

## V. FINANCIAL MARKETS

### International Financial Markets

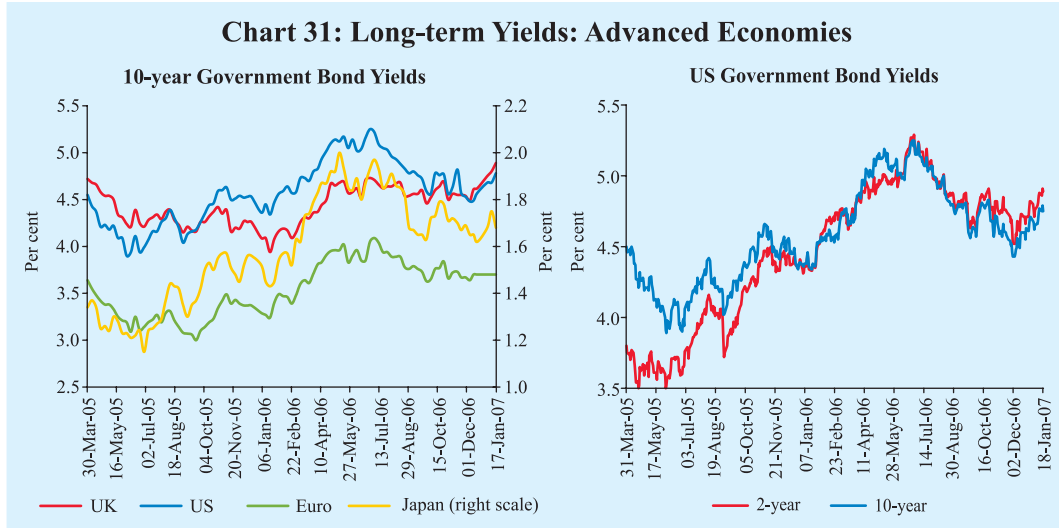
During the third quarter (October-December 2006) of 2006-07, short-term interest rates increased further in major advanced economies as some central banks further tightened their policies to contain inflation and stabilise inflationary expectations (Table 33). Since end-September 2006, the European Central Bank has increased its policy rate by 25 basis points each on October 5, 2006 and December 7, 2006. The UK raised its policy rate by 25 basis points each on November 9, 2006 and January 11, 2007. Other advanced economies such as Australia, Sweden and Norway have also increased their policy rates since end-September 2006. The increase in short-term rates in the US since end-September 2006 has been lower than other major advanced economies as the fed funds rate has remained unchanged since end-June 2006. Short-term interest rates declined in a number of emerging market economies (EMEs) as the central banks in some of these economies cut their rates or kept them unchanged.

In line with the upward trend in short-term rates, long-term Government bond yields increased in major advanced economies. Between end-September

**Table 33: Short-term Interest Rates**

(Per cent)								
Region/Country	At end of							
	March 2005	March 2006	June 2006	September 2006	October 2006	November 2006	December 2006	January 2007*
1	2	3	4	5	6	7	8	9
<b>Advanced Economies</b>								
Euro Area	2.15	2.80	3.06	3.38	3.54	3.63	3.70	3.75
Japan	0.02	0.04	0.24	0.34	0.34	0.40	0.44	0.48
Sweden	1.97	1.99	2.23	2.55	2.74	2.89	2.94	3.14
UK	4.95	4.58	4.70	5.02	5.11	5.20	5.27	5.52
US	2.90	4.77	5.48	5.21	5.23	5.24	5.25	5.24
<b>Emerging Market Economies</b>								
Argentina	4.56	9.63	10.00	10.38	10.13	10.56	10.63	10.19
Brazil	19.25	16.54	15.18	14.17	13.67	13.68	13.19	13.19
China	2.25	2.40	3.00	2.95	3.00	3.50	2.88	2.80
Hong Kong	2.79	4.47	4.67	4.20	4.14	4.10	3.97	3.99
<b>India</b>	<b>5.37</b>	<b>6.11</b>	<b>6.36</b>	<b>6.60</b>	<b>6.65</b>	<b>6.69</b>	<b>7.19</b>	<b>7.14</b>
Malaysia	2.82	3.51	3.93	3.85	3.80	3.73	3.73	3.73
Philippines	7.25	7.38	8.00	7.63	7.81	6.19	6.56	5.63
Singapore	2.06	3.44	3.50	3.44	3.44	3.40	3.44	3.41
South Korea	3.54	4.26	4.57	4.63	4.61	4.64	4.73	4.93
Thailand	2.64	5.10	5.40	5.40	5.25	5.25	5.20	5.25

\* : As on January 17, 2007.  
**Note** : Data for India refer to 91-day Treasury Bills rate and for other countries 3-month money market rates.  
**Source** : The Economist.



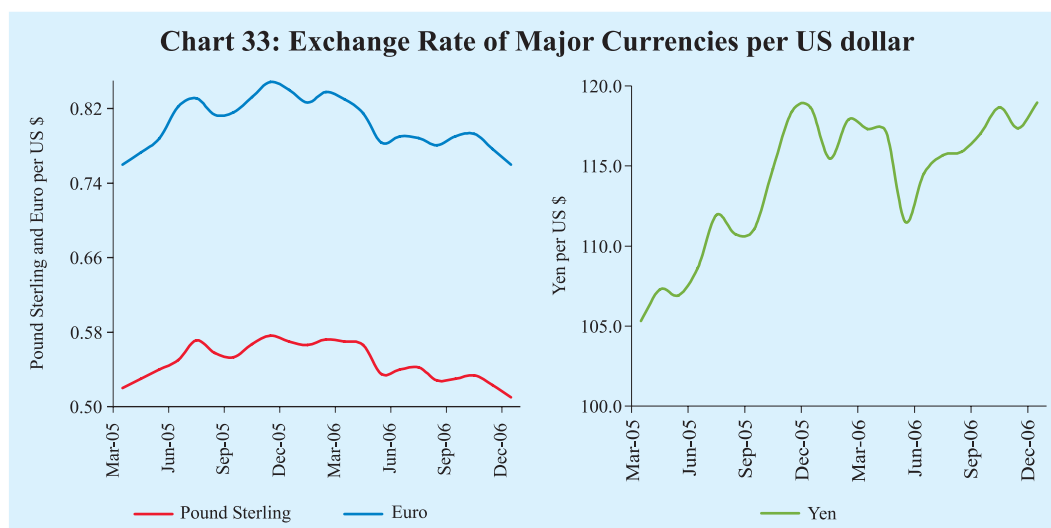
2006 and January 17, 2007, 10-year yields increased by 43 basis points in the UK, 19 basis points in the US, seven basis points in the euro area and five basis points in Japan (Chart 31). The hardening of yields in the euro area and the UK could be attributed to higher short-term rates in view of further tightening and improved growth prospects. US yields edged higher on the back of stronger than expected data. Since early June 2006, 10-year US bond yields have remained below those on 2-year bonds.

Global equity markets recorded further gains during the third quarter of 2006-07 (Chart 32). The MSCI World and MSCI emerging markets indices



increased by 8.5 per cent and 15.2 per cent, respectively, between end-September 2006 and January 17, 2007. Since end-March 2006, these indices have gained 11.9 per cent and 15.7 per cent, respectively. Strong corporate results, better than expected growth in the euro area, strong merger and acquisition activity, pause by the US Federal Reserve and decline in crude oil prices provided support to the equity markets during the third quarter of 2006-07. Stock markets in Thailand declined by 14.8 per cent on December 19, 2006 (over its level on the previous day) following the decision of the Bank of Thailand (BoT) to impose unremunerated reserve requirement (URR) of 30 per cent on short-term capital flows to discourage speculative short-term capital flows. The markets, however, recovered some of these losses the next day as the BoT exempted investments in stock markets from the URR. In the current fiscal year (up to January 17, 2007) amongst major economies, stock markets in China recorded the largest gains (113.3 per cent), followed by Indonesia (32.9 per cent), Russia (30.1 per cent), Hong Kong (27.4 per cent) and India (26.4 per cent).

In the foreign exchange market, the US dollar depreciated against the Pound sterling and the euro during the third quarter of 2006-07, reflecting narrowing of interest rate differentials, moderation of activity in the US and robust growth in the euro area (Chart 33). Between end-September 2006 and January 19, 2007, the US dollar depreciated by 5.2 per cent against the Pound sterling and 2.3 per cent against the euro but appreciated by 3.0 per cent against the yen. Amongst Asian currencies, the US dollar depreciated by 5.0 per cent against Malaysian Ringgit, 3.9 per cent against Thai Baht, 1.6 per cent against Chinese Yuan and 0.9 per cent against Korean Won.



