V. Domestic Financial Markets

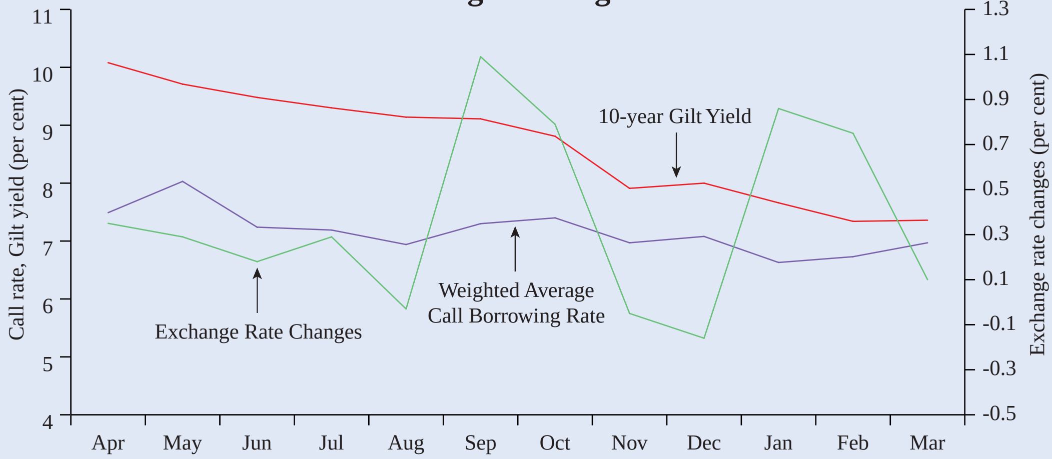
Financial markets remained relatively calm during the year except for brief spells of uncertainty during September and December 2001. Comfortable liquidity conditions necessitated active absorption through repos during a major part of the year with the need to inject liquidity through reverse repos arising 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) (Rs. crore)	Average Daily Call/ Notice Turnover (Rs. crore)	Average Call Money Borrow-ing Rates (Per cent)	Forward premia 3--month (Per cent)	BSE Sensex (Average)
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2001													
April	5,843	4,914	1,14,534	46.78	-18	-5,064	10,968	169	2,533	35,785	7.49	4.51	3487
May	4,772	4,936	1,89,026	46.92	469	-27	2,132	1,737	167	36,458	8.03	4.95	3614
June	3,616	4,956	2,00,119	47.00	36	-5,837	2,458	45	2,061	38,606	7.24	4.82	3439
July	6,440	4,742	2,15,157	47.14	-272	-5,092	2,350	200	622	37,793	7.19	4.50	3347
Aug.	3,448	4,532	2,01,711	47.13	682	-10,263	3,243	0	45	36,891	6.94	4.52	3305
Sep.	4,152	5,381	1,57,810	47.64	-894	3,905	1,139	233	1,789	36,100	7.30	5.60	2918
Oct.	4,623	4,742	1,85,392	48.02	237	83	1,325	866	3,000	37,539	7.40	6.02	2934
Nov.	2,782	4,482	2,34,088	47.99	1,542	-26	4,553	845	120	32,836	6.97	6.16	3164
Dec.	6,986	4,493	1,67,066	47.92	1,040	-7,865	2,469	166	3,135	32,681	7.08	6.34	3315
2002													
Jan.	3,971	4,776	2,50,675	48.33	1,391	-84	4,821	0	1,339	31,693	6.63	6.00	3353
Feb.	4,198	5,081	2,36,526	48.69	567	-27	3,590	2	2,799	33,677	6.73	5.49	3529
March	3,616	5,268	1,24,906	48.74	2,282	-37	2,986	370	2,926	31,667	6.97	6.46	3581

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

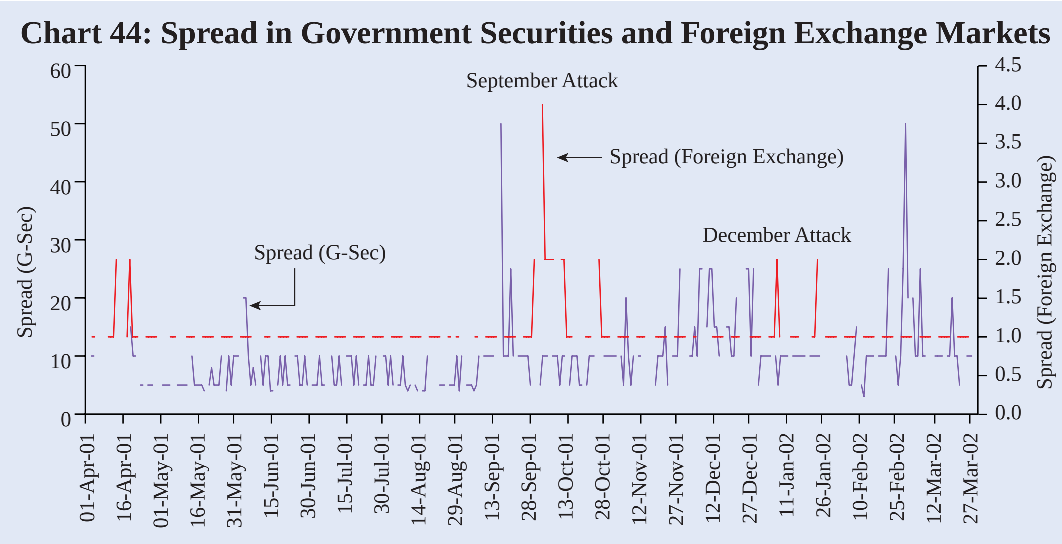
Chart 43: Average Call Rate, Secondary Market Gilt Yield and Exchange Rate changes during 2001-02



