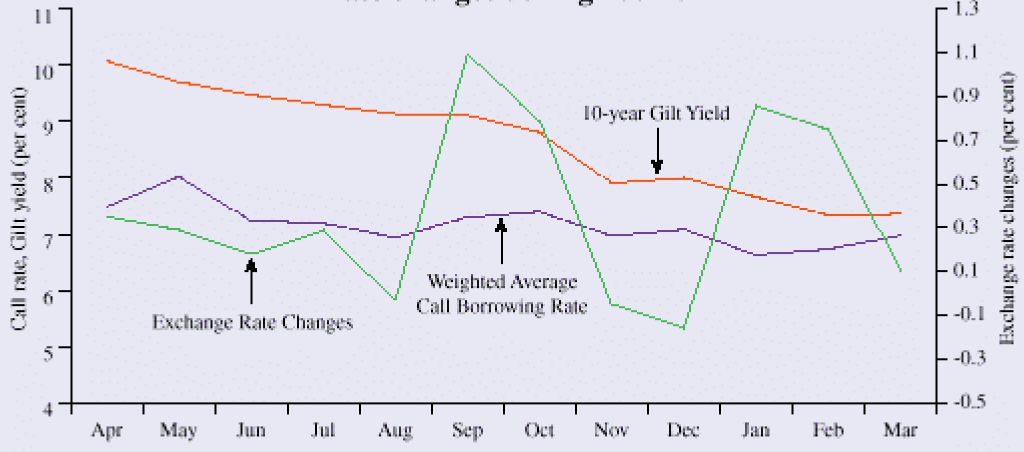
Financial markets remained relatively calm during the year except for brief spells of uncertainty during September and December 2001. Comfortable liquidity conditions necessitated active absorption through repos during a major part of the year with the need to inject liquidity through reverse repos arising only on very few instances to alleviate temporary market strain (Table 13). The switchover to the second stage of the LAF was smooth and the call money rates exhibited considerable stability. Monetary conditions were eased with sizeable reductions in the CRR and the Bank Rate. Accordingly, notwithstanding a high level of market borrowing by the Government, maintaining a softer interest rate environment became feasible. The interest rates softened across the spectrum during the year; for instance, secondary market 10-year gilt yields declined by 272 basis points between end-April 2001 and end-March 2002 (Chart 43). While the foreign exchange market was broadly stable, the capital markets remained depressed reflecting both global recession as well as domestic industrial slowdown. The Negotiated Dealing System (Phase I) was operationalised with effect from February 15, 2002 to facilitate electronic bidding in transactions in Government securities on real time basis for automatic settlement. The Clearing Corporation of India Limited (CCIL) also commenced its operations from February 15, 2002.

Table 13: Developments in the Money, Gilt, Foreign Exchange and Capital Markets, 2001-02

Month	Commercial Banks' Borrowings from the RBI* (Rs. crore)	Average Daily Inter-bank Foreign Exchange Turnover (US $ mn)	Turnover in Central Govt. Dated Securities Markets @ (Rs. crore)	Exchange Rate (Rs. per US Dollar)	RBI's Net Foreign Currency Sale(-)/ Purchase(+) (US $ mn)	Net OMO Sales(-)/ purchases (+) (Rs. crore)	Average Daily Repos (LAF) out-standing (Rs. crore)	Average Daily Reverse Repos (LAF) out-standing (Rs. crore)	Liquidity Support to PDs (as at end of the month) (l (Rs. crore)
1	2	3	4	5	6	7	8	9	10
2001									
April	5,843	4,914	1,14,534	46.78	-18	-5,064	10,968	169	2,533
May	4,772	4,936	1,89,026	46.92	469	-27	2,132	1,737	167
June	3,616	4,956	2,00,119	47.00	36	-5,837	2,458	45	2,061
July	6,440	4,742	2,15,157	47.14	-272	-5,092	2,350	200	622
Aug.	3,448	4,532	2,01,711	47.13		682 -10,263	3,243	0	45
Sep.	4,152	5,381	1,57,810	47.64	-894	3,905	1,139	233	1,789
Oct.	4,623	4,742	1,85,392	48.02	237	83	1,325	866	3,000
Nov.	2,782	4,482	2,34,088	47.99	1,542	-26	4,553	845	120
Dec.	6,986	4,493	1,67,066	47.92	1,040	-7,865	2,469	166	3,135
2002									
Jan.	3,971	4,776	2,50,675	48.33	1,391	-84	4,821	0	1,339
Feb.	4,198	5,081	2,36,526	48.69	567	-27	3,590	2	2,799
March	3,616	5,268	1,24,906	48.74	2,282	-37	2,986	370	2,926

* Outstanding as on last reporting Friday of the month. @ Outr

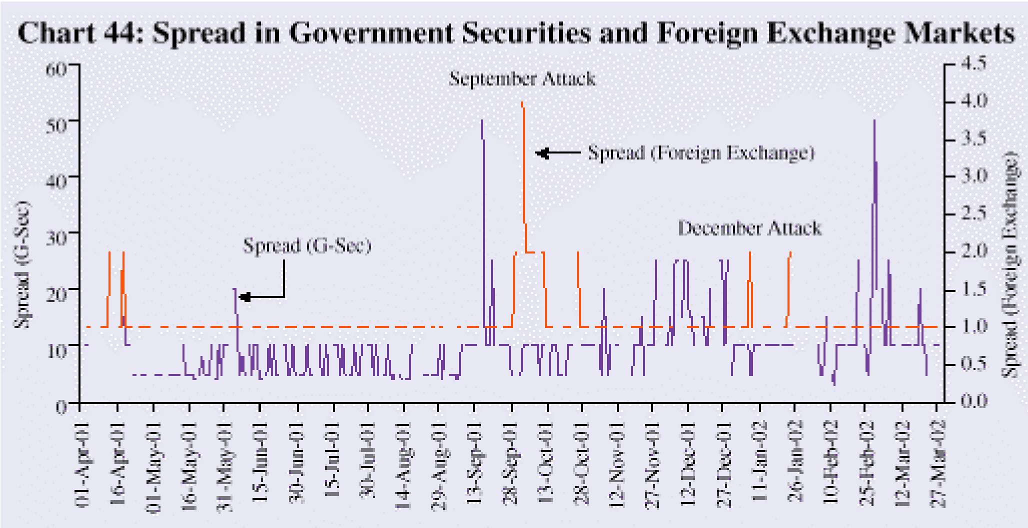
Chart 43: Average Call Rate, Secondary Market Gilt Yield and Exchange Rate changes during 2001-02

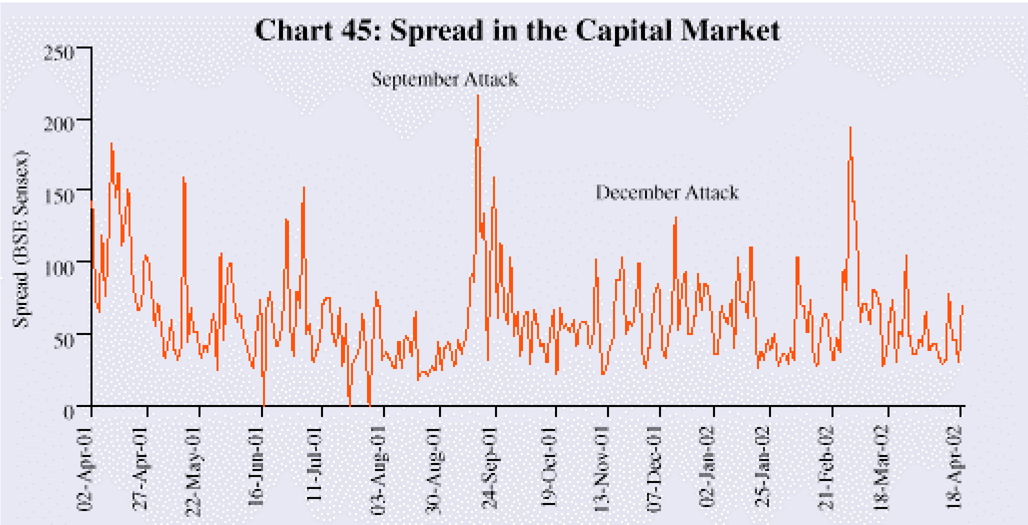


The liquidity conditions remained comfortable up to August 2001 buoyed by accretion to time deposits, low credit off-take, redemption receipts and coupon inflows. The call money rates remained well within the repo-reverse repo corridor during most of the period. The gilt segment was driven by buoyant sentiment, marked by strong rallies as the Central Government's borrowing programme was launched.

Adverse sentiment following the September 11, 2001 event affected the gilt, foreign exchange and capital markets due to its likely impact on FII inflows. The bid-ask spreads in the government securities and foreign exchange markets and the intra-day high-low spreads in the equity markets widened in September 2001 due to market uncertainties (Charts 44 and 45).

In order to stabilise the domestic financial markets, the Reserve Bank undertook a series of measures during the period September 15-October 10, 2001. A continuity of the monetary policy stance of stable interest rates with adequate liquidity was assured. The Reserve Bank announced its readiness to sell foreign exchange if necessitated by the prevailing uncertainties. A series of open market purchases by the Reserve Bank aggregating Rs.5,084 crore were conducted to support the gilt market across the maturity spectrum. Furthermore, the banks were allowed to finance stock brokers for margin trading for an initial period of 60 days in actively traded scrips within the overall existing ceiling of banks' exposure to the capital market. A special financial package was announced for large value exports of six select products which were internationally competitive and had high value addition. Interest rates charged by scheduled commercial banks on pre-shipment and post-shipment rupee export credit were reduced by 1.0 percentage point for a period of six months (up to March 31, 2002, which has subsequently been extended by a period of six months). These measures had the desired effect of moderating possible panic reactions and reducing volatility in financial markets during September 2001.





Monetary conditions were further eased during the third quarter of 2001-02 with a cut of 200 basis points in the CRR to bring it to 5.5 per cent of net demand and time liabilities of scheduled commercial banks along with a withdrawal of all exemptions on total liabilities (except inter bank liabilities). The Bank Rate was cut by 50 basis points to 6.5 per cent. Reflecting the interest rate conditions and a cut in the interest rate on small savings instruments in the Union Budget 2002-03, the Reserve Bank reduced the repo rate by 50 basis points to 6.0 per cent in March 2002.

Credit Market

Domestic deposit rates of banks softened across all maturities in 2001-02, especially for deposits of maturity above three years. The interest rates on deposits of above 3-year maturity were reduced by 150-175 basis points in the case of public sector banks while those of foreign banks were cut by 50-100 basis points. There were, however, no comparable reductions in the prime lending rates (PLRs). The PLR of the public sector banks were reduced by only up to 50 basis points (Table 14).