## Domestic Financial Markets

Indian financial markets remained largely orderly during the third quarter of 2006-07. Short-term money rates remained generally within the reverse repo rate and repo rate corridor till mid-December 2006. However, during the last fortnight of December 2006, call rates shot up. In the foreign exchange market, the Indian rupee appreciated *vis-à-vis* the US dollar during the third quarter. Yields on the longer maturity bonds in the Government securities market softened during October and November 2006 but hardened subsequently. Banks' deposit and lending rates edged up further during the quarter in the wake of strong credit demand. The stock markets recorded further gains, reaching record highs (Table 34). Resources

Table 34: Domestic Financial Markets at a Glance

Month	Call Money		Government Securities		Foreign Exchange			Liquidity Management			Equity			
	Average Daily Turnover (Rs. crore)	Average Call Rates* (Per cent)	Average Turnover in Govt. Securities (Rs. crore)+	Average 10-Year Yield@ (Per cent)	Average Daily Inter-bank Turnover (US \$ million)	Average Exchange Rate (US \$)	RBI's net Foreign Currency Sales(-)/ Purchases (+) (US \$ million)	Average Forward Premia (Per cent)	Average MSS Outstanding# (Rs. crore)	Average Daily Reverse Repo (LAF) Out-standing (Rs. crore)	Average Daily BSE Turnover (Rs. crore)	Average Daily NSE Turnover (Rs. crore)	Average BSE Sensex**	Average S&P CNX Nifty**
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
<b>2004-05@@</b>	<b>14,170</b>	<b>4.65</b>	<b>4,826</b>	<b>6.22</b>	<b>8,892</b>	<b>44.93</b>	<b>20,847 £</b>	<b>1.66</b>	<b>46,445</b>	<b>35,592</b>	<b>2,050</b>	<b>4,506</b>	<b>5741</b>	<b>1805</b>
<b>2005-06@@</b>	<b>17,979</b>	<b>5.60</b>	<b>3,643</b>	<b>7.12</b>	<b>12,738</b>	<b>44.27</b>	<b>8,143 £</b>	<b>1.60</b>	<b>58,792</b>	<b>10,986</b>	<b>3,248</b>	<b>6,253</b>	<b>8295</b>	<b>2518</b>
April	17,213	4.77	3,001	7.02	9,880	43.74	0	1.96	65,638	30,675	1,890	4,136	6379	1987
May	15,269	4.99	3,805	7.11	10,083	43.49	0	1.57	68,539	22,754	1,971	3,946	6483	2002
June	20,134	5.10	6,807	6.88	10,871	43.58	-104	1.40	70,651	13,916	2,543	4,843	6926	2134
July	20,046	5.02	3,698	7.13	11,003	43.54	2,473	1.56	70,758	10,754	3,095	6,150	7337	2237
August	16,158	5.02	4,239	7.04	11,749	43.62	1,552	0.69	71,346	34,832	3,452	6,624	7726	2358
September	16,292	5.05	5,207	7.04	11,040	43.92	0	0.62	67,617	30,815	3,871	6,923	8272	2512
October	17,164	5.12	2,815	7.14	13,087	44.82	0	0.69	68,602	18,608	2,955	6,040	8220	2487
November	22,620	5.79	3,314	7.10	11,228	45.73	0	0.67	67,041	3,268	2,635	5,479	8552	2575
December	21,149	6.00	2,948	7.13	13,808	45.64	-6,541	1.51	52,040	1,452	3,516	6,814	9162	2773
January	17,911	6.83	3,094	7.15	16,713	44.40	0	2.60	40,219	-15,386	3,966	7,472	9540	2893
February	13,497	6.95	2,584	7.32	15,798	44.33	2,614	2.85	33,405	-13,532	3,688	7,125	10090	3019
March	18,290	6.58	2,203	7.40	17,600	44.48	8,149	3.11	29,652	-6,319	5,398	9,518	10857	3236
<b>2006-07</b>														
April	16,909	5.62	3,685	7.45	17,712	44.95	4,305	1.31	25,709	46,088	4,860	9,854	11742	3494
May	18,074	5.54	3,550	7.58	18,420	45.41	504	0.87	26,457	59,505	4,355	9,155	11599	3437
June	17,425	5.73	2,258	7.86	15,310	46.06	0	0.73	31,845	48,610	3,130	6,854	9935	2915
July	18,254	5.86	2,243	8.26	14,086 P	46.46	0	0.83	36,936	48,027	2,604	5,652	10557	3092
August	21,294	6.06	5,786	8.09	15,630 P	46.54	0	1.22	40,305	36,326	2,867	5,945	11305	3306
September	23,665	6.33	8,306	7.76	17,837 P	46.12	0	1.31	40,018	25,862	3,411	6,873	12036	3492
October	26,429	6.75	4,313	7.65	16,233 P	44.47	0	1.67	41,537	12,262	3,481	6,919	12637	3649
November	25,649	6.69	10,654	7.52	20,207 P	44.85	3,198	2.07	38,099	9,937	4,629	8,630	13416	3869
December	24,168	8.63	5,362	7.55	19,827 P	44.64	-	3.20	38,148	-1,713	4,276	8,505	13628	3910

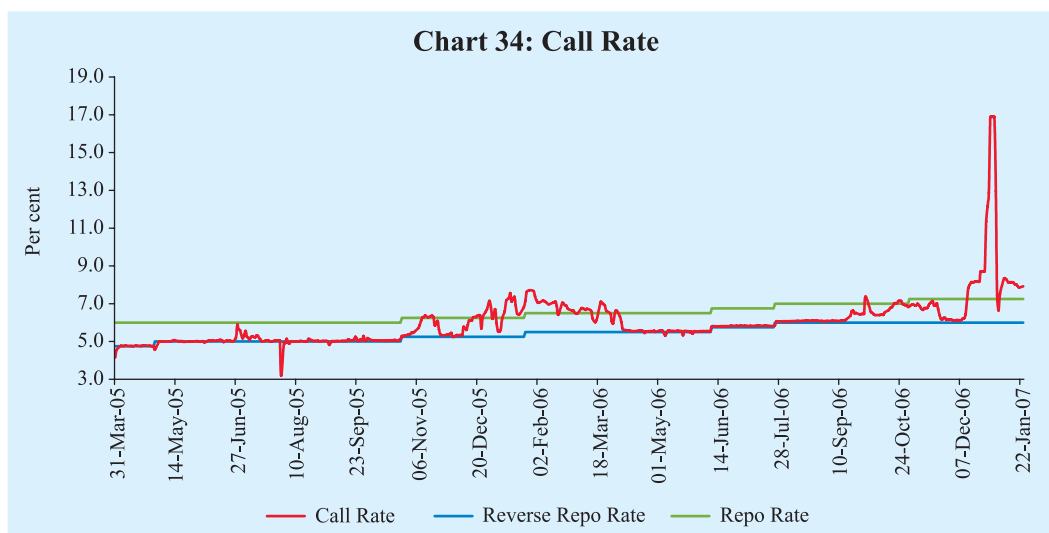
\* : Average of daily weighted call money borrowing rates. + : Average of daily outright turnover in Central Government dated securities.  
@ : Average of daily closing rates. # : Average of weekly outstanding MSS.  
@@ : Data are monthly averages. \*\* : Average of daily closing indices. £ : Cumulative for the financial year.  
LAF : Liquidity Adjustment Facility. BSE : The Stock Exchange, Mumbai. NSE : National Stock Exchange of India Ltd.  
MSS : Market Stabilisation Scheme. P : Provisional. - : Not available.  
**Note** : In column 11, (-) indicates injection of liquidity while (+) indicates absorption of liquidity.

raised in the primary market segment of the equity market during the third quarter of 2006-07 were higher than the preceding quarter.