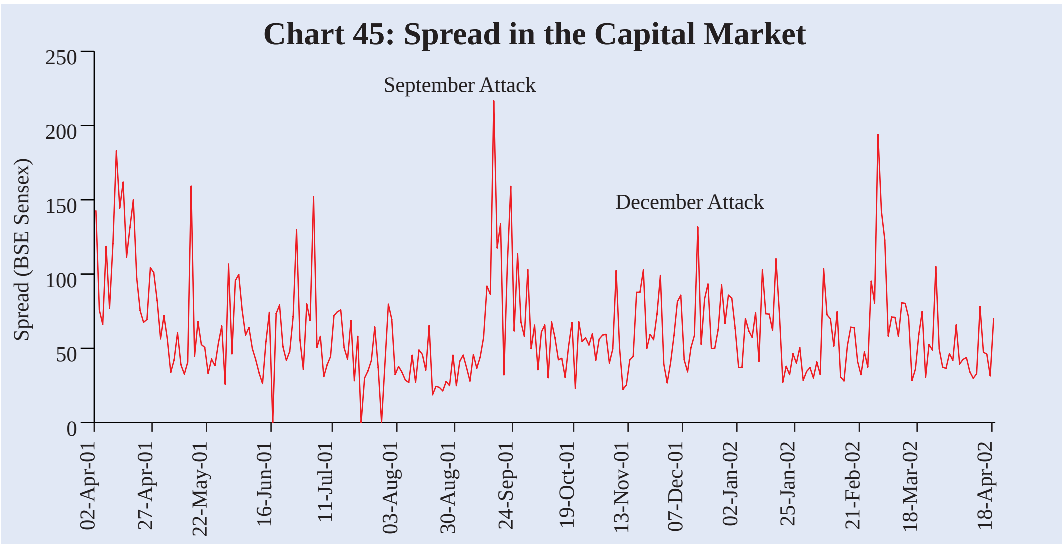
The liquidity conditions remained comfortable up to August 2001 buoyed by accretion to time deposits, low credit off-take, redemption receipts and coupon inflows. The call money rates remained well within the repo-reverse repo corridor during most of the period. The gilt segment was driven by buoyant 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

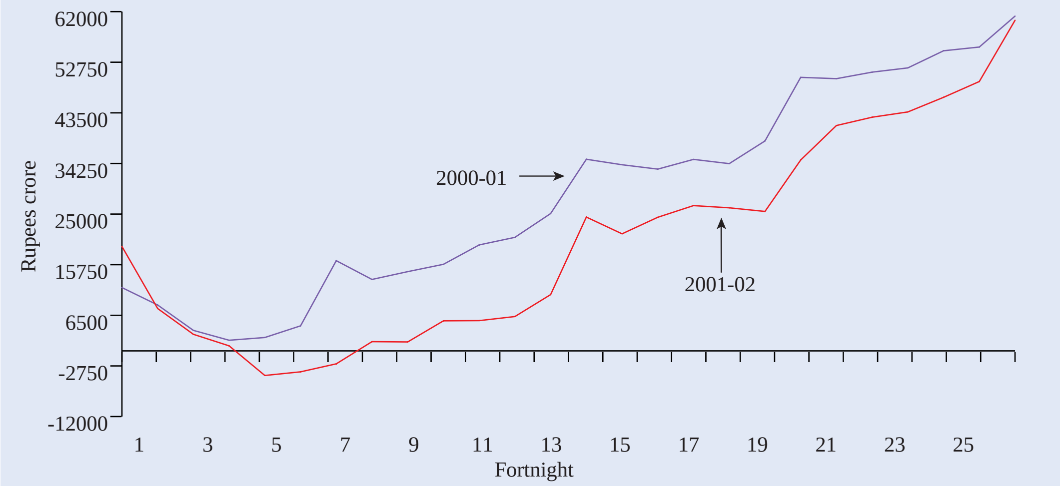
(Per cent)

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).



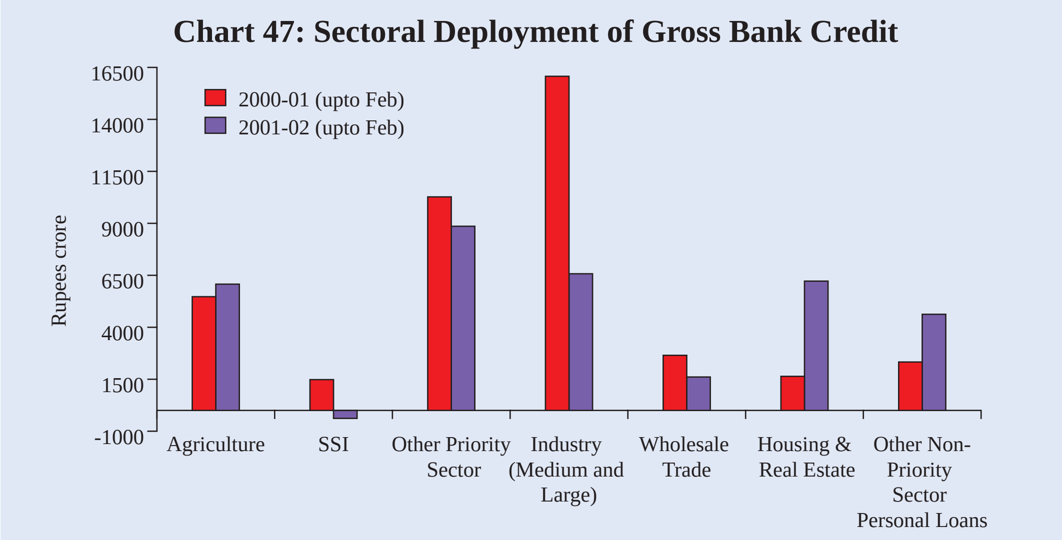
An analysis of the deployment of non-food gross bank credit of 49 select scheduled commercial banks during 2001-02 (up to February) shows that the slowdown of credit off-take in medium- and large-scale industry was the principal source of the overall slowdown of credit off-take (Table 16 and Chart 47).