Table 14 : Movements in Deposit and Lending Interest Rates

(Per cent)

Interest Rates	March 2001	July 2001	March 2002
1	2	3	4
1. **Domestic Deposit Rates**			
Public Sector Banks			
a) Up to 1 year	4.00-8.00	4.25-8.00	4.25-7.50
b) 1 year up to 3 years	8.00-9.50	7.75-9.50	7.25-8.50
c) Over 3 years	9.50-10.50	8.50-10.00	8.00-8.75
Private Sector Banks			
a) Up to 1 year	5.00-10.25	5.00-9.75	5.00-9.00
b) 1 year up to 3 years	8.75-11.00	8.25-10.50	8.00-9.50
c) Over 3 years	9.25-11.50	8.50-11.00	8.25-10.00
Foreign Banks			
a) Up to 1 year	4.25-10.00	4.25-10.00	4.25-9.75
b) 1 year up to 3 years	7.25-10.75	6.75-10.50	6.25-10.00
c) Over 3 years	7.25-10.50	7.25-10.50	6.25-10.00
2. **Prime Lending Rates**			
Public Sector Banks	10.00-13.00	10.00-12.50	10.00-12.50
Private Sector Banks	10.25-15.50	10.50-15.50	10.00-15.50
Foreign Banks	9.00-17.50	8.80-17.50	9.00-17.50
Five major SCBs	11.00-12.00	11.00-12.00	11.00-12.00
3. **Bank Rate**	7.00	7.00	6.5

One of the factors imparting downward rigidity to the interest rate structure is the administered interest rates on small saving. In order to provide flexibility, the Government has been bringing down these interest rates since January 01, 1999. Most administered interest rates were further reduced by 50 basis points from March 1, 2002 (Table 15). The Union Budget 2002-03 has also proposed to benchmark the administered interest rates to the average annual yields of government securities of equivalent maturities in the secondary market in future and the adjustments would henceforth be made annually on a non-discretionary automatic basis.

Table 15 : Administered Interest Rates on Select Small Saving Schemes

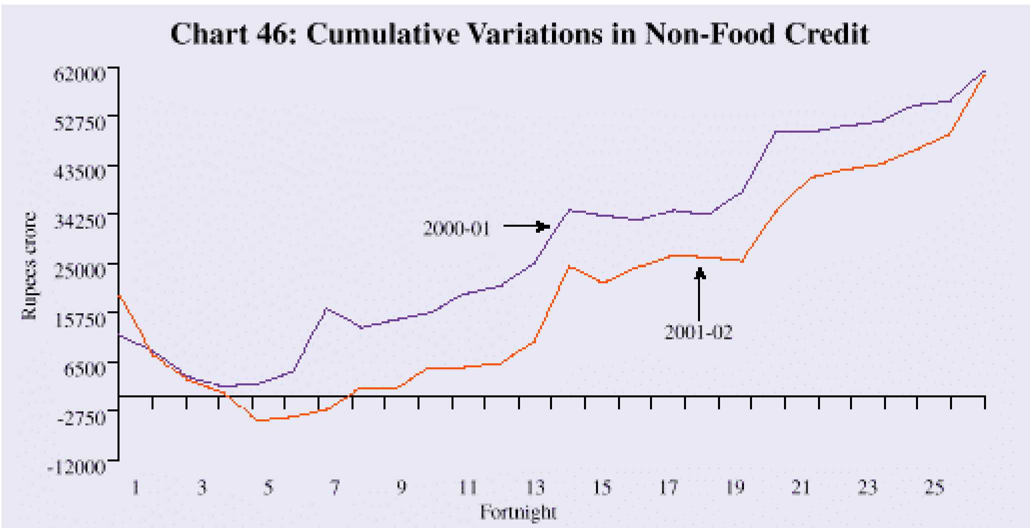
(Per cent)

Scheme	April 1991	April 1992	September 2,1993	January 1,1999	January 15,2000	March 1, 2001	March 1, 2002
1	2	3	4	5	6	7	8
1. Public Provident Fund 1968 (Maturity: 15 years)	12.00	12.00	12.00	12.0	11.00	9.5	9.0

2. NSC VIII Issue (Maturity: 6 years)	12.00	12.00	12.00	11.5	11.00	9.50	9.00
3. Post Office Time Deposit Account (Maturity: 1, 2, 3 and 5 years)	9.50 to 11.50	12.00 to 13.50	10.50 to 12.50	9.00 to 11.50	8.00 to 10.50	7.50 to 9.00	7.25 to 8.50
4. Kisan Vikas Patra # (Maturity: varied @)	13.43	14.87	13.43	12.25	11.25	10.03	9.46

Compounded interest rate
@ Maturity period was reduced from 5½ years (April 1991) to 5 years (April 1992) but was raised again to 5½ years (since September 2, 1993) and further to 6 years (since January 1, 1999), 6 ½ years (since January 15, 2000), 7 years 3 months (since March 1, 2001) and thereafter to 7 year 8 months (March 1, 2002 onwards).

Bank credit decelerated to 14.5 per cent during 2001-02 from 17.3 per cent during the corresponding period of the previous year. This reflected the deceleration in both non-food credit and food credit. There have been some indications of a pick-up in non-food credit off-take in the second half of the year since the end of September 2001 with the major part (Rs.50,129 crore) of the total incremental non-food credit (Rs.60,411 crore) during 2001-02 attributable to this period (Chart 46).



An analysis of the deployment of non-food gross bank credit of 49 select scheduled commercial banks during 2001-02 (up to February) shows that the slowdown of credit off-take in medium- and large-scale industry was the principal source of the overall slowdown of credit off-take (Table 16 and Chart 47).

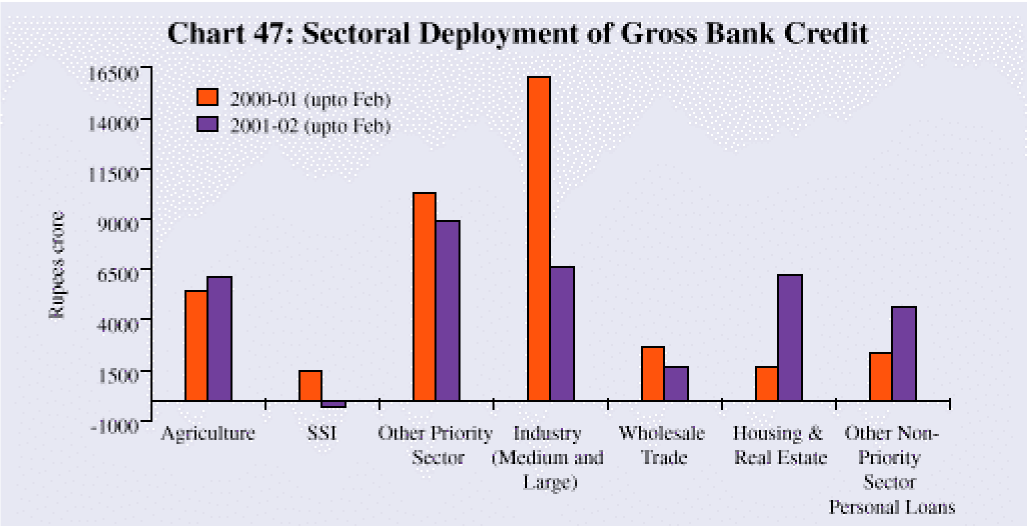
Table 16 : Sectoral Deployment of Gross Bank Credit of Scheduled Commercial Banks (Fiscal Year Variations)

(Rupees crore)

Sector/Industry	2000-01 (up to February)	2001-02 (up to February)

	Absolute	Per cent	Absolute	Per cent
1	2	3	4	5
Priority Sector #	17,225	13.1	14,550	9.4
Industry (Medium and Large)	16,072	10.9	6,574	4.0
Whole Sale Trade (Other than food procurement)	2,651	15.8	1,608	9.0
Other Sectors	10,954	13.8	17,117	18.2
Export Credit	2,444	6.2	-3,353	-7.7
Petroleum	2,239	25.0	-2,335	-20.2
Infrastructure	3,701	51.1	2,852	25.1
Chemical Group	759	3.2	1,549	6.4
Electricity	1,808	24.3	944	11.0

Excluding investments in eligible securities.
Note : Data are provisional and relate to 49 select scheduled commercial banks.



The industry-wise deployment of gross bank credit shows that majority of the industries have exhibited deceleration/decline in terms of credit off-take during 2001-02 (up to February 2002). Amongst the principal industries, credit off-take improved only in the case of iron and steel (an increase of 4.3 per cent as against 2.3 per cent recorded in the comparable period of the preceding year), engineering (2.9 per cent from 0.4 per cent), chemicals, dyes, paints, *etc*., (6.4 per cent growth as against 3.2 per cent) and other textile industries (10.3 per cent as against a decline of 1.6 per cent) (Chart 48). On the other hand, credit off-take by the petroleum industry declined by 20.2 per cent (up to February

2002) as against an increase of 25.0 per cent recorded during the comparable period of 2000-01. Credit demand also slowed down significantly in the case of industries like cotton textiles (a decline of 12.1 per cent as against a growth of 5.4 per cent) and infrastructure (25.1 per cent growth as against 51.1 per cent)

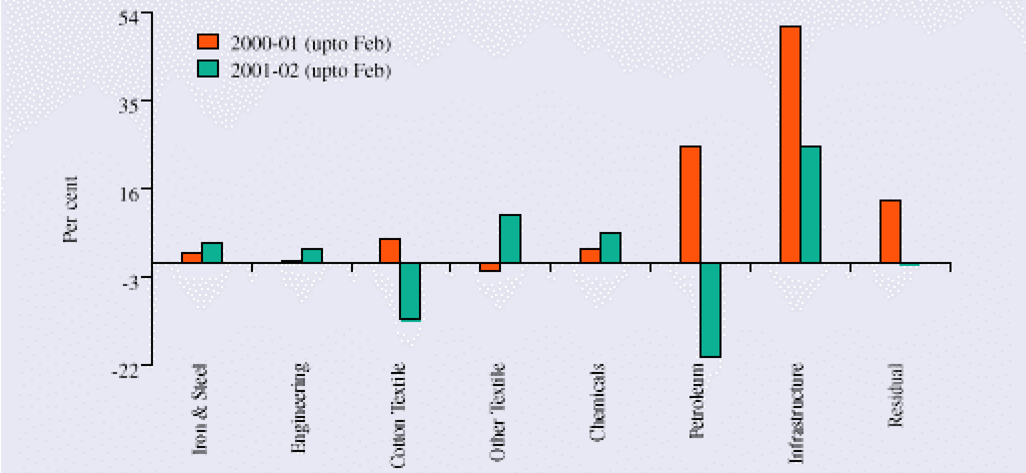


Chart 48: Credit Off-take: Major Industries

The resource flow from bank and non-bank sources, inclusive of capital issues, GDRs/ADRs/FCCBs, CPs subscribed by non-banks and borrowings as well as bills rediscounted with financial institutions, to the commercial sector registered a lower increase of Rs.1,37,429 crore during 2001-02 as compared with Rs.1,71,078 crore during the preceding year (Table 17).