### Money Market

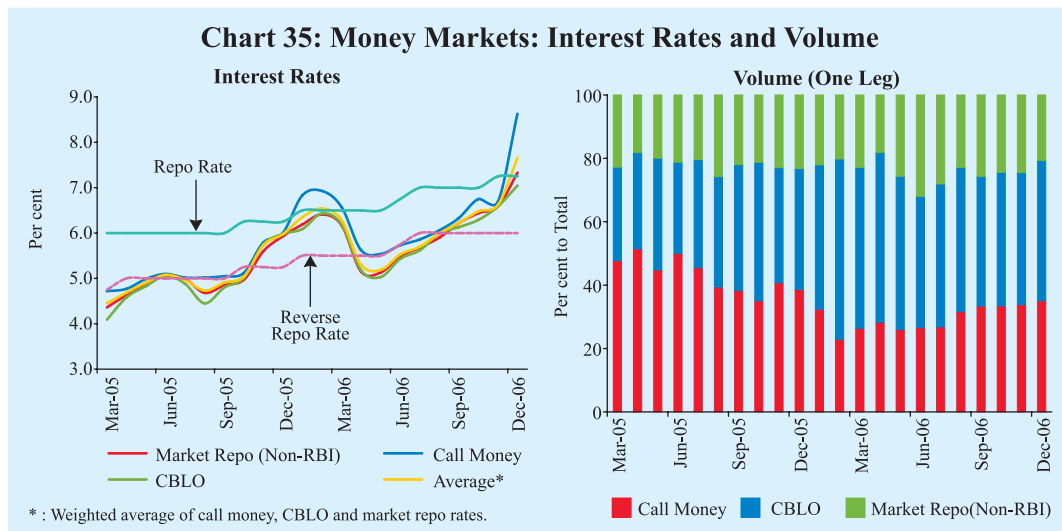
Call money rate remained generally close to the reverse repo rate up to mid-September 2006 (Chart 34). Liquidity conditions, however, became relatively tighter in the second half of September 2006 on account of advance tax outflows and festival season currency demand amidst high credit demand. Call rates crossed the repo rate and touched 7.38 per cent as on September 29, 2006. Call rates eased below the repo rate by early October 2006 and remained mostly within repo-reverse repo corridor till early November 2006 as liquidity pressures eased, partly on account of reduction in Centre's surplus. Call rates eased further to reverse repo levels by the last week of November 2006, but edged higher from the second week of December 2006, crossing the repo rate to touch 16.88 per cent on December 29, 2006 under the impact of advance tax outflows and hike of 25 basis points each in the cash reserve ratio (CRR) effective the fortnights beginning December 23, 2006 and January 6, 2007. Call rates eased in the first week of January 2007 on the back of improvement in liquidity conditions. The call rate was 7.88 per cent as on January 23, 2007, 81 basis points higher than that at end-September 2006 and 124 basis points higher than that at end-March 2006.

A screen-based negotiated quote-driven system for all dealings in call/notice and term money markets (NDS-CALL), as announced in the Annual Policy Statement for the year 2005-06, was launched on September 18, 2006. The



dealing on this platform is optional; 80 banks (including 15 co-operative banks) and 10 primary dealers have taken membership of NDS-CALL so far. Trading on NDS-CALL is expected to bring about increased transparency and better price discovery in the call money market.

Interest rates in the collateralised segments of the money market – the market repo (outside the LAF) and the Collateralised Borrowing and Lending Obligation (CBLO) – remained below the call rate during the third quarter. Till mid-December 2006, these rates remained within repo - reverse repo rate corridor. In tandem with tightness in money markets, interest rates in these segments also edged up and crossed the repo rate in the second half of December 2006, but remained below the call rates. During October-December 2006, the CBLO and market repo rates averaged 6.64 per cent and 6.79 per cent, respectively, as compared with 7.36 per cent in the call market. During the fiscal year 2006-07 (up to December 2006), interest rates averaged 5.92 per cent and 5.99 per cent in the CBLO and market repo segments, respectively, as compared with 6.36 per cent in the call money market. The weighted average interest rate of call, CBLO and market repo increased from 6.29 per cent in March 2006 and 6.22 per cent in September 2006 to 7.66 per cent in December 2006; the weighted average interest rate was 7.49 per cent as on January 23, 2007. The collateralised market is now the predominant segment in the money market, with a share of around 65 per cent in total volume during 2006-07 so far (Chart 35 and Table 35). Mutual funds and financial institutions are the major lenders in the CBLO market with nationalised banks being the major borrowers. In the market repo segment, mutual funds are the major provider of funds, while foreign banks, private sector banks and primary dealers are the major borrowers.



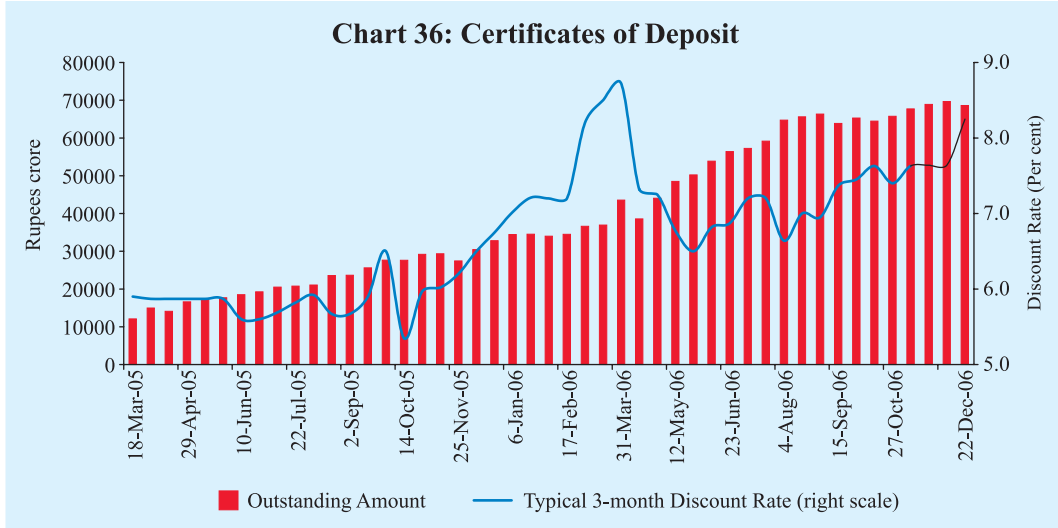
**Table 35: Activity in Money Market Segments**

Month	(Rupees crore)						
	Average Daily Volume (One Leg)				Commercial Paper		Certificates of Deposit Outstanding
	Call Money Market	Repo Market (outside the LAF)	Collateralised Borrowing and Lending Obligation (CBLO)	Term Money Market	Outstanding	Amount Issued	
1	2	3	4	5	6	7	8
<b>2004-05 *</b>	<b>7,085</b>	<b>4,284</b>	<b>3,349</b>	<b>263</b>	<b>11,723</b>	<b>1,090</b>	<b>6,052</b>
<b>2005-06 *</b>	<b>8,990</b>	<b>5,296</b>	<b>10,020</b>	<b>417</b>	<b>17,285</b>	<b>3,140</b>	<b>27,298</b>
April	8,607	3,044	5,185	331	15,598	3,549	16,602
May	7,635	3,422	6,117	273	17,182	3,824	17,689
June	10,067	4,291	5,896	267	17,797	2,925	19,270
July	10,023	4,526	7,646	359	18,607	3,360	20,768
August	8,079	5,331	7,272	377	19,508	4,110	23,568
September	8,146	4,718	8,572	558	19,725	2,519	27,641
October	8,582	5,245	10,882	367	18,726	2,892	29,193
November	11,310	6,415	10,248	459	18,013	2,483	27,457
December	10,575	6,394	10,633	388	17,234	3,304	32,806
January	8,956	6,149	12,817	545	16,431	1,937	34,521
February	6,749	6,024	17,081	407	15,876	3,160	34,487
March	9,145	7,991	17,888	669	12,718	2,813	43,568
<b>2006-07</b>							
April	8,455	5,479	16,329	447	16,525	6,065	44,059
May	9,037	9,027	17,147	473	16,922	4,701	50,228
June	8,713	10,563	13,809	628	19,650	4,981	56,390
July	9,127	9,671	15,670	432	21,110	5,812	59,167
August	10,647	7,764	15,589	510	22,854	6,460	65,621
September	11,833	9,185	14,771	568	24,419	5,220	65,274
October	13,214	9,721	16,964	466	23,171	3,373	65,764
November	12,825	9,374	16,069	348	24,238	6,392	68,910
December	12,084	7,170	15,512	481	23,336	3,080	68,619

\* : Data are monthly averages.

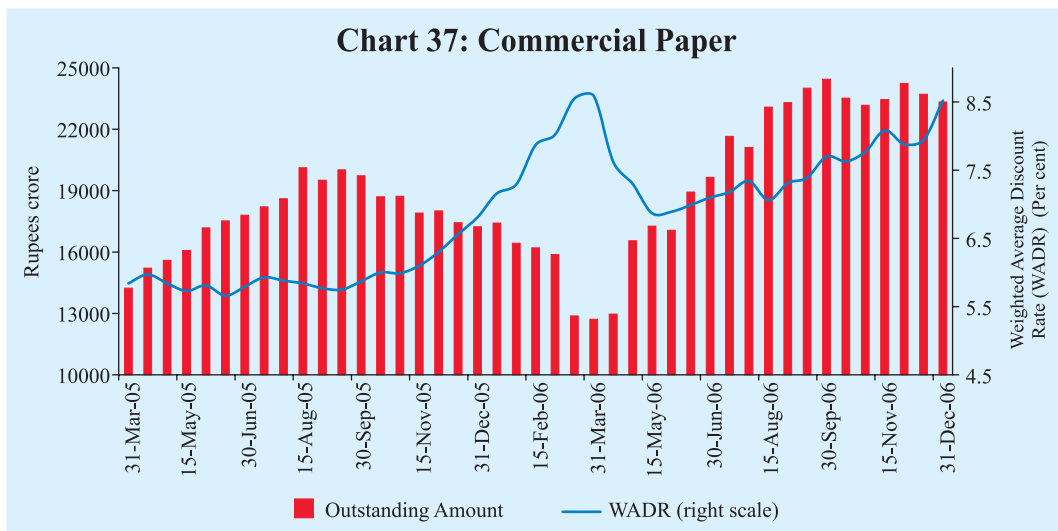
*Certificates of Deposit*

The outstanding amount of certificates of deposit (CDs) increased further during the third quarter of 2006-07 as banks continued to supplement their efforts at deposit mobilisation to support sustained credit demand (Table 35 and Chart 36). The amount of outstanding CDs increased from Rs.65,274 crore at end-September 2006 (4.5 per cent of aggregate deposits of issuing banks with significant intra-group variation) to Rs.68,619 crore (4.3 per cent) by December 22, 2006. The weighted average discount rate (WADR) of CDs of '6 months to less than 1 year' maturity at 8.28 per cent as on December 22, 2006 was 48 basis points higher than its level (7.80 per cent) at end-September 2006. Mutual funds have emerged as key investors in CDs. The fact that CDs can be traded makes them attractive for investors like mutual funds, who look for easily encashable investments.