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

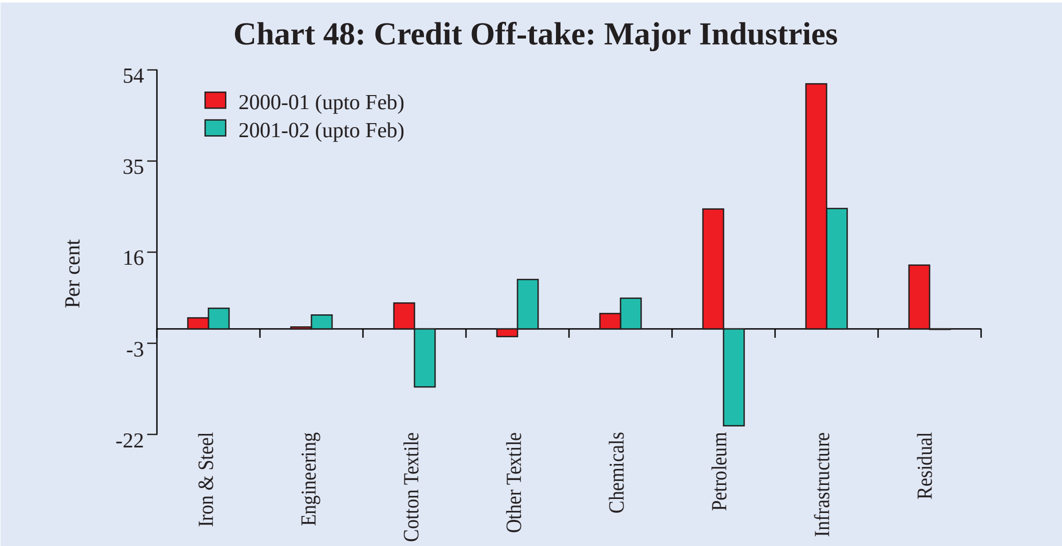
(Rupees crore)

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)

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)

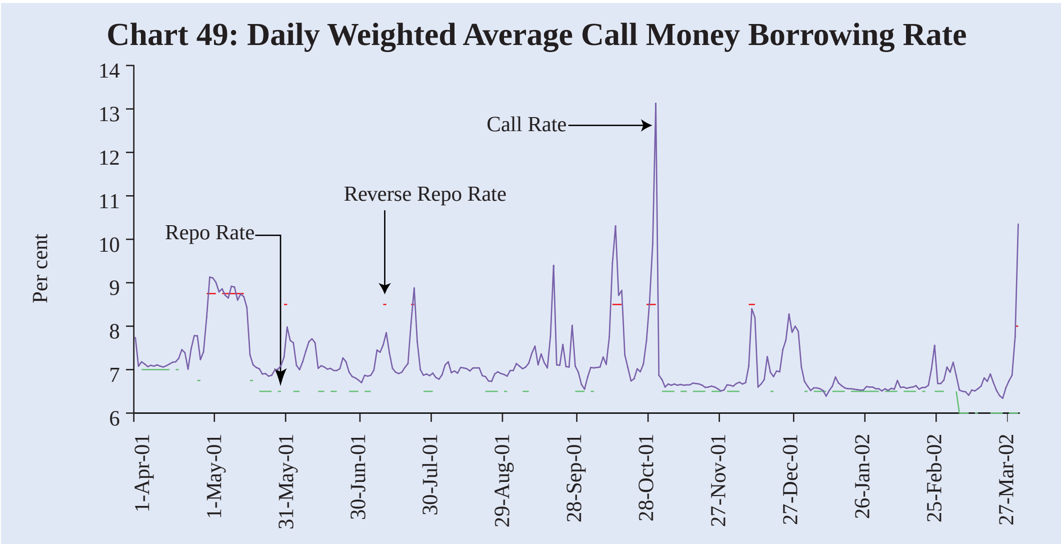
(Rupees crore)