Table 17: Total Flow of Resources to Commercial Sector (excluding Food Procurement Credit)

(Rupees crore)

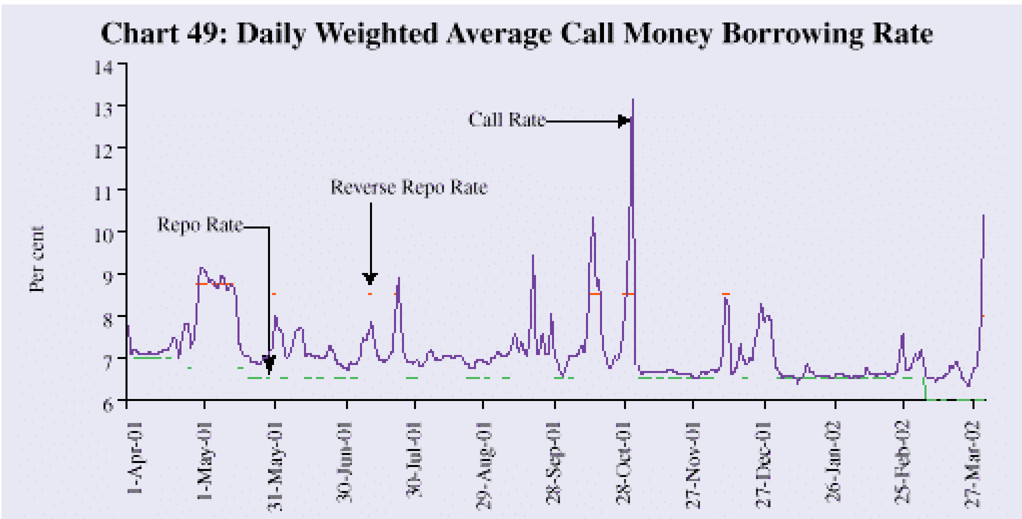
	Item	2000-2001P	2001-2002 P
	1	2	3
I.	**Scheduled Commercial Banks (I.1+I.2)**	**75,216**	**65,624**
I.1	Non-food Credit	61,176	60,411
I.2	Other Investments (2.1+2.2+2.3)	14,040	5,213
	2.1 Commercial Paper (CP)	1,864	602
	2.2 Bonds\Debentures issued by	12,296	4,398
	2.2.1. Public Sector Undertakings	7,862	2,953
	2.2.2. Private Corporate Sector	4,434	1,445
	2.3 Shares issued by	-120	213
	2.3.1. Public Sector Undertakings	69	238
	2.3.2. Private Corporate Sector	-189	-25
II.	**Other Banks**	**18,747**	**9,060**
III.	**Other Sources (III.1+III.2+III.3+III.4+III.5)**	**77,115**	**62,745**

III.1	Bills rediscounted with Financial Institutions	575	238*
III.2	Capital Issues @ (2.1+2.2)	704	3,866**
	2.1 Non-Government Public Companies	704	3,866
	2.1.1. Bonds/Debentures	-2,294	2,753
	2.1.2. Shares	2,998	1,112
	2.2 PSUs and Government Companies	0	0
III.3	Global Depository Receipts (GDRs)/American Depository Receipts (ADRs) and Foreign Currency Convertible Bonds (FCCBs)	5,611	2,208
III.4	Issue of CPs #	-1,681	776
III.5	Borrowings from Financial Institutions ##	71,905	55,657
Total Flow of Non-food Resources (I+II+III)		**1,71,078**	**1,37,429**
Memo Item :			
Private	Placements	67,500	48,921*
P	Provisional.		

@ Adjusted for banks' investments in shares and debentures.
# Excluding CPs issued to Banks.
##Adjusted for bills rediscounted by banks with financial institutions.
* Up to December 2001.
** Up to February 2002.

Money Market

Money market conditions remained comfortable during 2001-02 reflecting ample liquidity conditions. Except for the first two months, the weighted average call money borrowing rates were lower than those during the corresponding period of 2000-01. Barring a few instances, the call money rates were well within the repo-reverse repo corridor (Chart 49).



The call rates edged up beyond the reverse repo cut-off rate during May 9-19, 2001, reflecting adjustments to the second stage of LAF as well as outflows towards State Government loans. Reverse repo injections and the CRR cut of 50 basis points to 7.5 per cent of net demand and time liabilities (NDTL) nudged the weighted average call money borrowing rate back to the corridor by May 19, 2001.

Following September 11, 2001, there was some firming up of the call rates but the weighted average call money rate remained within the corridor except on September 21, 2001 when it touched 9.4 per cent. The announcement of the RBI's commitment to maintain adequate liquidity to meet any supply-demand gap arising out of prevailing uncertainties had a sobering effect and call rates reverted to the corridor. Monetary easing as well as accretions to foreign currency assets kept the call rates stable and mostly below 7.0 per cent in the remaining period of 2001-02, except for some firmness at end-December 2001. The weighted average call money borrowing rate decreased from 7.1 per cent as on February 28, 2002 to 6.5 per cent on March 6, 2002 following the reduction in the repo rate by 50 basis points to 6.0 per cent on March 5, 2002. The subsequent firming up of call borrowing rates to 10.35 per cent on March 30, 2002, reflected the usual year-end tightening on account of balance sheet considerations combined with tax outflows and bunching of holidays (Table 18). The fiscal year 2002-03 commenced with usual seasonal easing of liquidity conditions and the weighted average call money borrowing rate worked out to 6.6 per cent during April 1-21, 2002.

Table 18 : Inter-bank Call Money Borrowing Rates : 2001-02

	Average (%)	Standard Deviation (%)	Coefficient of Variation
1	2	3	4
April	7.49	1.21	0.16
May	8.03	0.81	0.10
June	7.24	0.30	0.04
July	7.19	0.47	0.07
August	6.94	0.11	0.02
September	7.30	0.52	0.07
October	7.40	0.87	0.12
November	6.97	1.31	0.19
December	7.08	0.58	0.08
January	6.63	0.26	0.04
February	6.73	0.32	0.05
March	6.97	0.96	0.14

Treasury Bills

The easing of liquidity conditions at the commencement of 2001-02 led to a decline in implicit yields across all maturities of Treasury Bills but for some hardening in mid-May 2001. Monetary easing and a second cut in the repo rate facilitated a softening of Treasury Bill yields by end-May 2001. Discontinuance of the auctions of 14-day and 182-day Treasury Bills, increase in the notified amount of 91-day Treasury Bill from Rs.100 crore to Rs.250 crore, and changes in the regular auction schedule were undertaken in May 2001 so as to synchronise the dates of payment for the 91-day and 364-day Treasury Bills and also to provide adequate fungible stock of Treasury Bills in order to activate the secondary market. With the exception of some spurts, there was a gradual softening in the Treasury Bill yields thereafter, with the implicit yield of 91-day Treasury Bill moving below the Bank Rate to 6.83 per cent and that of the 364-day Treasury Bill decreasing to 7.10 per cent by the first week of September 2001 (Chart 50).

The uncertainty created by the events of September 11, 2001 hardened the yields of 91-day as well as 364-day Treasury Bills to 7.21 per cent and 7.32 per cent, respectively, during the auctions held on September 19, 2001. Timely open market purchases of government securities of varied maturities restored market sentiment and yields softened by the end of the month. Although the yields hardened a little in December 2001, comfortable liquidity and improved sentiment softened the average 91-day and 364-day Treasury Bill yields even below the Bank Rate to 6.08 per cent and 6.18 per cent, respectively, by March 2002 (Table 19).

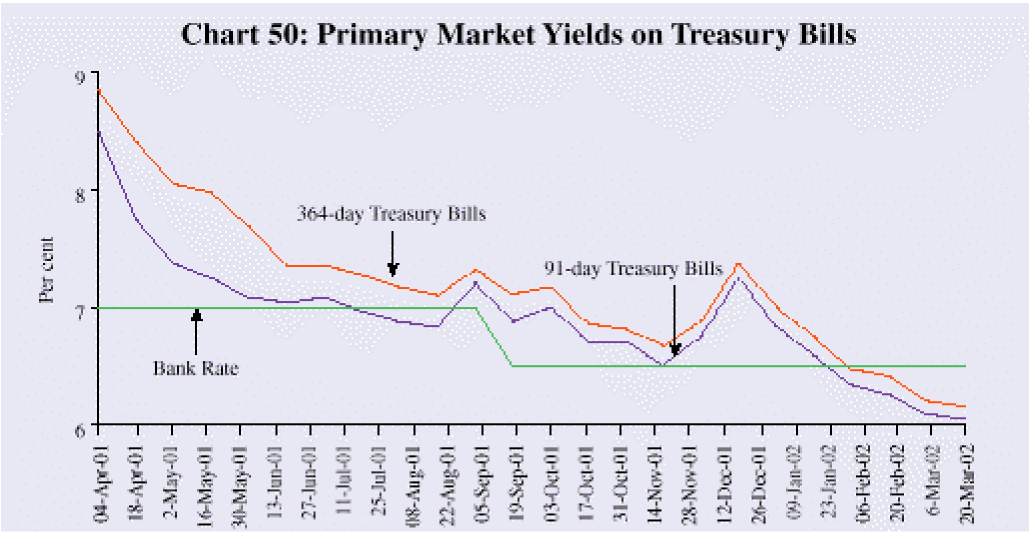


Chart 50: Primary Market Yields on Treasury Bills

Table 19 : Average Treasury Bill Cut-off Yields During 2001-02@

(Per cent)

	14-day Treasury Bills*	91-day Treasury Bills	182-day Treasury Bills*	364-day Treasury Bills
1	2	3	4	5
2001-02				
April	7.04	8.06	8.50	8.83
May	7.30	7.59	8.33	8.33
June		7.24		7.83
July		7.07		7.35
August		6.91		7.22
September		7.01		7.21
October		6.83		7.05
November		6.66		6.75
December		6.89		7.13
January		6.73		6.87
February		6.27		6.45

March	6.08	6.18

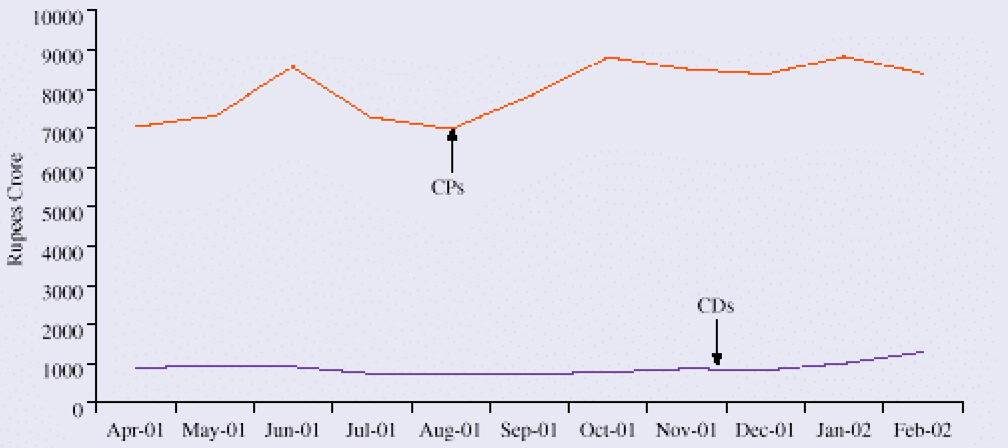
*Auctions of 14-day T-Bills and 182-day T-Bills were discontinued with effect from May 14, 2001.
@As per the dates of auction.

The easing of liquidity conditions with the commencement of 2002-03 led to a further decline in the yields of 91-day Treasury Bills and 364-day Treasury Bills to 5.8 per cent and 6.0 per cent, respectively, by April 17, 2002. The notified amount in respect to auctioning of 364-day Treasury Bills was enhanced from Rs. 750 crore to Rs. 1,000 crore for 2002-03.

Other Money Market Instruments

Reflecting the comfortable money market conditions during the first quarter of 2001-02, the outstanding amount of commercial paper (CP) moved up steadily from Rs.6,295 crore as on April 15, 2001 to Rs.8,566 crore as on June 30, 2001 (Chart 51). There was only a marginal decline in the outstanding amount of CPs during the first fortnight of May 2001. The average discount rate decreased from 9.98 per cent to 8.88 per cent during the first quarter of 2001-02. As the introduction of norms relating CP issuance in dematerialised form only became effective from June 30, 2001, the CP market was subdued. The outstanding amount of CPs declined to Rs.6,982 crore as on August 31, 2001. As the market adjusted to the new dematerialised issuance norms, the total outstanding amount of CPs generally showed an increasing trend and aggregated Rs.7,224 crore as on March 31, 2002. The average discount rate also declined from 8.51 per cent as on August 31, 2001 to 8.12 per cent as on March 31, 2002.