### Commercial Paper

After increasing in each of the previous two quarters, the outstanding amount of commercial papers (CPs) declined marginally during the third quarter from Rs.24,419 crore as on September 30, 2006 to Rs.23,336 crore as on December 31, 2006 (Chart 37). The weighted average discount rate (WADR) on CPs increased from 7.70 per cent on September 30, 2006 to 8.52 per cent as on December 31, 2006 in tandem with the increase in the money market rates. The discount rate on CPs moved from a range of 7.10-9.25 per cent during the fortnight ended September 30, 2006 to 7.74-10.00 per cent during the fortnight ending





**Table 36: Commercial Paper – Major Issuers**

Category of Issuer	(Rupees crore)				
			End of		
	March 2005	March 2006	June 2006	September 2006	December 2006
1	2	3	4	5	6
Leasing and Finance	8,479 (59.6)	9,400 (73.9)	13,460 (68.5)	15,792 (64.6)	15,060 (64.5)
Manufacturing	2,881 (20.2)	1,982 (15.6)	4,155 (21.1)	4,847 (19.9)	4,611 (19.8)
Financial Institutions	2,875 (20.2)	1,336 (10.5)	2,035 (10.4)	3,780 (15.5)	3,665 (15.7)
<b>Total</b>	<b>14,235</b> <b>(100.0)</b>	<b>12,718</b> <b>(100.0)</b>	<b>19,650</b> <b>(100.0)</b>	<b>24,419</b> <b>(100.0)</b>	<b>23,336</b> <b>(100.0)</b>

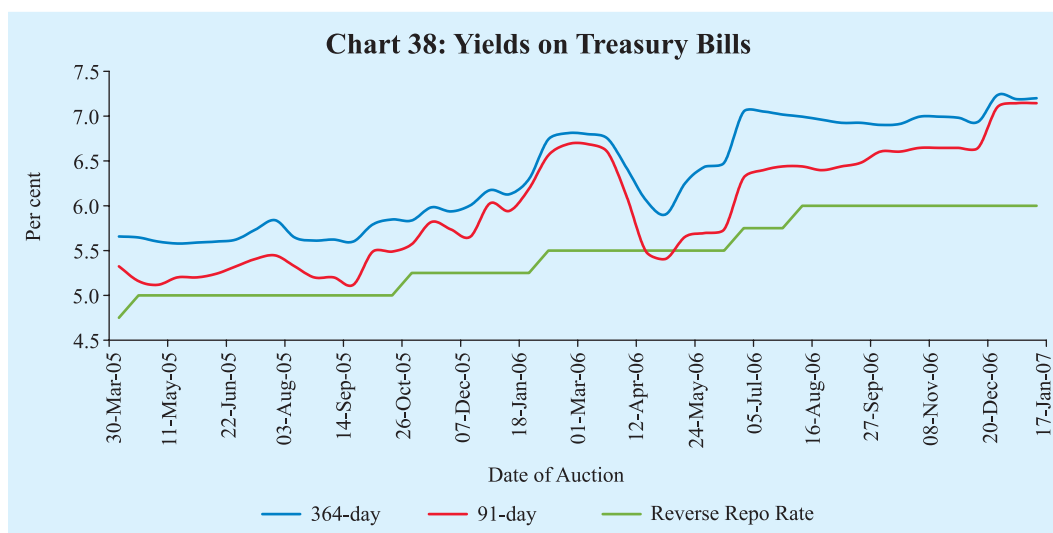
**Note :** Figures in parentheses are percentage shares to the total.

December 31, 2006. The most preferred tenors of CPs were '61 to 90 days' and '181 days and above'.

Leasing and finance companies continued to remain the pre-dominant issuers of CPs in the absence of the access of these companies to public deposits (Table 36).

#### Treasury Bills

The primary market yields on Treasury Bills (TBs), after remaining broadly unchanged during October-November 2006, increased during December 2006 (Chart 38). The yield spread between 364-day and 91-day TBs narrowed to eight basis points in December 2006 from 40 basis points in September 2006 (Table 37).



**Table 37: Treasury Bills in the Primary Market**

Month	Notified Amount (Rupees crore)	Average Implicit Yield at Minimum Cut-off Price (Per cent)			Average Bid-Cover Ratio		
		91-day	182-day	364-day	91-day	182-day	364-day
1	2	3	4	5	6	7	8
<b>2004-05 *</b>	<b>1,38,500 @</b>	<b>4.91</b>	<b>–</b>	<b>5.16</b>	<b>2.43</b>	<b>–</b>	<b>2.52</b>
<b>2005-06 *</b>	<b>1,55,500 @</b>	<b>5.68</b>	<b>5.82</b>	<b>5.96</b>	<b>2.64</b>	<b>2.65</b>	<b>2.45</b>
April	19,000	5.17	5.36	5.62	4.03	4.48	2.54
May	15,000	5.19	5.35	5.58	3.30	3.37	2.29
June	18,500	5.29	5.37	5.61	1.54	2.42	1.81
July	11,500	5.46	5.67	5.81	1.21	1.79	1.68
August	21,000	5.23	5.42	5.63	3.07	2.68	2.54
September	23,000	5.24	5.37	5.70	1.52	1.45	1.61
October	15,000	5.50	5.71	5.84	1.69	1.53	3.44
November	11,000	5.76	5.85	5.96	2.12	1.92	2.30
December	5,000	5.89	6.00	6.09	3.07	2.97	2.36
January	5,000	6.25	6.22	6.21	2.86	2.83	2.72
February	5,000	6.63	6.74	6.78	3.04	2.07	2.71
March	6,500	6.51	6.66	6.66	4.17	3.43	3.36
<b>2006-07</b>							
April	5,000	5.52	5.87	5.98	5.57	4.96	2.02
May	18,500	5.70	6.07	6.34	1.88	1.84	1.69
June	15,000	6.14	6.64	6.77	1.63	1.35	2.11
July	16,500	6.42	6.75	7.03	1.82	1.55	3.12
August	19,000	6.41	6.70	6.96	2.03	2.71	3.48
September	15,000	6.51	6.76	6.91	1.35	1.80	2.92
October	15,000	6.63	6.84	6.95	1.31	1.20	2.02
November	18,500	6.65	6.92	6.99	1.33	1.22	2.49
December	15,000	7.01	7.27	7.09	1.19	1.29	3.34
January ^	11,500	7.14	7.14	7.23	1.29	2.54	1.64

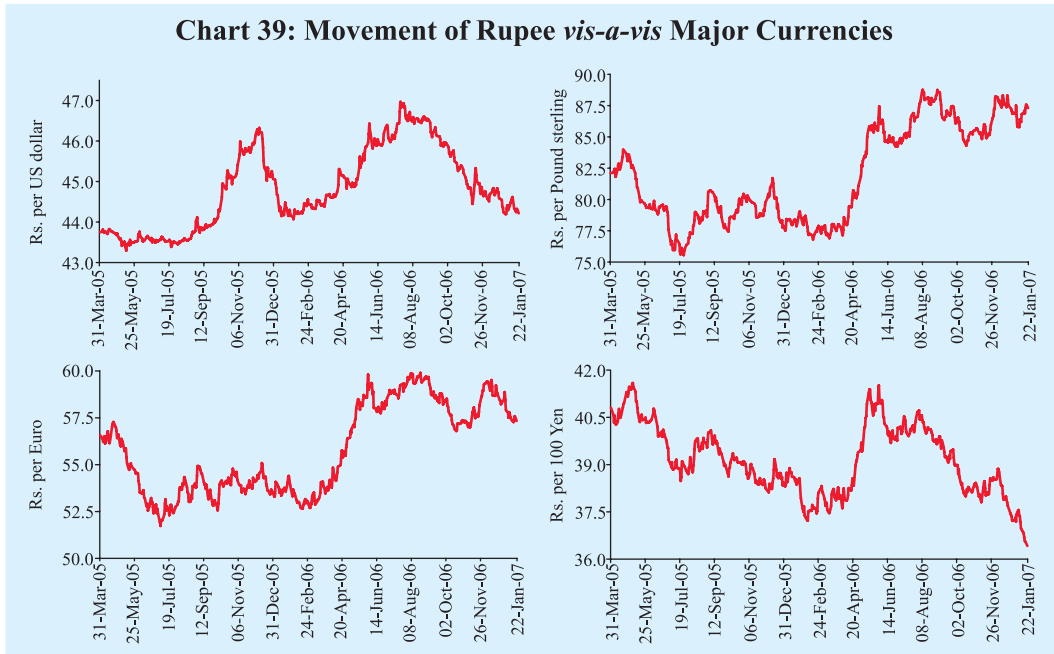
\* : Data are monthly averages. @ : Total for the financial year. ^ : Up to January 19, 2007.