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

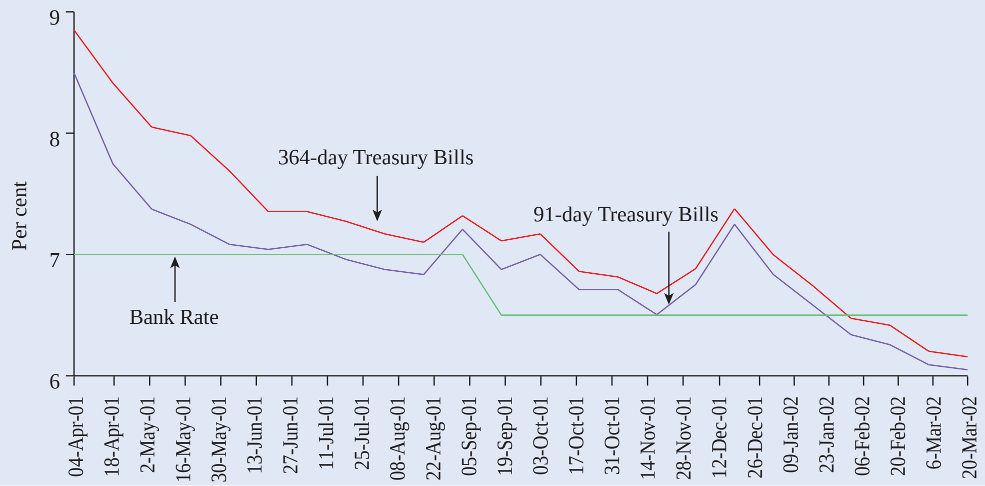
	Average (%)	Standard Deviation (%)	Coefficient of Variation
1	2	3	4
April	7.49	1.21	0.16
May	8.03	0.81	0.10
June	7.24	0.30	0.04
July	7.19	0.47	0.07
August	6.94	0.11	0.02
September	7.30	0.52	0.07
October	7.40	0.87	0.12
November	6.97	1.31	0.19
December	7.08	0.58	0.08
January	6.63	0.26	0.04
February	6.73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

Chart 50: Primary Market Yields on Treasury Bills



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).

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.

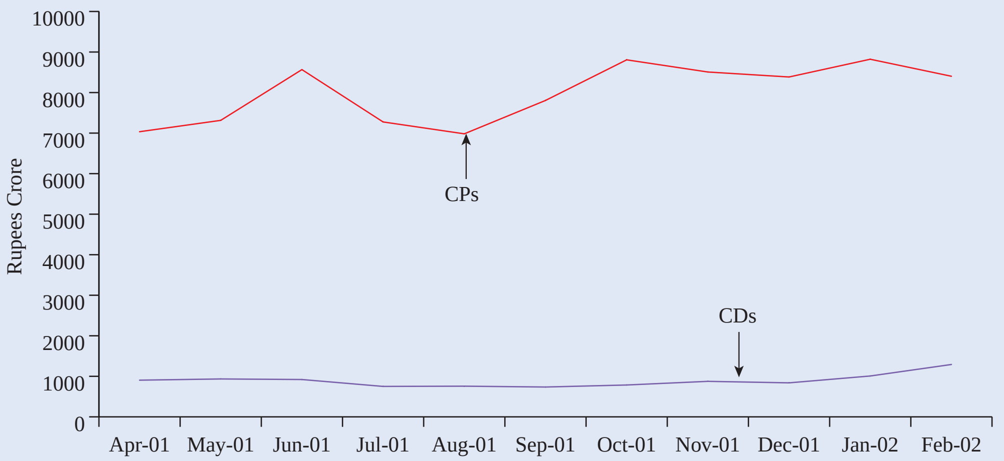
The easing of liquidity conditions with the commencement of 2002-03 led to a further decline in the yields of 91-day Treasury Bills and 364-day Treasury Bills to 5.8 per cent and 6.0 per cent, respectively, by April 17, 2002. The notified amount in respect to auctioning of 364-day Treasury Bills was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

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

Chart 51: Outstanding Amount of CPs and CDs

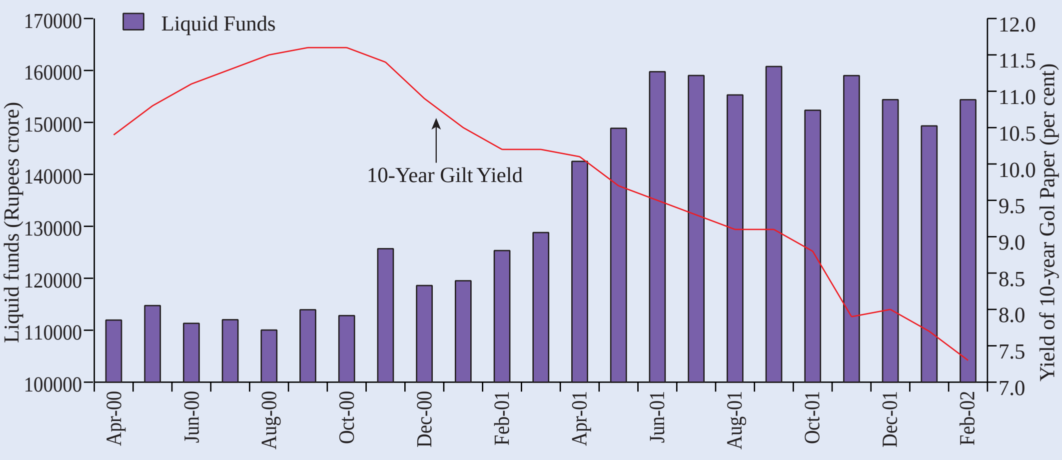


changing further in the remaining period of the first quarter of 2001-02. The prevalence of comfortable liquidity conditions thereafter resulted in a subdued CD market with the outstanding amount declining to Rs.729 crore in September 2001. The outstanding amount went up gradually in the second half 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 pre-emptions and credit off-take) enabled a softening of yields during the year (Chart 52).