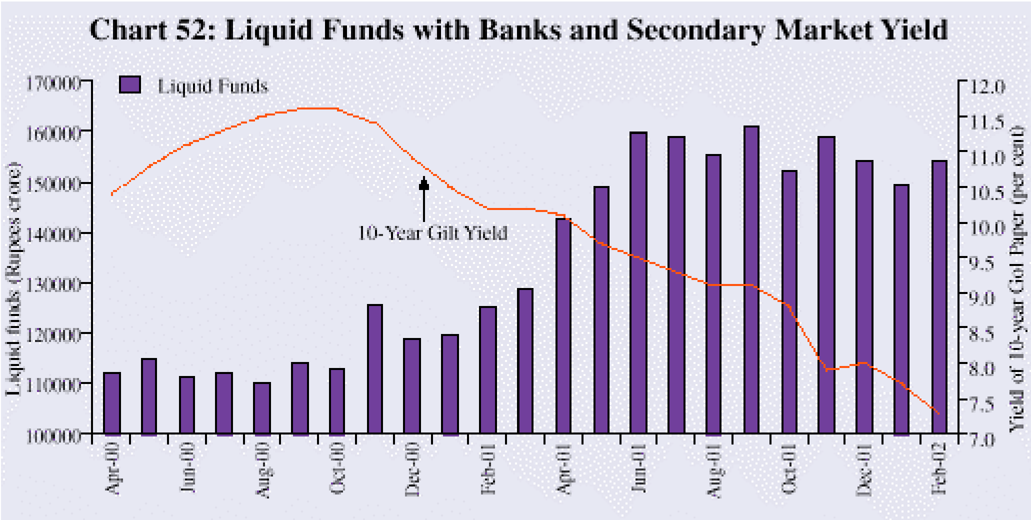
Chart 51: Outstanding Amount of CPs and CDs



The outstanding amount of certificates of deposit (CDs) issued by commercial banks decreased from Rs.1,042 crore as on April 6 to Rs.921 crore as on June 29, 2001 reflecting easy liquidity conditions. The discount rate for a CD of three-month maturity, which increased from 9.75 per cent as on April 6, 2001 to 10.0 per cent as on April 20, 2001, declined to 8.0 per cent as on May 18, 2001 without changing further in the remaining period of the first quarter of 2001-02. The prevalence of comfortable liquidity conditions thereafter resulted in a subdued CD market with the outstanding amount declining to Rs.729 crore in September 2001. The outstanding amount went up gradually in the second half of 2001-02 to reach Rs.1,503 crore by March 8, 2002 (Chart 51). The discount rate of CDs for 3 months remained mostly stable in the range of 6.75-8.5 per cent during the period May 18, 2001 to March 8, 2002.

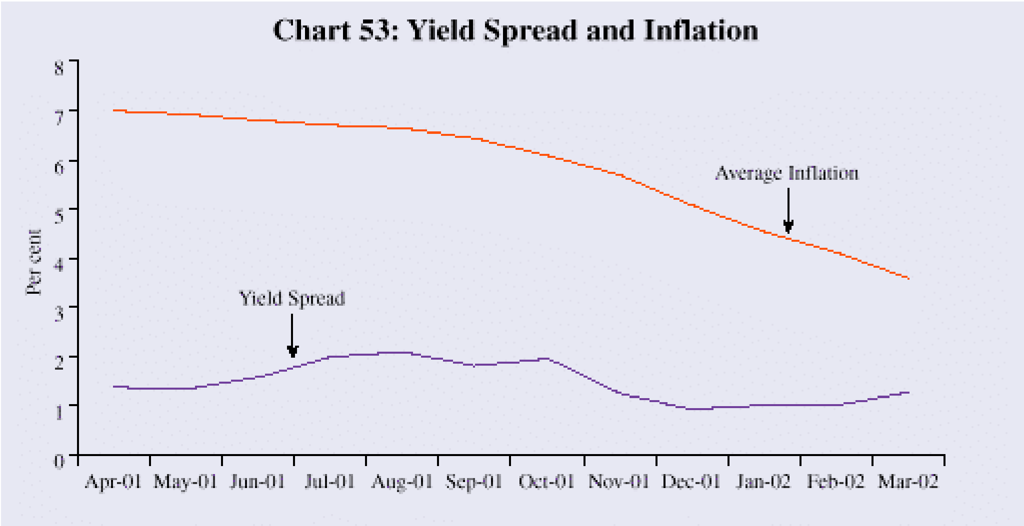
Government Securities Market

The developments in the Government securities market during 2001-02 were largely influenced by easy liquidity conditions. Availability of ample liquid funds (surplus of net demand and time liabilities available less statutory preemptions and credit off-take) enabled a softening of yields during the year (Chart 52).

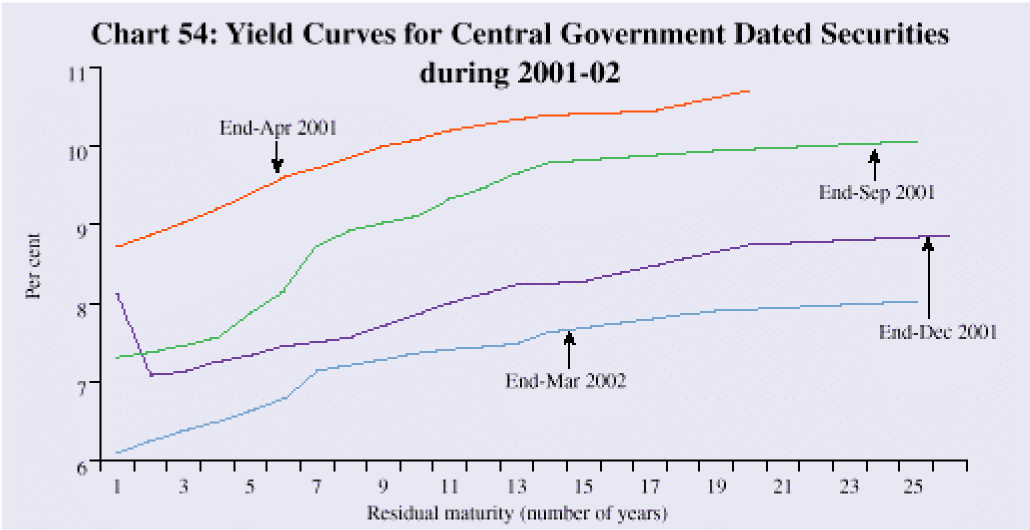


The larger than budgeted market borrowing programme of the Central Government could be completed successfully at lower yields as the year progressed. The net and gross market borrowings of the Central Government amounted to Rs. 92,302 crore (100.9 per cent of the revised estimates) and Rs. 1,33,801 crore (100.6 per cent of the revised estimates) during 2001-02, respectively, with a sizeable amount raised in the early part of the year itself. The weighted average yield on government borrowings through dated securities decreased to 9.44 per cent during 2001-02 from 10.95 per cent during 2000-01 and the weighted average maturity of borrowings increased to 14.3 years from 10.6 years in the preceding year. The Reserve Bank continued to conduct debt management operations during the year by combining auction issues with private placements/devolvements and open market operations in tune with the evolving market conditions. The total private placement of dated securities with the Reserve Bank during 2001-02 stood at Rs.28,892 crore with the Reserve Bank conducting net open market sales of Rs.30,335 crore. Auctioning of floating rate bonds in November-December 2001 evinced sizeable market response. To encourage retail participation in the primary gilt market, the Reserve Bank operationalised the scheme of non-competitive bidding in January 2002 with a provision for allocation to the retail investors up to 5 per cent of the notified amount in the auctions of select dated securities.

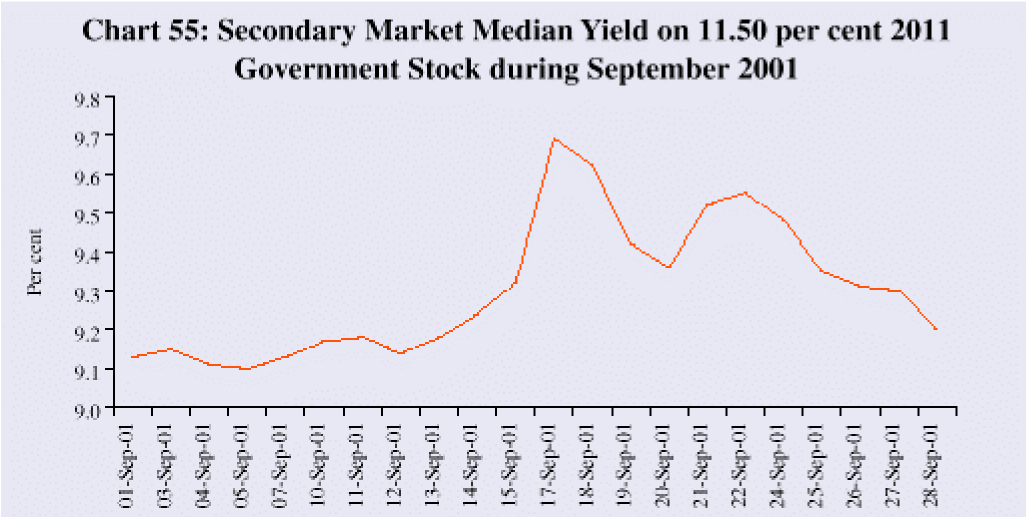
The secondary market activity in the government securities market during 2001-02 tracked the developments in the primary segment both in terms of yield movements and turnover. The easing of inflation expectations is reflected in the downward movement of the yield spread (difference between yields of 10-year and 1-year Government securities on month-end residual maturity basis) in line with the path of average inflation rate up to December 2001 (Chart 53).



The prevalence of ample liquidity fuelled rallies in gilt prices with the yield of 10-year security decreasing by 272 basis points from 10.08 per cent at end-April 2001 to 7.36 per cent by end-March 2002 (Chart 54). Open market sales auctions were conducted to absorb surplus liquidity.



Adverse external developments after September 11, 2001 and the need to ensure adequate liquidity and overall comfort to the markets provoked the Reserve Bank to conduct a series of open market purchases amounting to Rs. 5,084 crore which supported the gilt prices throughout the maturity spectrum. The gilt market sentiment, which had turned bearish with the yields peaking on September 17, 2001, stabilised by the end of the month (Chart 55).



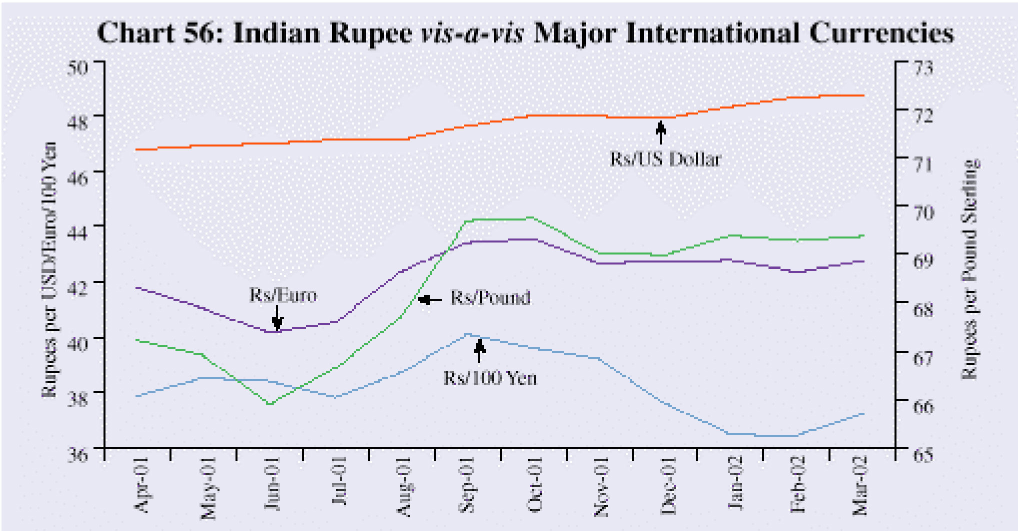
The Negotiated Dealing System (NDS) (Phase I) was operationalised from February 15, 2002 to facilitate electronic bidding in the primary auctions of Central/State Government securities, OMO/LAF auctions, transactions in money market instruments including repo, secondary market transactions in Government securities and dissemination of information on trades on a real time basis to provide a safe, reliable and efficient settlement system, thereby minimising systemic risk. The system also provides electronic connectivity for clearing and settlement system without the need of submission of physical SGL form. All entities having SGL accounts have been advised to become members of NDS by May 31, 2002. As on April 17, 2002, 80 participants became members of NDS including 31 non-banks. The Clearing Corporation of India Limited (CCIL) also commenced its operations in clearing and settlement of transactions in Government securities (including repos) with effect from February 15, 2002. As on April 17, 2002, there were 108 members of CCIL.