**Note:** 1. 182-day TBs were reintroduced with effect from April 2005.  
2. For 91-day TBs, notified amount of Rs.2,000 crore includes Rs.1,500 crore under the Market Stabilisation Scheme (MSS). For 182-day TBs, notified amount of Rs.1,500 crore includes Rs.1,000 crore under the MSS. For 364-day TBs, notified amount of Rs.2,000 crore includes Rs.1,000 crore under the MSS.

Notified amount of Rs.1,500 crore each for auctions of the 91-day TBs under the Market Stabilisation Scheme (MSS) were not fully subscribed at some of the auctions during the quarter October-December 2006, reflecting tight liquidity conditions. There was, however, no devolvement on the PDs.

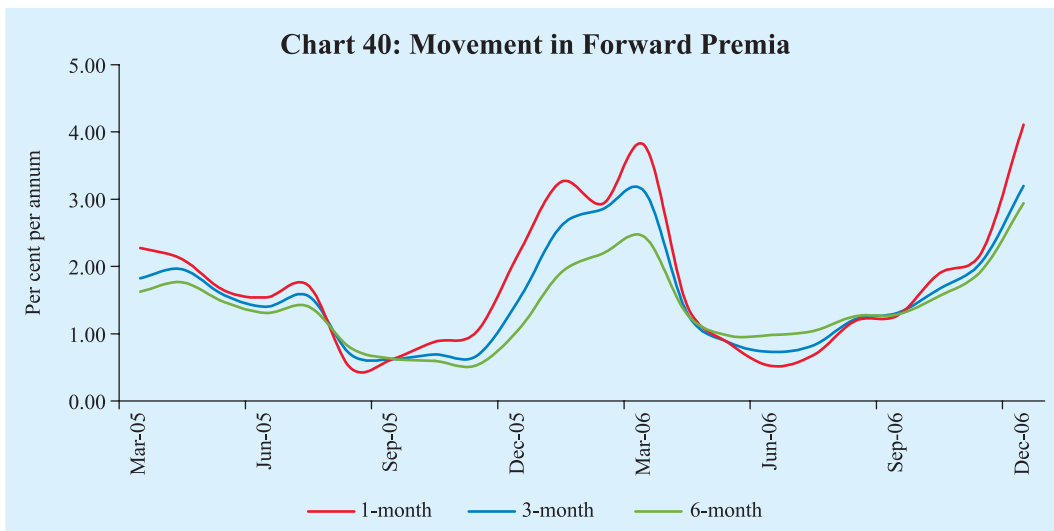
### Foreign Exchange Market

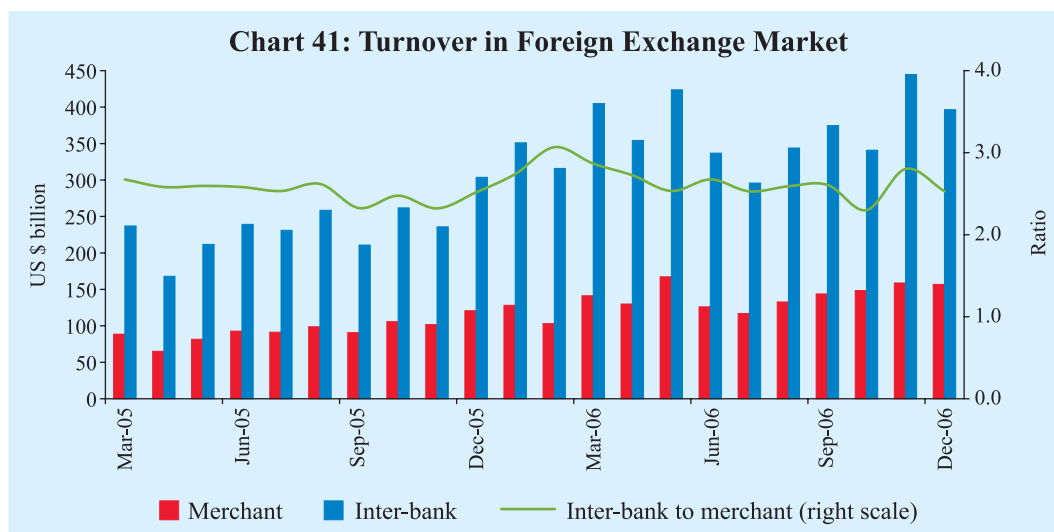
In the foreign exchange market, the Indian rupee appreciated *vis-à-vis* the US dollar during the quarter ended December 2006. The rupee, which had started to appreciate from the last week of July 2006 on the back of revival of FII inflows and easing of international crude oil prices, rose further amidst weakness of the US dollar in the international markets. The rupee has moved in a range of Rs.44.20–46.97 per US dollar during 2006-07 so far (up to January 23, 2007) (Chart 39). The exchange rate was Rs.44.22 per US dollar as on January 23, 2007; it has recorded an appreciation of 3.9 per cent over its level as at end-September 2006. On a fiscal year basis (up to January 23, 2007), the



rupee has appreciated by 0.9 per cent *vis-à-vis* the US dollar and 4.6 per cent against the Japanese yen but depreciated by 11.1 per cent against the Pound sterling and 5.3 per cent against the euro.

Forward premia increased further during the third quarter of 2006-07, reflecting increase in domestic interest rates (Chart 40).





The turnover in the inter-bank as well as merchant segments of the foreign exchange market increased to US \$ 549 billion (monthly average) during the third quarter of 2006-07 from US \$ 376 billion in the corresponding period of 2005-06. While inter-bank turnover increased from US \$ 267 billion during the third quarter of 2005-06 to US \$ 394 billion in the third quarter of 2006-07, the merchant turnover increased from US \$ 109 billion to US \$ 155 billion (Chart 41). The ratio of inter-bank to merchant turnover was marginally higher at 2.5 during the third quarter of 2006-07 as compared with 2.4 a year ago.

### Credit Market

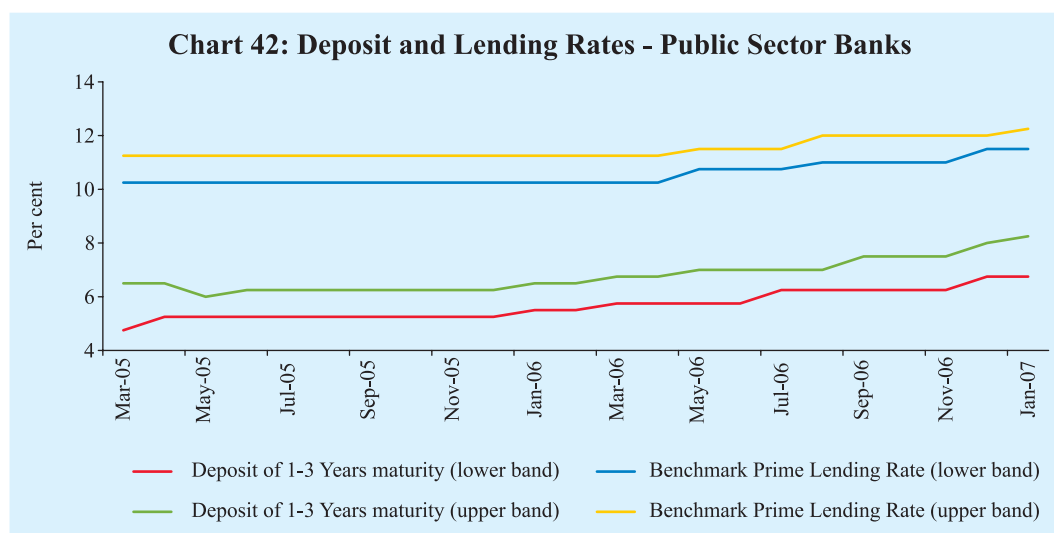
The interest rates offered by public sector banks (PSBs) on deposits of maturity of more than one year and up to three years were placed in the range of 6.75-8.25 per cent in January 2007 as compared with 6.25-7.50 per cent in September 2006 while those on deposits of maturity of above three years were placed in the range of 7.00-8.50 per cent in January 2007 as compared with 6.50-8.00 per cent in September 2006 (Table 38 and Chart 42). The interest rates offered by private sector banks on deposits of maturity up to one year were placed in the range of 3.00-8.25 per cent in January 2007 as compared with 3.00-7.25 per cent in September 2006 while those on deposits of maturity above three years were placed in the range of 7.00-9.25 per cent in January 2007 as compared with 6.75-8.50 per cent in September 2006. As regards foreign banks, the rates offered on deposits of maturity up to one year were placed in the range of 3.00-8.00 per cent in January 2007 as compared with 3.00-7.50 per cent in September 2006. On the lending side, most PSBs and some private sector banks have raised their Benchmark Prime Lending Rates (BPLRs) since