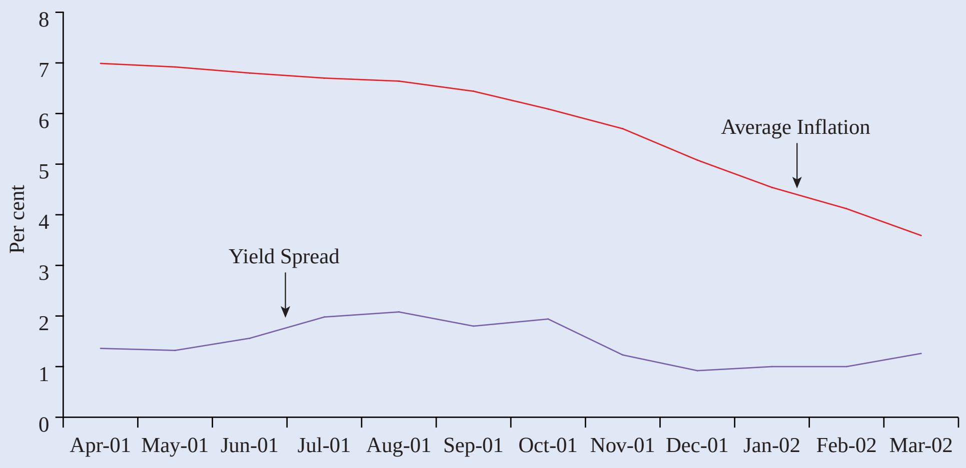
Chart 52: Liquid Funds with Banks and Secondary Market Yield



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.

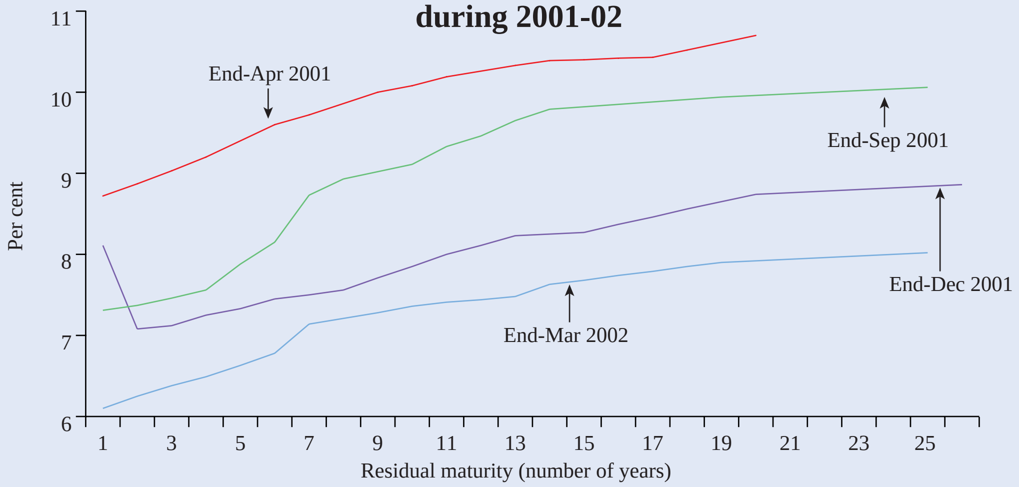
The secondary market activity in the government securities market during 2001-02 tracked the developments in the primary segment both in terms of yield movements and turnover. The easing of inflation expectations is reflected in the downward movement of the yield spread (difference between yields of 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).

Chart 53: Yield Spread and Inflation



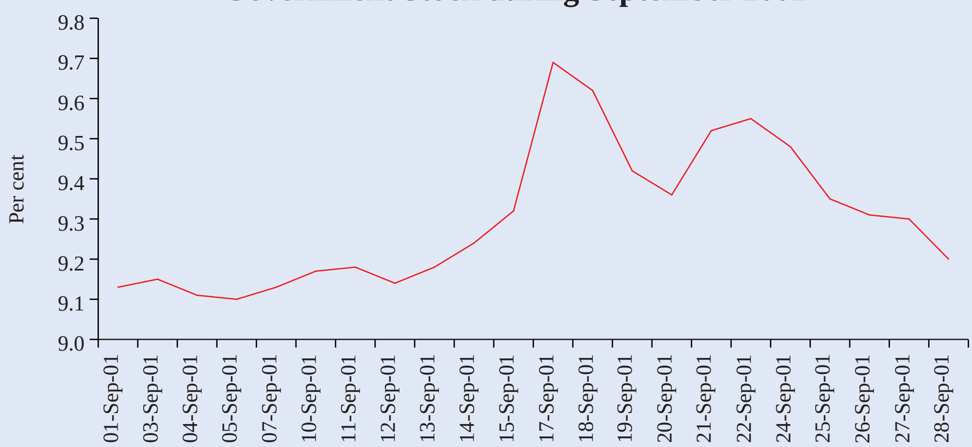
The prevalence of ample liquidity fuelled rallies in gilt prices with the yield of 10-year security decreasing by 272 basis points from 10.08 per cent at end-April 2001 to 7.36 per cent by end-March 2002 (Chart 54). Open market sales auctions were conducted to absorb surplus liquidity.

Chart 54: Yield Curves for Central Government Dated Securities during 2001-02



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).