An indicative calendar for issuance of marketable dated government securities has been issued for the first half of 2002-03, *i.e.*, April 1-September 30, 2002. During 2002-03 (up to April 15, 2002), the gross market borrowings raised by the Central Goverment amounted to Rs 13,000 crore. During the first fortnight of April 2002, OMO sales of Rs. 5,280 crore were conducted in response to surplus liquidity conditions.

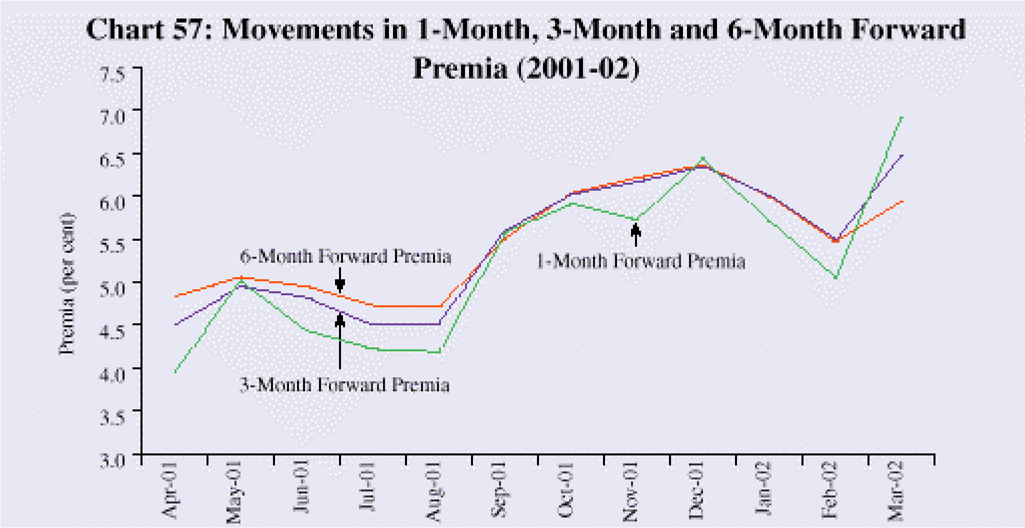
Foreign Exchange Market

The foreign exchange market generally exhibited stable conditions during 2001-02. The exchange rate of the Indian rupee *vis-a-vis* the US dollar moved within a range of Rs.46.56-Rs.48.85 per US dollar during the year 2001-02. On the basis of monthly average exchange rates, the Indian rupee depreciated by 4.3 per cent from Rs.46.62 per US dollar in March 2001 to Rs.48.74 per US dollar in March 2002. The exchange rate was Rs. 48.89 per US dollar as on April 19, 2002.

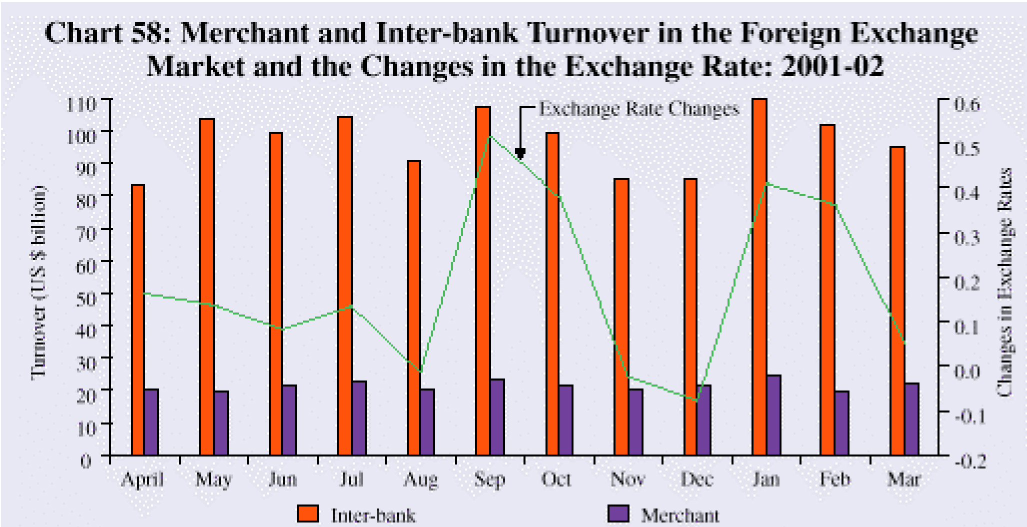
Cross-currency movements show that the rupee remained broadly stable against the major international currencies during April-August 2001. Following September 11, 2001 developments, the rupee depreciated against the Euro, the Pound Sterling and the Japanese Yen by 2.4 per cent, 2.9 per cent and 3.5 per cent, respectively, between August and September 2001. The rupee recovered against all these currencies from October 2001 onwards and appreciated against the Euro, the Pound Sterling and the Japanese Yen by 1.5 per cent, 0.5 per cent and 7.8 per cent, respectively, between October 2001 and March 2002 (Chart 56).



The forward premia for all the three maturities (one-month, three-month and six-month) in the foreign exchange market hovered around 4.0 to 5.0 per cent during the first five months (April-August) of 2001-02. The uncertainties generated in the spot segment in September 2001 found reflection in the forward market with the one-month, three-month and the six-month premia increasing to around 5.5-5.6 per cent in September 2001. The one-month, three-month and the six-month premia stood at 6.9 per cent, 6.5 per cent and 5.9 per cent, respectively, in March 2002 (Chart 57). The premia softened at the short-end during April 2002 although the six-month premia edged up to 6.3 per cent on April 19, 2002.



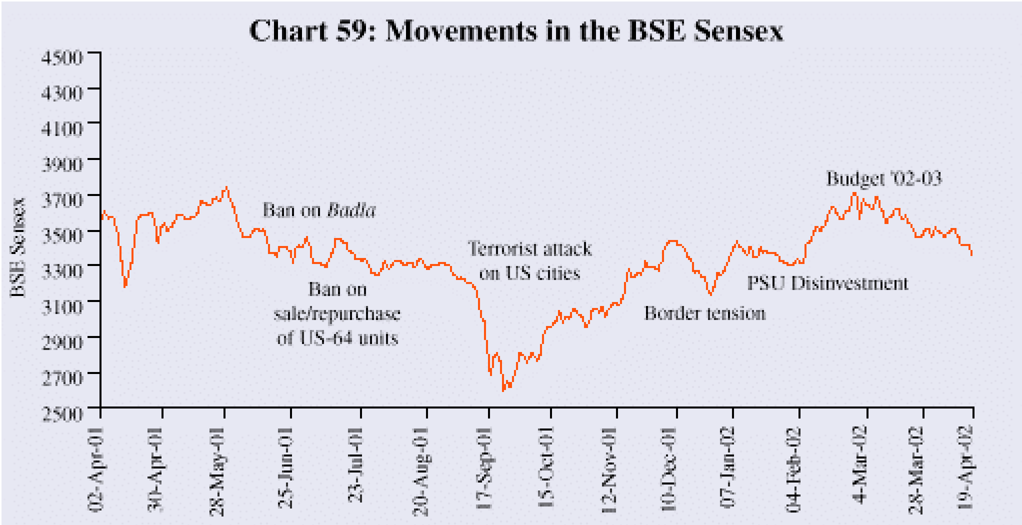
The average monthly total turnover – merchant and inter-bank combined -in the foreign exchange market increased marginally to US $ 119 billion during 2001-02 from US $ 116 billion in 2000-01. Monthly turnover in the merchant segment of the foreign exchange market moved within a range of US $ 19.8-24.6 billion while the turnover in the inter-bank segment moved in a range of US $ 83.5-109.9 billion during 2001-02 (Chart 58).



Capital Market

Equity Market

The equity markets remained subdued during 2001-02 reflecting the domestic economic slowdown and global recessionary conditions. The BSE Sensex slipped below the 3500 mark by June 2001 and touched 3245 by end-August 2001. The markets fell sharply again in line with global trends after the September 11, 2001 terrorist attack in the US, with the BSE Sensex dipping to 2600 on September 21 - the lowest level since September 8, 1993 (Charts 59 and 60). The Reserve Bank permitted banks to extend finance to stockbrokers for margin trading and increased the FII investment limit. The stock markets recovered from mid-October 2001 onwards, barring a spell of uncertainty following border-tensions during December 2001. The BSE Sensex crossed the 3500 mark on February 11, 2002 but declined to 3364 as on April 19, 2002.



The average BSE Sensex stood lower at 3332 during 2001-02 as compared with 4270 during the preceding year. The market capitalisation at the BSE was also lower at Rs.5,96,716 crore at end-February 2002 as compared with Rs.7,16,173 crore at end-February 2001. The average price-earning (P/E) ratio of the BSE Sensex scrips at 16.6 during 2001-02 was lower than that of 23.9 during the preceding year. The monthly average turnover of the BSE declined sharply to Rs.25,598 crore during 2001-02 (up to February) from Rs.86,806 crore during the corresponding period of the previous year. Net FII inflows in equity markets amounted to Rs.8,272 crore during 2001-02 as compared with Rs.9,683 crore during the preceding year (Chart 61).