**Table 38: Movements in Deposit and Lending Rates**

Interest Rate	(Per cent)							
	March 2005	March 2006	June 2006	September 2006	October 2006	November 2006	December 2006	January 2007
1	2	3	4	5	6	7	8	9
<b>1. Domestic Deposit Rate</b>								
<i>Public Sector Banks</i>								
Up to 1 year	2.75-6.00	2.25-6.50	2.75-6.50	2.75-7.00	2.75-7.00	2.75-7.00	2.75-7.00	2.75-7.50
More than 1 year and up to 3 years	4.75-6.50	5.75-6.75	5.75-7.00	6.25-7.50	6.25-7.50	6.25-7.50	6.75-8.00	6.75-8.25
More than 3 years	5.25-7.00	6.00-7.25	6.00-7.25	6.50-8.00	6.75-8.00	6.75-8.00	7.00-8.00	7.00-8.50
<i>Private Sector Banks</i>								
Up to 1 year	3.00-6.25	3.50-7.25	3.50-6.75	3.00-7.25	3.00-8.00	3.00-8.00	3.00-8.00	3.00-8.25
More than 1 year and up to 3 years	5.25-7.25	5.50-7.75	6.50-7.75	6.75-8.25	6.75-8.25	6.75-8.25	6.40-8.50	6.75-9.25
More than 3 years	5.75-7.00	6.00-7.75	6.50-8.25	6.75-8.50	6.75-8.50	7.00-8.50	7.00-8.50	7.00-9.25
<i>Foreign Banks</i>								
Up to 1 year	3.00-6.25	3.00-6.15	3.25-6.50	3.00-7.50	3.00-7.50	3.00-7.25	3.00-7.25	3.00-8.00
More than 1 year and up to 3 years	3.50-6.50	4.00-6.50	5.00-6.50	3.50-8.15	3.50-8.15	3.50-8.15	3.50-8.15	3.50-8.15
More than 3 years	3.50-7.00	5.50-6.50	5.50-6.75	4.00-8.25	4.00-8.25	4.05-8.25	4.05-8.25	4.05-8.00
<b>2. Benchmark Prime Lending Rate</b>								
Public Sector Banks	10.25-11.25	10.25-11.25	10.75-11.50	11.00-12.00	11.00-12.00	11.00-12.00	11.50-12.00	11.50-12.25
Private Sector Banks	11.00-13.50	11.00-14.00	11.00-14.50	11.50-15.00	11.50-15.00	11.50-15.00	11.50-15.00	11.75-15.50
Foreign Banks	10.00-14.50	10.00-14.50	10.00-14.50	10.00-14.50	10.00-14.50	10.00-14.50	10.00-14.50	10.00-14.50
<b>3. Actual Lending Rate*</b>								
Public Sector Banks	2.75-16.00	4.00-16.50	4.00-16.50	4.00-16.50	-	-	-	-
Private Sector Banks	3.15-22.00	3.15-20.50	3.15-26.00	3.15-24.00	-	-	-	-
Foreign Banks	3.55-23.50	4.75-26.00	4.75-25.00	4.50-23.00	-	-	-	-

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

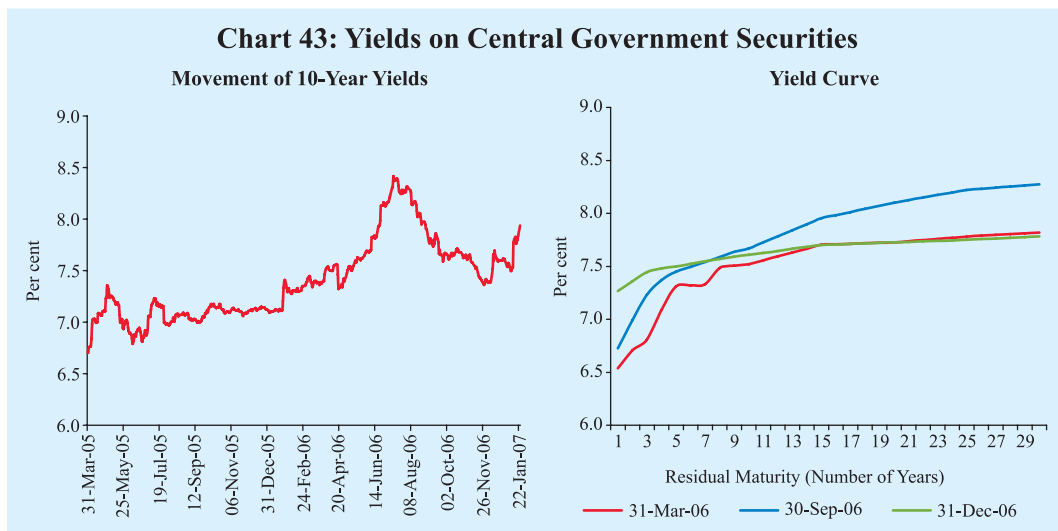
September 2006. The range of BPLRs of PSBs changed to 11.50-12.25 per cent in January 2007 from 11.00-12.00 per cent in September 2006. The weighted

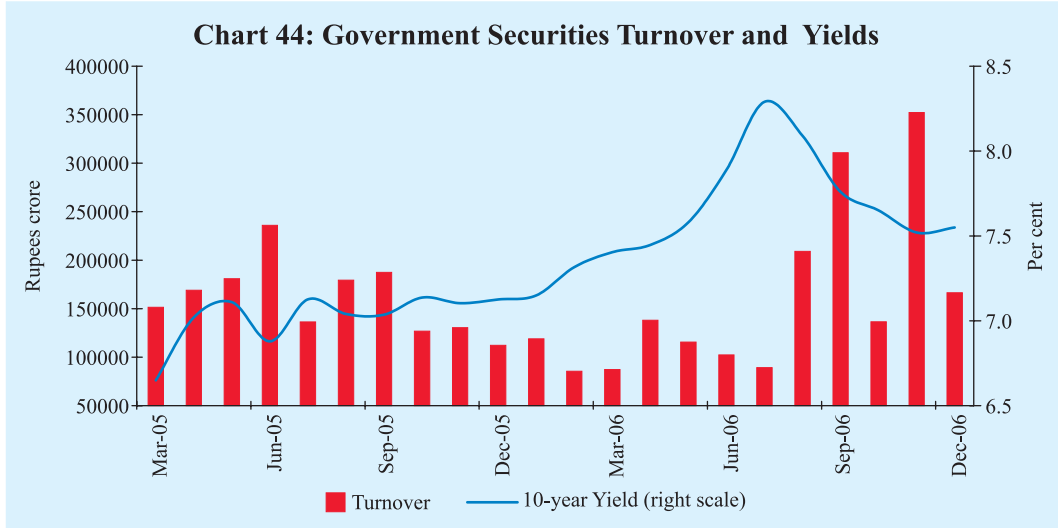
**Chart 42: Deposit and Lending Rates - Public Sector Banks**


average BPLR of PSBs increased from 10.7 per cent in March 2006 to 11.3 per cent in September 2006 and further to 11.6 per cent in December 2006. The weighted average BPLR of private sector banks increased from 12.4 per cent in March 2006 to 12.9 per cent in September 2006 and further to 13.2 per cent in December 2006. The weighted average BPLR of foreign banks at 12.7 per cent in December 2006 was the same as that in March 2006 and September 2006.