Chart 55: Secondary Market Median Yield on 11.50 per cent 2011 Government Stock during September 2001



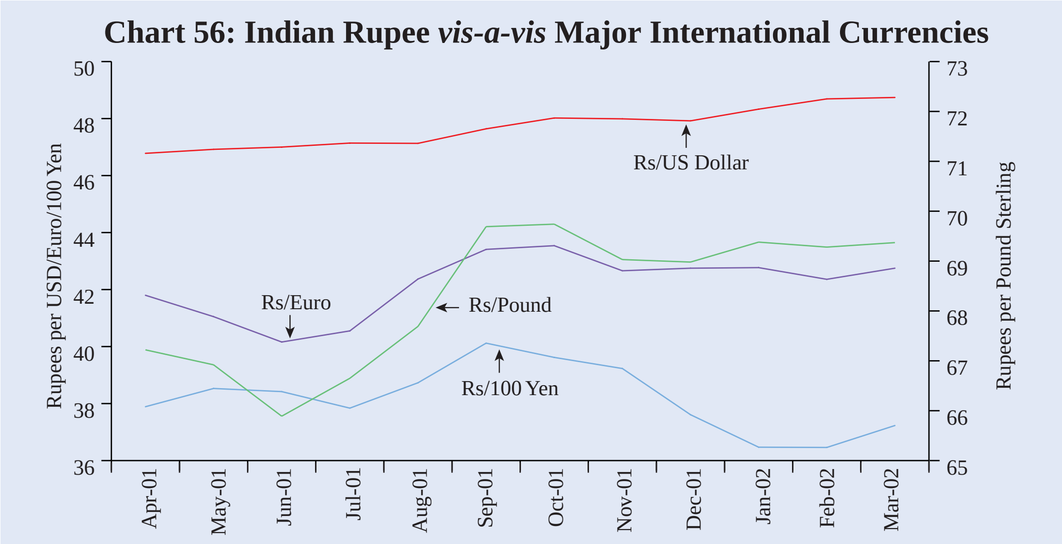
The Negotiated Dealing System (NDS) (Phase I) was operationalised from February 15, 2002 to facilitate electronic bidding in the primary auctions of Central/State Government securities, OMO/LAF auctions, transactions in money market instruments including repo, secondary market transactions in Government 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.

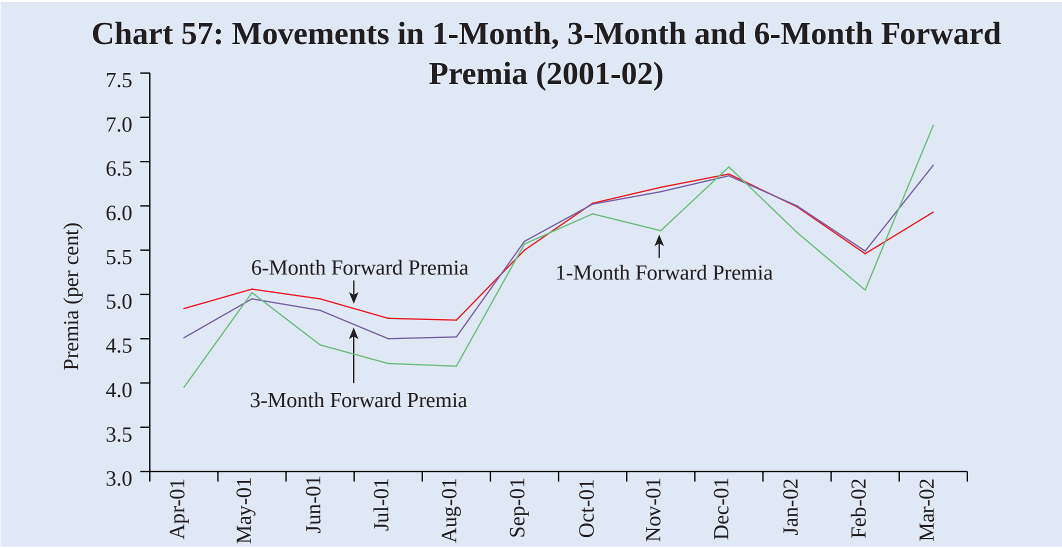
Foreign Exchange Market

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).

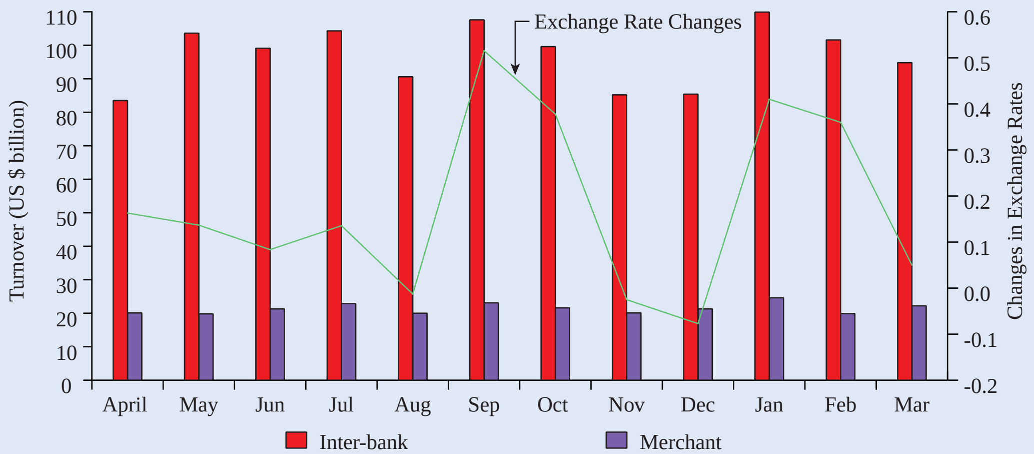


The forward premia for all the three maturities (one-month, three-month and six-month) in the foreign exchange market hovered around 4.0 to 5.0 per cent during the first five months (April-August) of 2001-02. The uncertainties generated in the spot segment in September 2001 found reflection in the forward 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).