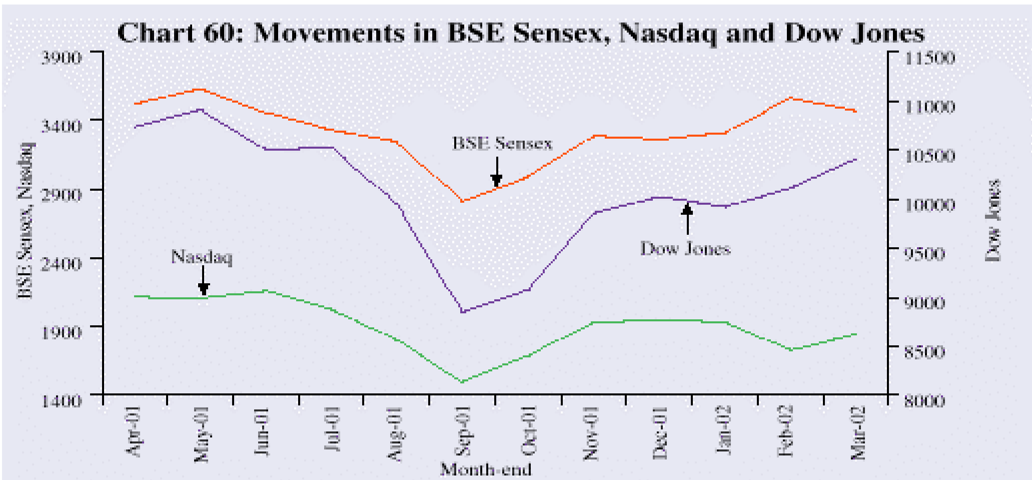
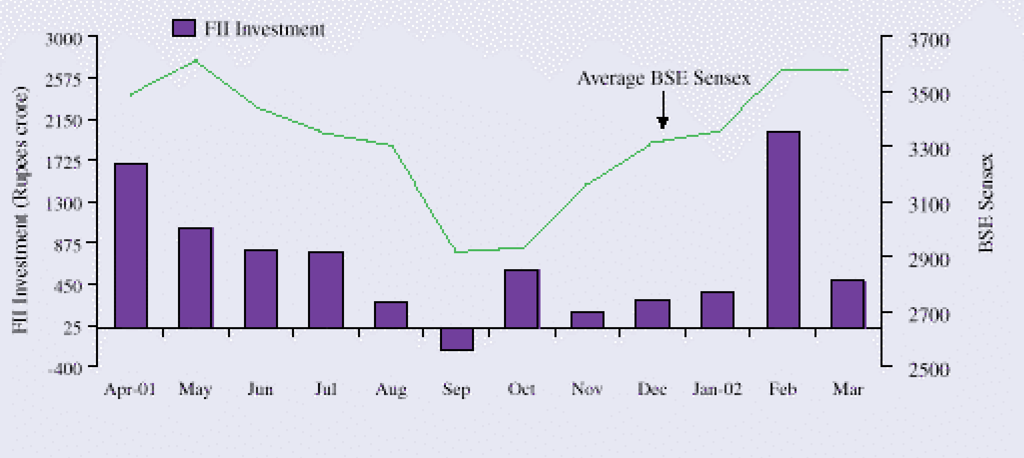
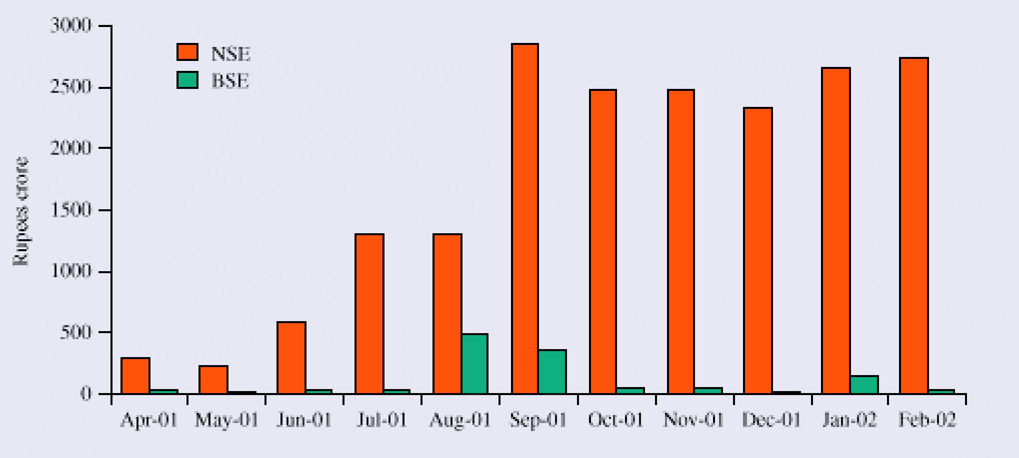


Chart 61: Movement of Average BSE Sensex and FII Investment

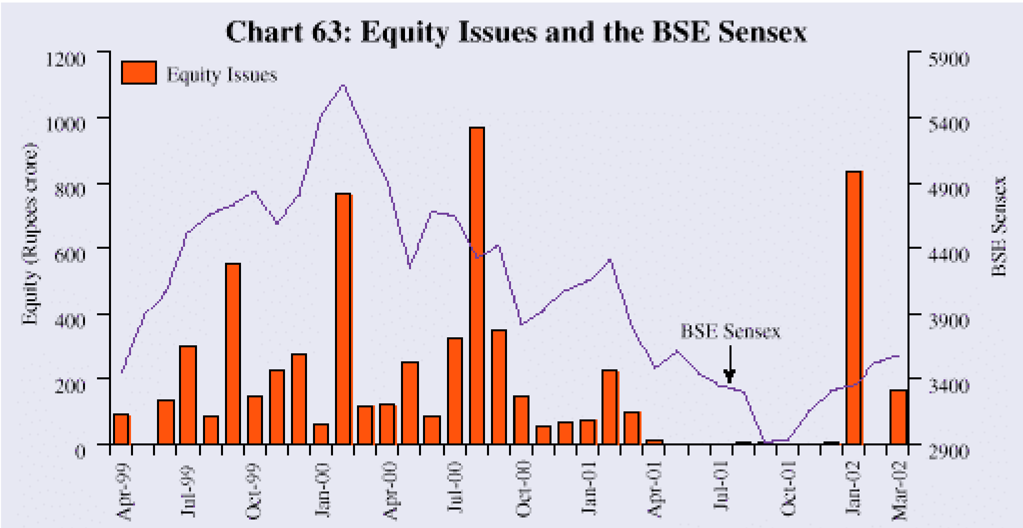


The Securities and Exchange Board of India (SEBI) initiated several measures in equity markets including a ban on all deferral products (including *badla*) from July 2001 and the extension of T+5 compulsory rolling settlement (CRS) in July and December 2001 followed by the introduction of T+3 CRS effective April 1, 2002. The scope of derivatives was also enlarged with the introduction of index options (in June 2001), scrip-based options (in July 2001) and scrip-based futures (in November 2001). Index futures have shown a significant rise in the recent months with the turnover increasing from Rs.292 crore in April 2001 to Rs.2,185 crore in March 2002 on the NSE (Chart 62).

Chart 62: Turnover of Index Futures

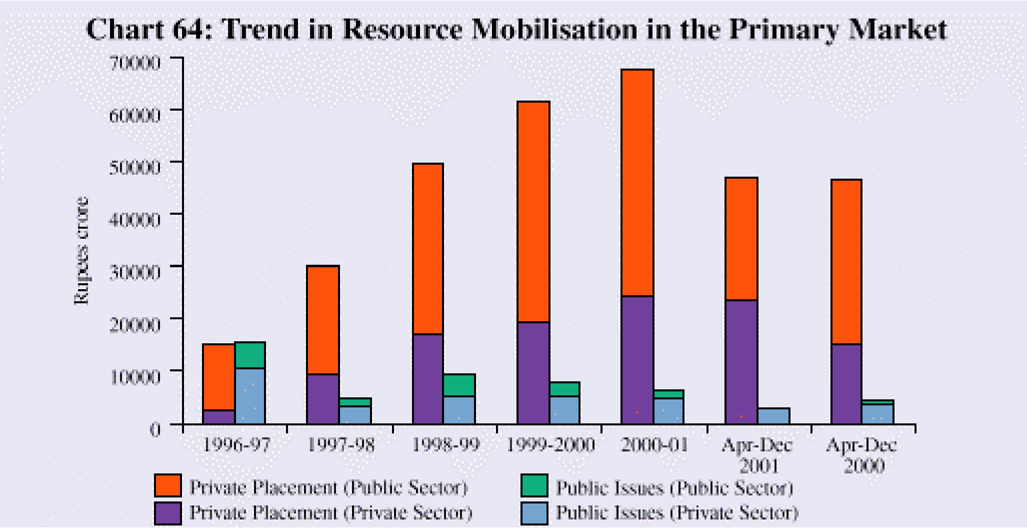


Resource mobilisation in the public issues market amounted to Rs.7,137 crore through 25 issues during 2001-02 as compared with Rs.6,396 crore raised through 147 issues during 2000-01. The public issues market witnessed drying up of the initial public offerings (IPOs) from the information technology sector. The non-Government public limited companies (private sector) floated only seven equity issues aggregating Rs.861 crore during 2001-02 (including a single mega issue of Rs.834 crore) as compared with 133 equity issues aggregating Rs.2,784 crore during the preceding year. The public sector which had issued equity amounting to Rs.361 crore through 3 issues during 2000-01 floated only one issue of Rs.165 crore during 2001-02. The low level of activity in primary market was largely in tandem with the trends in the secondary market (Chart 63).



In contrast, the debt issuances witnessed heightened activity. Resource mobilisation by private sector aggregated Rs.4,857 crore through 14 issues during 2001-02 as compared with Rs.2,140 crore through 9 issues during the preceding year. A predominant part was accounted for by bond issuances by financial institutions. The resources mobilised by the public sector through debt issues during 2001-02 were higher at Rs.1,255 crore through 3 issues as compared with Rs.1,111 crore through 2 issues during the previous year.

In line with recent trends, the private placement market (dominated by debt issues) continued to exhibit increased activity during 2001-02 (up to December 2001) with Rs.48,921 crore raised as compared with Rs.46,353 crore during the corresponding period of the previous year (Chart 64). The public sector accounted for a significant share of resource mobilisation in the private placement market (51.9 per cent).



The Euro issues market (in the form of ADRs, GDRs and FCCBs) recorded a decline in resource mobilisation as only five issues aggregating Rs.2,342 crore (US $ 497 million) were floated during 2001-02 as compared with thirteen issues aggregating Rs.4,197 crore (US $ 931 million) during the previous year.

The overall resource mobilisation by mutual funds (net sales), according to the SEBI, amounted to Rs.7,175 crore during 2001-02 registering a decline of 21.4 per cent over the preceding year. Private sector mutual funds raised Rs.13,050 crore, while the Unit Trust of India (UTI) recorded a net outflow of Rs.7,284 crore. Even in the case of mutual funds, there was a portfolio shift in favour of debt-oriented schemes from equity-oriented and balanced schemes, mirroring the depressed secondary equity market and rally in gilts.

Financial assistance sanctioned and disbursed by the term-lending institutions during 2001-02 at Rs.71,964 crore and Rs.55,895 crore, respectively, declined sharply by 38.2 per cent and 22.9 per cent reflecting the persistence of industrial slowdown; during the previous year, sanctions and disbursements increased by 14.9 and 7.2 per cent, respectively.

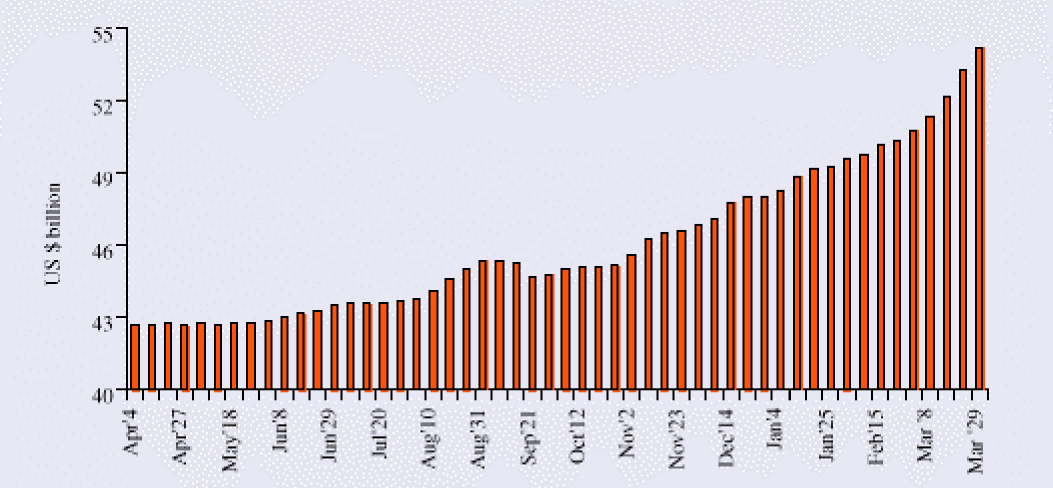
Insurance Market

During 2001-02, the Insurance Regulatory and Development Authority (IRDA) registered four life insurance companies and two general insurance companies, taking the total number of life insurers to 12 and the total number of general insurers to 10. As a result, there was a spurt in market-oriented products offering investment-linked returns, with implications for debt and equity markets. According to the IRDA, the total life business in force (in terms of premium) amounted to Rs.36,070 crore, while general insurance business (in terms of gross direct premium income) amounted to Rs.10,087 crore during 2000-01.