### Government Securities Market

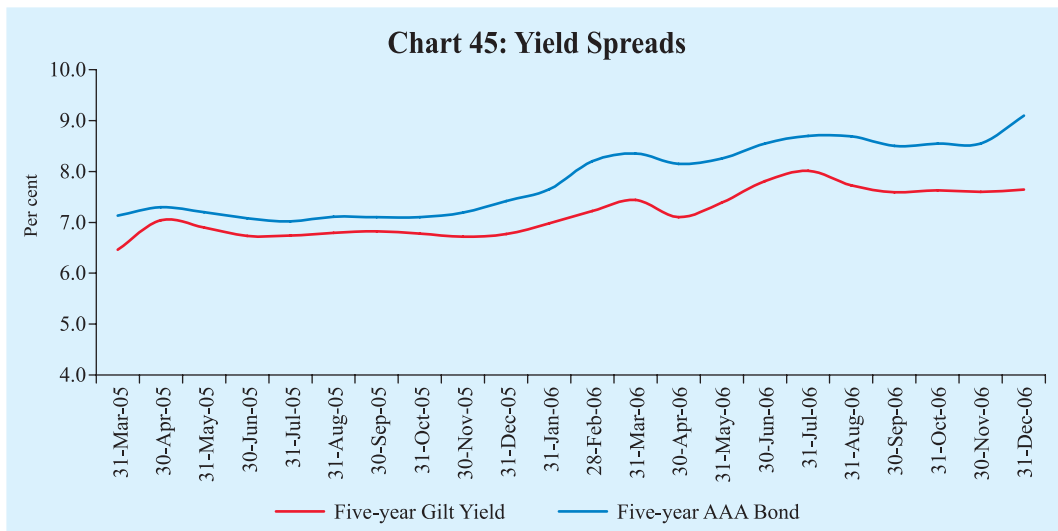
Yields on 10-year paper hardened in the first quarter to reach a peak of 8.40 per cent on July 11, 2006, an increase of 88 basis points over end-March 2006. Subsequently, yields softened in consonance with easing of Government bond yields in the US, the Fed's decision to keep the fed funds rate unchanged, easing of crude oil prices and increased demand for gilts from banks to meet their SLR requirements. The announcement of the borrowing calendar of the Central Government for the second half of 2006-07 was in accordance with market expectations. The 10-year yield reached a low of 7.38 per cent as on November 28, 2006. There was, however, hardening of the yields from the second half of December 2006 in tandem with the tightness in liquidity conditions on the back of advance tax outflows and hike in the cash reserve ratio. The 10-year yield was 7.87 per cent as on January 23, 2007, 20 basis points higher than the level at end-September 2006 and 35 basis points higher than the level as on March 31, 2006 (7.52 per cent) (Chart 43). The yield curve flattened during the quarter, with the spread between 1-10 year yields narrowing from 94 basis points at end-September 2006 to 34 basis points at end-December 2006. The spread between 10-year and 30-year yields also narrowed from 61 basis points at end-September 2006 to 17 basis points at end-December 2006 (30 basis points at end-March 2006).





The turnover in Government securities has increased since August 2006 in tandem with easing of yields (Chart 44). The decline in turnover in October 2006 partly reflected lower number of trading days while that in December 2006 could be attributed to tight liquidity conditions.

The yields on 5-year AAA-rated corporate bonds increased during the third quarter of 2006-07. The yield spread between 5-year AAA-rated bonds and 5-year Government securities, thus, widened to 146 basis points at end-December 2006 from that of 91 basis points at end-September 2006 as well as at end-March 2006 (Chart 45).



## Equity Market

### Primary Market

Resources raised through the public issues segment picked-up during the quarter ended December 2006 *vis-à-vis* the previous quarter. Cumulative resources raised through public issues during April-December 2006 increased by 33.0 per cent to Rs. 25,365 crore, even as the number of issues came down from 88 to 78 (Table 39). The average size of public issues increased from Rs.217 crore during April-December 2005 to Rs.325 crore during April-December 2006. Except one issue, all public issues during April-December 2006 were in the form of equity. Out of 78 issues during April-December 2006, 41 issues were initial public offerings (IPOs), accounting for 78.7 per cent of resource mobilisation.

**Table 39: Mobilisation of Resources from the Primary Market**

(Amount in Rupees crore)				
Item	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5
	2005-06 (April-December)		2006-07 (April-December) P	
<b>A. Prospectus and Rights Issues*</b>				
<b>1. Private Sector (a+b)</b>	<b>85</b>	<b>16,553</b>	<b>78</b>	<b>25,365</b>
a) Financial	6	6,982	5	1,031
b) Non-financial	79	9,571	73	24,334
<b>2. Public Sector (a+b+c)</b>	<b>3</b>	<b>2,520</b>	-	-
a) Public Sector Undertakings	-	-	-	-
b) Government Companies	-	-	-	-
c) Banks/Financial Institutions	3	2,520	-	-
<b>3. Total (1+2)</b>	<b>88</b>	<b>19,073</b>	<b>78</b>	<b>25,365</b>
<i>Of which:</i>				
(i) Equity	87	18,955	77	24,874
(ii) Debt	1	118	1	491
	2005-06 (April-September)		2006-07 (April-September)	
<b>B. Private Placement</b>				
<b>1. Private Sector</b>	<b>471</b>	<b>22,893</b>	<b>697</b>	<b>38,241</b>
a) Financial	179	13,681	259	21,834
b) Non-financial	292	9,212	438	16,407
<b>2. Public Sector</b>	<b>83</b>	<b>22,800</b>	<b>54</b>	<b>32,797</b>
a) Financial	62	14,257	47	28,033
b) Non-financial	21	8,543	7	4,764
<b>3. Total (1+2)</b>	<b>554</b>	<b>45,693</b>	<b>751</b>	<b>71,038</b>
<i>Memo:</i>				
<b>Euro Issues@</b>	<b>34</b>	<b>8,825</b>	<b>35</b>	<b>8,841</b>
P : Provisional.	* : Excluding offers for sale.	- : Nil/Negligible.	@: April-December.	



Mobilisation of resources through private placement increased by 55.5 per cent to Rs.71,038 crore during April-September 2006 over the corresponding period of the previous year (Table 39). Resources mobilised by private sector entities increased by 67.0 per cent, while those by public sector entities increased by 43.8 per cent during April-September 2006. Financial intermediaries (both from public sector and private sector) accounted for the bulk (70.2 per cent) of the total resource mobilisation from private placement market during April-September 2006 (61.1 per cent during April-September 2005).

The resources raised through Euro issues - American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) - by Indian corporates during April-December 2006 at Rs.8,841 crore were almost the same as in the corresponding period of previous year (Table 39).

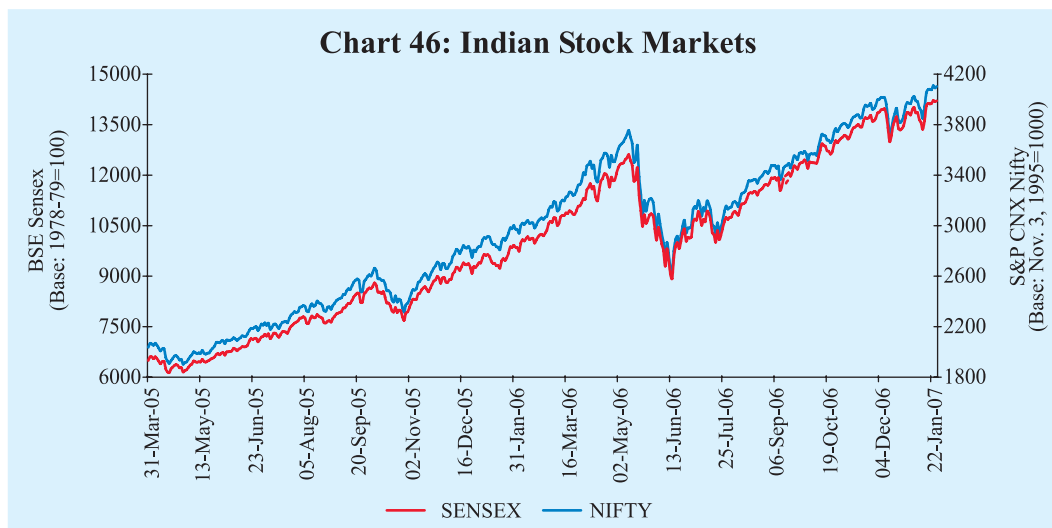
During April-December 2006, net mobilisation of resources by mutual funds increased substantially by 190 per cent to Rs.79,708 crore over the corresponding period of 2005 (Table 40). Bulk of the net mobilisation of funds was under income/debt-oriented schemes (73.0 per cent of total), while growth/equity-oriented schemes accounted for 25.8 per cent of the net mobilisation of funds.