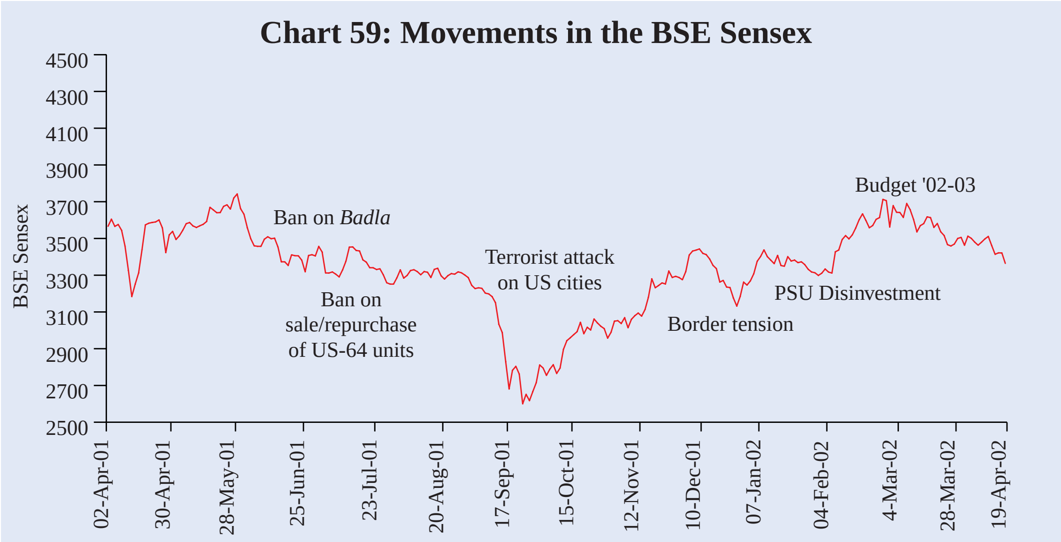
Chart 58: Merchant and Inter-bank Turnover in the Foreign Exchange Market and the Changes in the Exchange Rate: 2001-02



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).

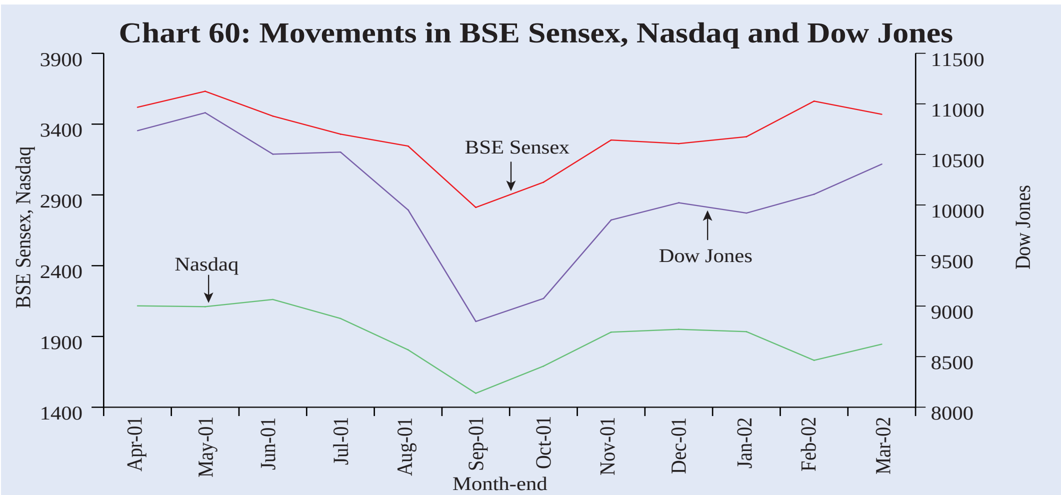
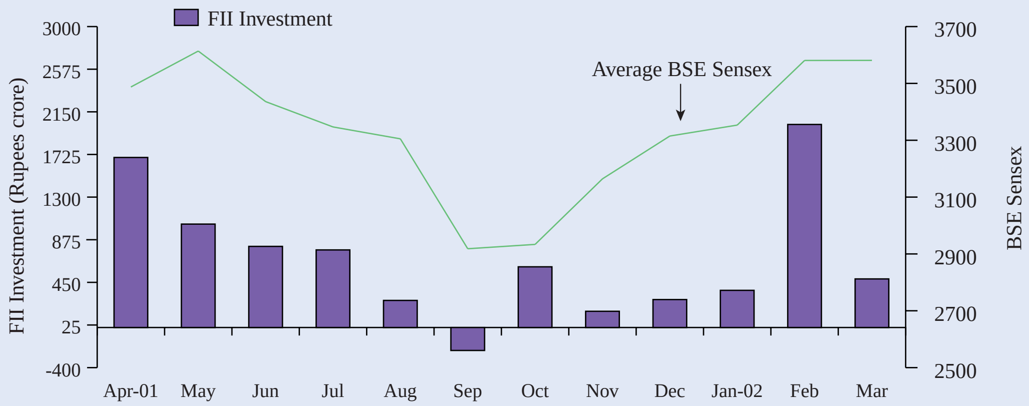
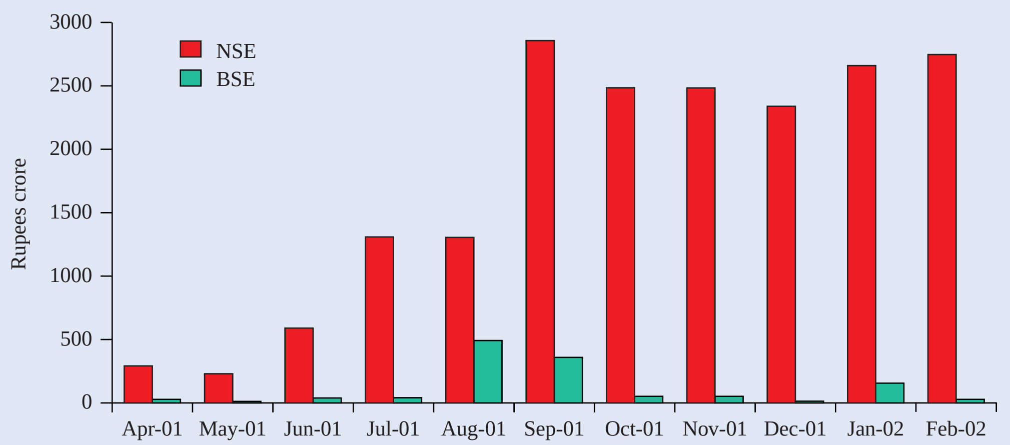