VI. The External Economy

The external sector exhibited strength during 2001-02, notwithstanding the sluggishness in exports. There was an increase in foreign exchange reserves to the tune of US $ 11.8 billion during the year reflecting abiding investor confidence in the fundamentals of the economy. The foreign exchange reserves comprising foreign currency assets, gold and SDRs stood at US $ 54.1 billion as at end-March 2002 with the import cover of reserves increasing from 8.6 months at end-March 2001 to around 11.5 months at end-March 2002 (Chart 65). By April 19, 2002, the foreign exchange reserves crossed the US $ 55 billon mark to reach US $ 55.1 billion.

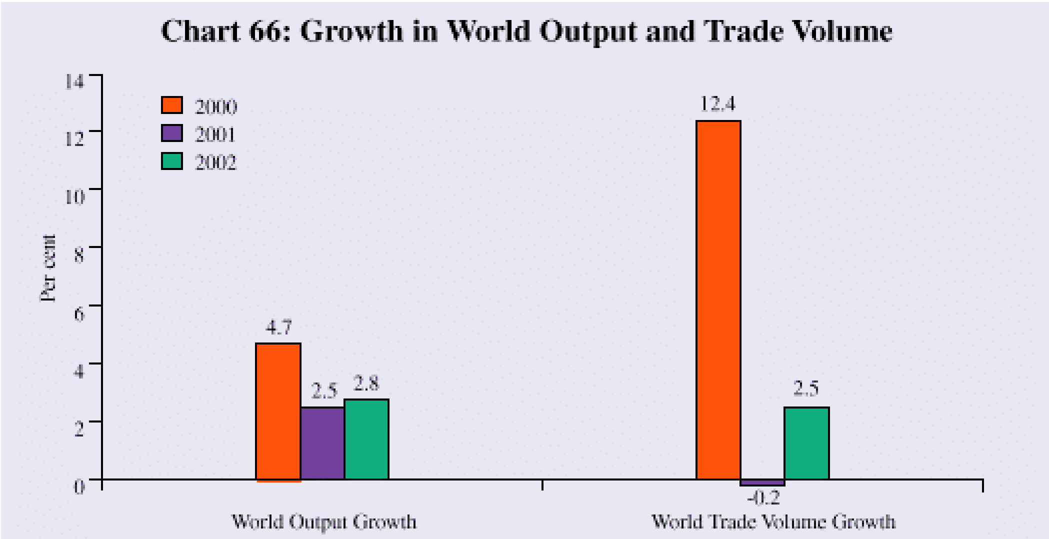
Chart 65: Movements in Foreign Exchange Reserves: 2001-02



The current account deficit continued to remain modest. The external debt data for end-September 2001 indicate considerable improvement in terms of liquidity and sustainability. The exchange rate remained broadly stable during the year except for some short period of uncertainty in the aftermath of the September and December 2001 developments.

International Developments

The global slowdown that started in mid-2000 seems to have bottomed out and certain leading indicators of economic activity suggest the possibility of a recovery, led by the US, in mid-2002. The recovery in the global equity prices after the events of September 11, 2001 and the declines in risk aversion and spreads in both mature and emerging market economies indicate the market expectations of a faster recovery. The real effects of the September 11, 2001 incident also turned out to be moderate than what was anticipated. According to projections made by the International Monetary Fund (IMF) in April 2002, global growth may be modestly higher at about 2.8 per cent in 2002 with quarterly growth rising from 1.5 per cent in the last quarter of 2001 to 4.0 per cent by the end of 2002. The estimated growth in global output at about 2.5 per cent in 2001 and 2.8 per cent in 2002 would be significantly lower than that of 4.7 per cent achieved during 2000. World trade volume (both goods and services) growth exhibited an even sharper deceleration from 12.4 per cent during 2000 to a decline of 0.2 per cent during 2001, reflecting the effect of external demand slowdown on cross-border trade (Chart 66). According to the Institute of International Finance (IIF), net private capital flows to the emerging market economies fell from US $ 169 billion in 2000 to US $ 115 billion in 2001, the lowest in the last decade.



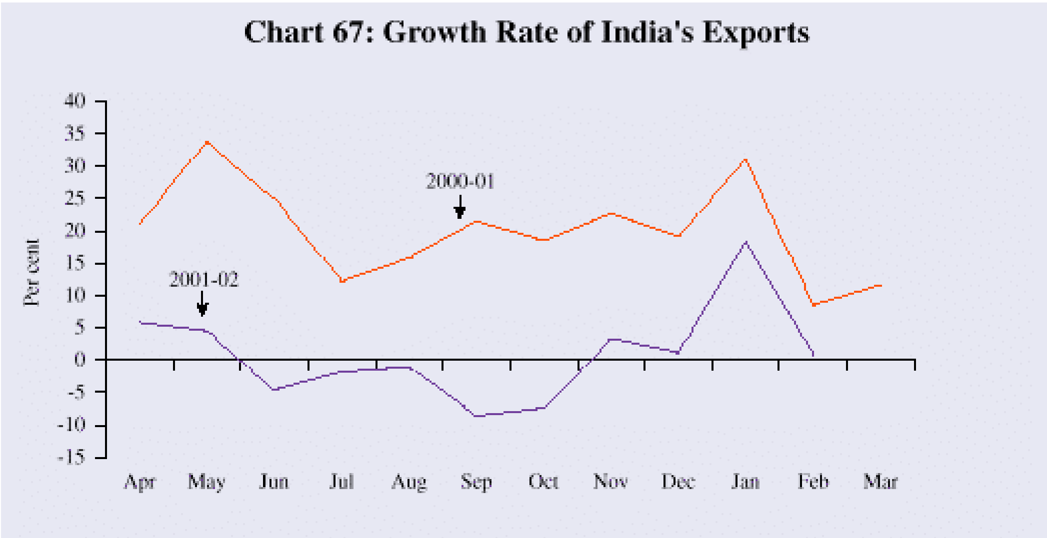
Substantial easing of monetary policy, brought about by successive reductions in policy rates, resulted in one of the most benign interest rate environments in recent decades world over. Eleven successive reductions in the Federal Funds Rate target (from 6.5 per cent to the present target of 1.75 per cent) in the US during 2001 brought it to the lowest level seen during the last 40 years. While the Bank of Japan persisted with its near zero interest rate stance, both the European Central Bank and the Bank of England lowered their policy rates (refinancing rate and repo rate, respectively) during 2001 by 150 basis points and 200 basis points, respectively.

The negative externalities of a global downturn affected the prospects of developing countries through trade, capital flows and business confidence.

According to the IIF, the emerging market exports declined by 2.6 per cent in 2001 in contrast to a strong growth of 22.5 per cent in 2000. Nonetheless, the emerging market group continued to have a surplus in the current account as they recorded large decline in imports in the face of overall weak demand conditions. Projections made by the IMF in April 2002 indicate that developing countries, as a group, may witness a modest improvement in output growth to 4.3 per cent in 2002 over the subdued growth of 4.0 per cent in 2001.

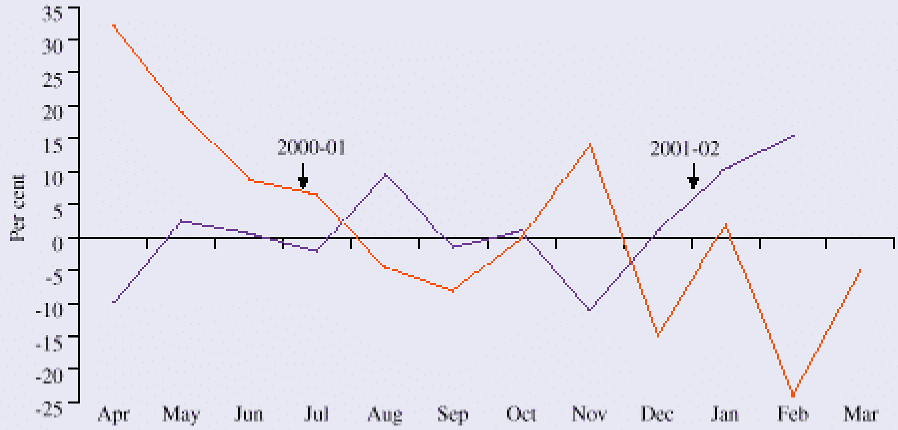
Merchandise Trade (As per DGCI&S data)

According to the provisional data released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S) for April-February 2001-02, India's merchandise exports posted a growth rate of only 0.1 per cent in comparison with a growth of 20.6 per cent during the corresponding period of the previous year (Chart 67). Non-oil exports recorded a marginal decline of 0.5 per cent during April-February 2001-02 as against an increase of 15.7 per cent during the corresponding period of the previous year. POL exports recorded an increase of 12.7 per cent during April-February 2001-02. The deceleration in India's exports may be attributed to weak external demand in the wake of global slowdown. Commodity-wise data on exports for April-December 2001 indicate that all the major groups, excepting ores and minerals, chemicals & related products and petroleum products, recorded declines.



During April-February 2001-02, total imports recorded a growth of 2.1 per cent as against 1.6 per cent during the corresponding period of the previous year (Chart 68). In contrast to the sharp increasing trend of the preceding two years, oil imports declined reflecting the softening of international crude oil prices which declined from an average of US $ 28.2 per barrel during calendar year 2000 to an average of US $ 24.3 per barrel during 2001. Most of this moderation was concentrated in the last quarter of 2001 with prices falling from US $ 25.9 per barrel in the period April-September 2001 to US $ 19.3 per barrel during October-December 2001. As a result, POL imports declined by 11.9 per cent during April-February 2001-02 as against a sharp increase of 55.0 per cent during the comparable period of 2000-01. The crude prices averaged US $ 20.9 per barrel during the quarter January-March 2002 as the prices hardened from March 2002 onwards.

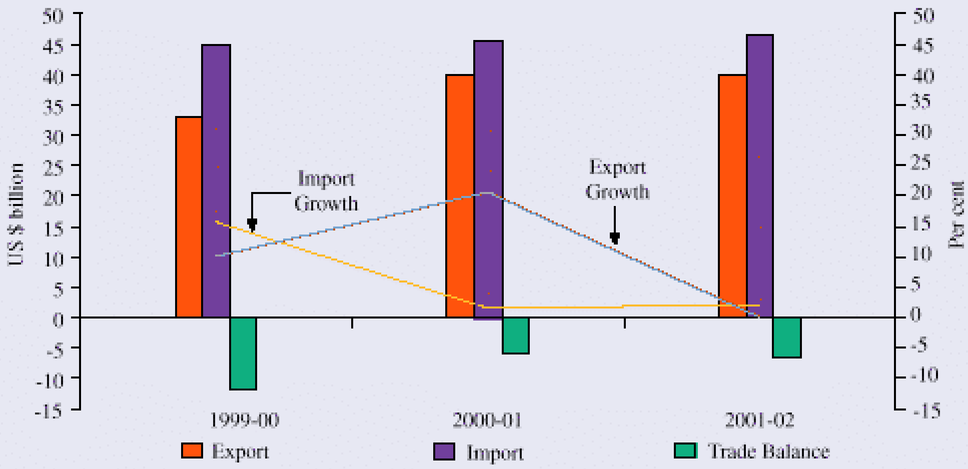
Chart 68: Growth Rate of India's Imports



Non-oil imports during April-February 2001-02, on the other hand, increased by 8.7 per cent as against a decline of 12.6 per cent during the corresponding period of the previous year. Commodity-wise data available for April-December 2001 indicate that the increase in non-oil imports was mainly due to capital goods (an increase of 4.1 per cent to US $ 6.8 billion), gold and silver (an increase of 17.7 per cent to US $ 3.9 billion), and bulk consumption goods (an increase of 43.8 per cent to US $ 1.6 billion). 'Non-oil non-gold' imports recorded an increase of 6.3 per cent during April-December 2001 in contrast to a decline of 6.4 per cent during the corresponding period of the previous year.