Chart 61: Movement of Average BSE Sensex and FII Investment



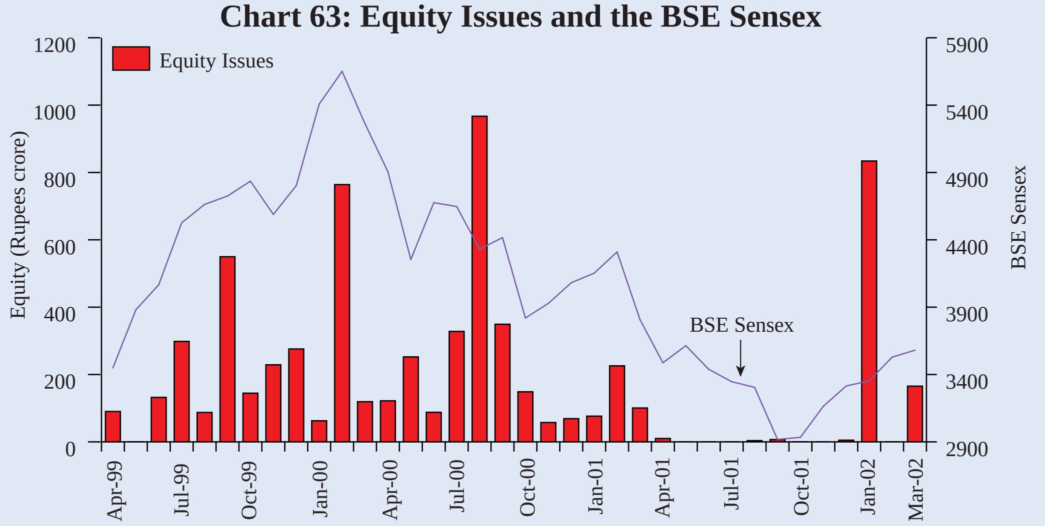
The Securities and Exchange Board of India (SEBI) initiated several measures in equity markets including a ban on all deferral products (including *badla*) from July 2001 and the extension of T+5 compulsory rolling settlement (CRS) in July and December 2001 followed by the introduction of T+3 CRS effective 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



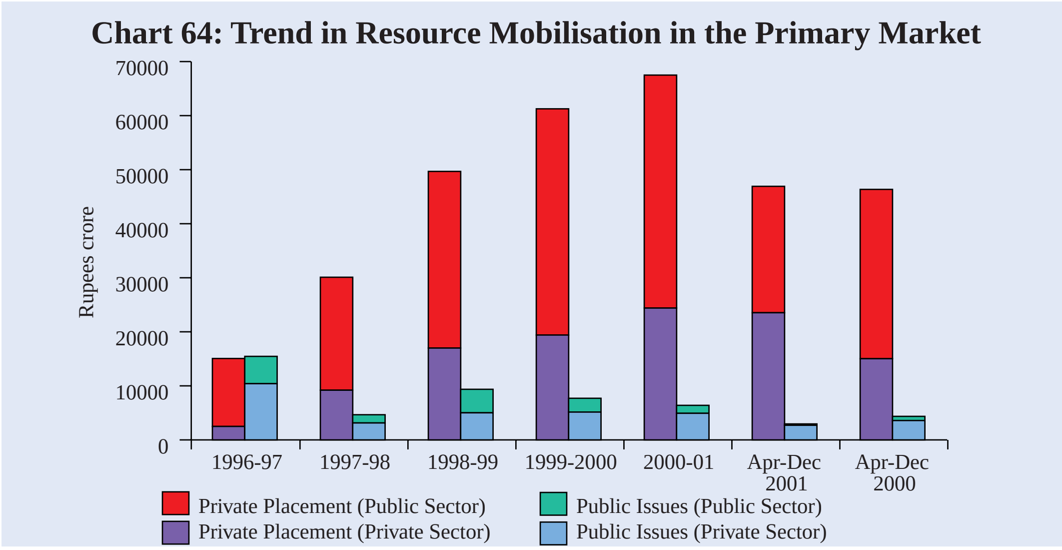
Resource mobilisation in the public issues market amounted to Rs.7,137 crore through 25 issues during 2001-02 as compared with Rs.6,396 crore raised through 147 issues during 2000-01. The public issues market witnessed drying up of the initial public offerings (IPOs) from the information technology sector. 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).

Chart 63: Equity Issues and the BSE Sensex



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.