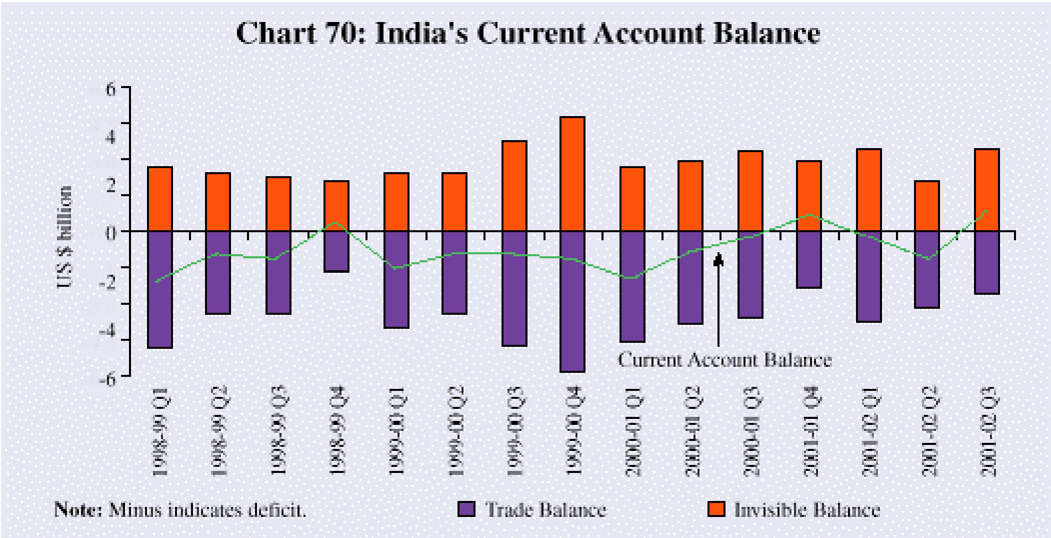
India's trade deficit (DGCI&S basis) was US $ 6.7 billion during April-February 2001-02 as against that of US $ 5.8 billion during the corresponding period of 2000-01 (Chart 69).

Chart 69: India's Foreign Trade: April-February



Region-wise break-up of India's total exports shows that during April-December, 2001 there was marked decline in exports to the OECD countries, particularly to Japan, the USA, France, Germany and Belgium. Exports to OPEC countries (Indonesia, Iran and

Iraq) and developing countries of Asia (Bangladesh, Malaysia, Singapore and Thailand), however, showed increase. As regards imports, there was increase in imports from most of the OECD countries, namely, the USA, Australia, Switzerland and Germany while imports from Belgium, the UK and Japan declined during the period. Within the developing countries group, imports from Malaysia and Singapore declined.



Invisibles and Current Account

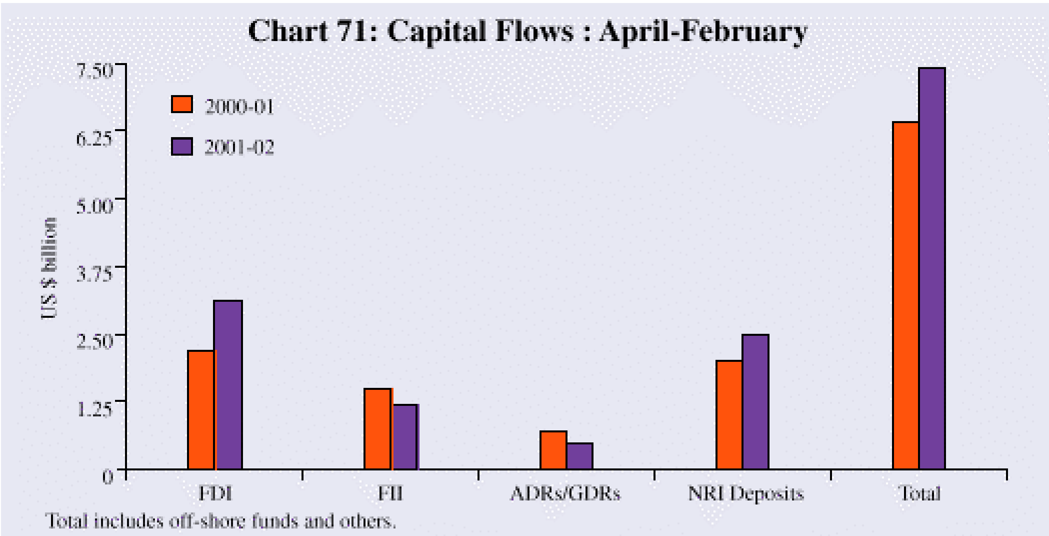
According to the balance of payments data available for the first three quarters of 2001-02 (April-December 2001), the current account deficit (CAD) narrowed to US $ 0.7 billion from US $ 3.2 billion during the corresponding period of the previous year. The reduction in the CAD was on account of the trade deficit which, on a balance of payment basis, was lower at US $ 9.5 billion during April-December 2001 as compared with US $ 12.0 billion in the corresponding period of the previous year. The surplus in invisibles continued to be a source of strength, with a net surplus of US $ 8.8 billion during April-December 2001 as against US $ 8.9 billion during the corresponding period of the previous year (Chart 70). The marginal decline in invisibles surplus during April-December 2001 was mainly on account of a lower surplus in 'services' and 'transfers' which declined to US $ 1.6 billion (as against US $ 1.8 billion during April-December 2000) and US $ 9.1 billion (as against US $ 10.0 billion), respectively. Receipts under 'services', comprising travel, transportation, financial services and software exports *etc.*, increased from US $ 13.1 billion during April-December 2000 to US $ 15.3 billion in the April-December 2001 mainly due to an increase in miscellaneous receipts. Software exports shown under miscellaneous receipts rose by about 17.4 per cent to US $ 5.4 billion from US $ 4.6 billion in the first three quarters of 2000-01.

Capital Account

Net capital flows decreased to US $ 4.2 billion in April-December 2001 as compared with US $ 6.6 billion during April-December 2000 mainly on account of mobilization of US $ 5.5 billion under IMDs during April-December 2000. Excluding IMDs, net capital flows were significantly higher during April-December 2001. Net external assistance inflows during April-December 2001 were US $ 0.2 billion in contrast to an outflow of US $ 0.1 billion during the corresponding period of 2000. The demand for external commercial borrowings continued to be sluggish with net outflows at US $ 0.5 billion during April-December 2001 as against net inflows (including IMDs) of US $ 4.5 billion (an outflow of US $ 1.0 billion excluding mobilization of IMDs) during April-December 2000.

According to the latest information available for April-February 2001-02, foreign direct investment (FDI) inflows at US $ 3.1 billion were higher than those of US $ 2.2 billion during April-February 2000-01. During the same period, portfolio investment inflows were lower at US $ 1.7 billion than those of of US $ 2.3 billion during April-February 2000-01 as amounts raised under GDRs/ADRs declined to US $ 0.5 billion from US $ 0.7 billion and net inflows by FIIs declined to US $ 1.2 billion from US $ 1.5 billion. Inflows under NRI deposits during April-February 2001-02 amounted to US $ 2.5 billion as against US $ 2.0 billion during the corresponding period of the previous year (Chart 71).

The reduction in the current account deficit resulted in the overall surplus in the balance of payments increasing to US $ 5.6 billion during April-December 2001 from US $ 2.7 billion in the corresponding period of 2000-01.

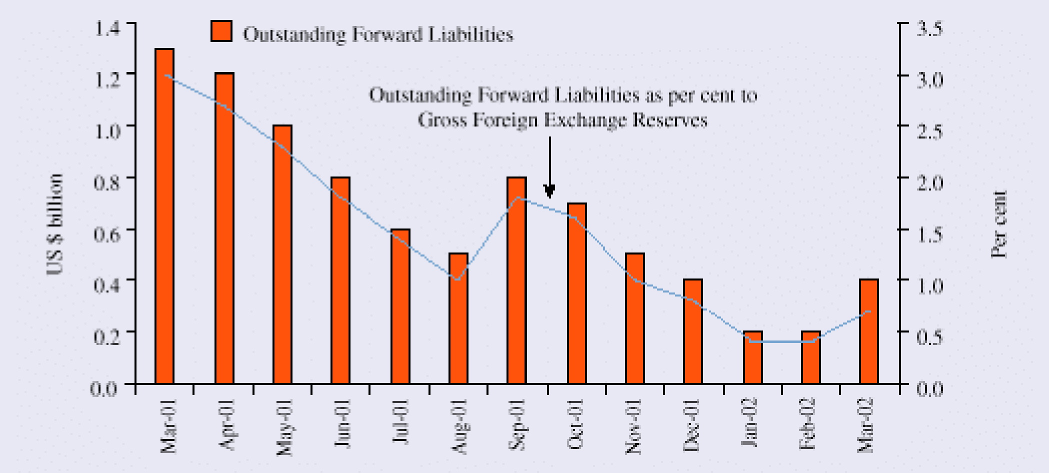


Foreign Exchange Reserves

India's foreign exchange reserves increased substantially during 2001-02 from US $ 42.3 billion as at end-March 2001 to US $ 54.1 billion as at end-March 2002 with a large part of the rise concentrated in the period since November 2001 (Chart 65). This was almost entirely on account of foreign currency assets which increased by US $ 11.5 billion to US $ 51.0 billion by end-March, 2002. The value of gold holdings of the Reserve Bank also increased by US $ 0.3 billion to US $ 3.0 billion during the same period. Reserve adequacy indicators indicated distinct improvement. The accumulation of foreign exchange reserves during the year is in line with the Reserve Bank's policy of maintaining an adequate level of foreign exchange reserves to meet import requirements, unforeseen contingencies and liquidity risks associated with different types of capital flows.

The outstanding forward liabilities of the Reserve Bank, which have been maintained at relatively low levels as a part of a prudent reserve management policy, significantly declined during the year from US $ 1.3 billion at end-March 2001 to US $ 0.4 billion at end-March 2002. The ratio of outstanding forward liabilities to gross foreign exchange reserves, therefore, declined sharply from 3.0 per cent at end-March 2001 to only 0.7 per cent at end-March 2002 (Chart 72).

Chart 72: Reserve Bank's Outstanding Forward Liabilities



External Debt

According to the provisional data, India's external debt at US $ 100.4 billion at end-September 2001 increased only marginally by 0.8 per cent from US $ 99.6 billion at end-March 2001 (Chart 73). Key indicators point towards sustainability of external debt. The concessional debt as a proportion to total debt increased marginally to 36.5 per cent at end-September 2001 from 36.0 per cent at end-March 2001. The size of short-term debt remained modest. As a proportion to total debt and foreign exchange reserves, it declined to 2.8 per cent and 6.2 per cent at end-September 2001 from 3.5 per cent and 8.2 per cent, respectively, at end-March 2001.

Chart 73: Components of External Debt