### Secondary Market

The domestic stock markets remained buoyant and recorded further gains during the third quarter of 2006-07 (Chart 46). Continued buying by FIIs on the back of strong domestic fundamentals, robust corporate results, upward trend in the international equity markets and decline in global crude oil prices provided support to domestic stock markets. Domestic stock markets declined during May-June, 2006 in consonance with global trends amidst

**Table 40: Resource Mobilisation by Mutual Funds**

(Rupees crore)							
Mutual Fund	April-March 2005-06		April-December				
			2005-06		2006-07		
	Net Mobilisation @	Net Assets #	Net Mobilisation @	Net Assets *	Net Mobilisation @	Net Assets *	
1	2	3	4	5	6	7	
Private Sector	42,977	1,81,515	20,824	1,55,260	64,140	2,56,725	
Public Sector	6,379	20,829	5,683	18,760	6,364	28,765	
UTI	3,424	29,519	1,032	25,228	9,204	38,108	
<b>Total</b>	<b>52,780</b>	<b>2,31,862</b>	<b>27,537</b>	<b>1,99,248</b>	<b>79,708</b>	<b>3,23,598</b>	
@ : Net of redemptions.      # : As at end of March.      * : As at end of December.							
<b>Source :</b> Securities and Exchange Board of India.							



increased risk aversion over concerns of slowdown in global growth, increase in global inflation, higher international interest rates and meltdown in base metal prices. The BSE Sensex reached 8929 as on June 14, 2006, a decline of 29.2 per cent over the then all-time high of 12612 reached on May 10, 2006. Stock markets recovered these losses in the following months, reflecting fresh buying by FIIs, recovery in base metal prices and decline in international crude oil prices amidst continuing robust macroeconomic fundamentals. The BSE Sensex reached a new high of 13972 on December 7, 2006. The markets witnessed some correction in the next few days, *inter alia*, due to profit taking at higher levels, deceleration in industrial activity for October 2006, announcement of CRR hike and the decision of the Bank of Thailand (BoT) to impose unremunerated reserve requirement (URR) on short-term capital flows. The markets, however, recovered in the next few days. The BSE Sensex closed at all-time high of 14218 on January 18, 2007. The Sensex was 14041 on January 23, 2007, 24.5 per cent above its end-March 2006 level.

Profits after tax of corporates exhibited further improvement in the second quarter of 2006-07. Ratio of profits after tax to sales also improved to 11.0 per cent during the quarter ended September 2006 from 10.6 per cent in the preceding quarter and 8.5 per cent a year ago (Table 41 and Chart 47).

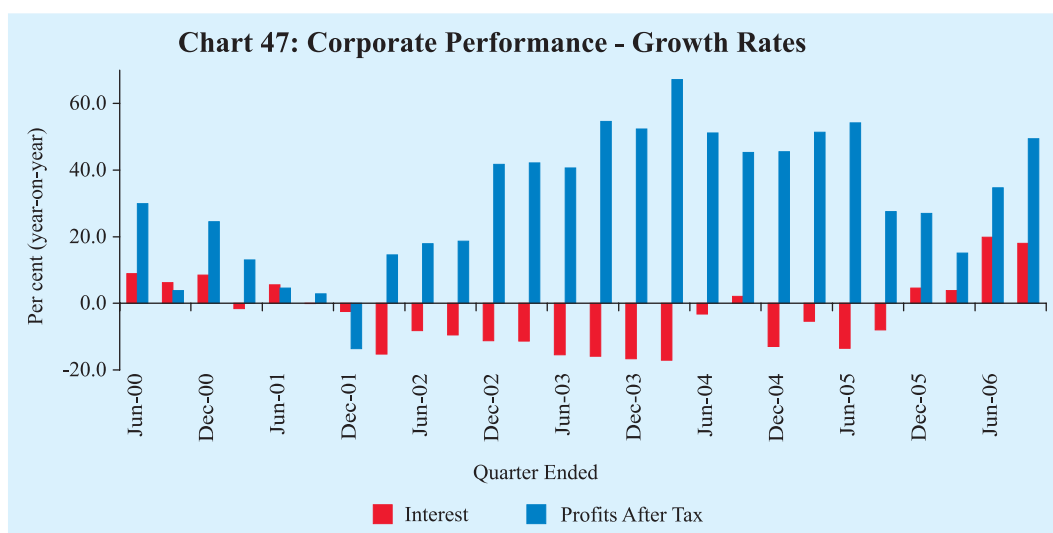
FIIs turned net sellers in Indian stock markets in December 2006 after making large purchases during August-November 2006. According to the Securities and Exchange Board of India (SEBI), FIIs made net purchases of Rs.18,176 crore (US \$ 3.9 billion) during 2006-07 (up to January 22, 2007) as compared with net purchases of Rs.33,461 crore (US \$ 7.5 billion) during the corresponding period of the previous year (Chart 48). Mutual funds have also

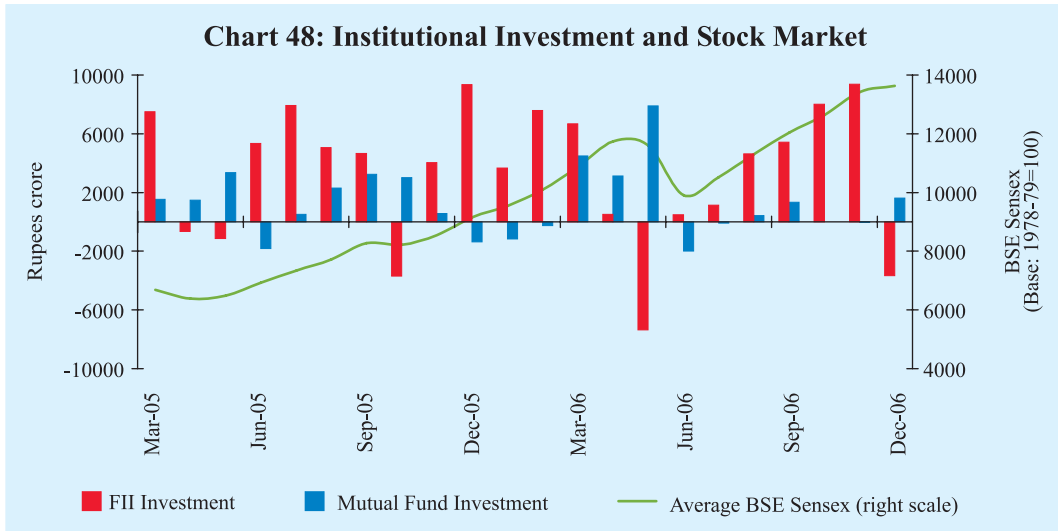
**Table 41: Corporate Financial Performance**

(Growth rates in per cent)											
Item	2003-04	2004-05	2005-06	2005-06		2005-06				2006-07	
				April-September	2006-07	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11	12
Sales	16.0	24.1	16.9	17.2	27.4	18.5	16.4	13.2	19.5	25.6	29.2
Expenditure	14.4	22.9	16.4	16.6	25.6	18.0	16.3	12.7	18.9	24.6	26.6
Gross Profits	25.0	32.5	20.3	26.7	39.8	32.0	19.1	21.2	16.6	33.9	45.9
Interest	-11.9	-5.8	1.9	-10.3	20.8	-13.5	-8.0	4.6	3.8	19.9	18.0
Profits After Tax	59.8	51.2	24.2	41.3	41.6	54.2	27.5	27.0	15.1	34.7	49.4
<b>Select Ratios (Per cent)</b>											
Gross Profits to Sales	11.1	11.9	13.0	13.3	15.6	13.1	13.0	12.8	12.7	15.6	15.9
Profits After Tax to Sales	5.9	7.2	8.7	8.7	10.6	8.6	8.5	8.6	8.7	10.6	11.0
Interest Coverage Ratio	3.3	4.6	6.4	6.0	7.1	6.0	6.2	6.2	7.3	7.2	7.8
Interest to Sales	3.4	2.6	2.0	2.2	2.2	2.2	2.1	2.1	1.7	2.2	2.0
Interest to Gross Profits	30.7	21.8	15.7	16.6	14.1	16.6	16.2	16.2	13.7	13.9	12.8
<b>Memo: (Amount in Rupees crore)</b>											
No. of Companies	2,214	2,214	2,210	2,128	2,053	2,355	2,361	2,366	2,415	2,228	2,263
Sales	4,42,743	5,49,449	7,74,578	3,67,769	4,24,565	1,94,608	2,12,693	2,19,098	2,49,971	2,34,610	2,51,125
Expenditure	4,22,110	5,14,574	6,66,690	3,15,139	3,53,505	1,66,972	1,83,717	1,88,934	2,18,511	1,95,556	2,09,437
Depreciation Provision	20,406	22,697	28,883	13,625	15,710	7,137	7,617	7,748	8,340	8,449	8,892
Gross Profits	49,278	65,301	100,666	48,781	66,265	25,577	27,620	28,135	31,652	36,567	40,041
Interest	15,143	14,268	15,789	8,083	9,358	4,241	4,467	4,555	4,348	5,083	5,121
Profits After Tax	26,182	39,599	67,506	32,016	44,927	16,726	18,169	18,790	21,634	24,845	27,710

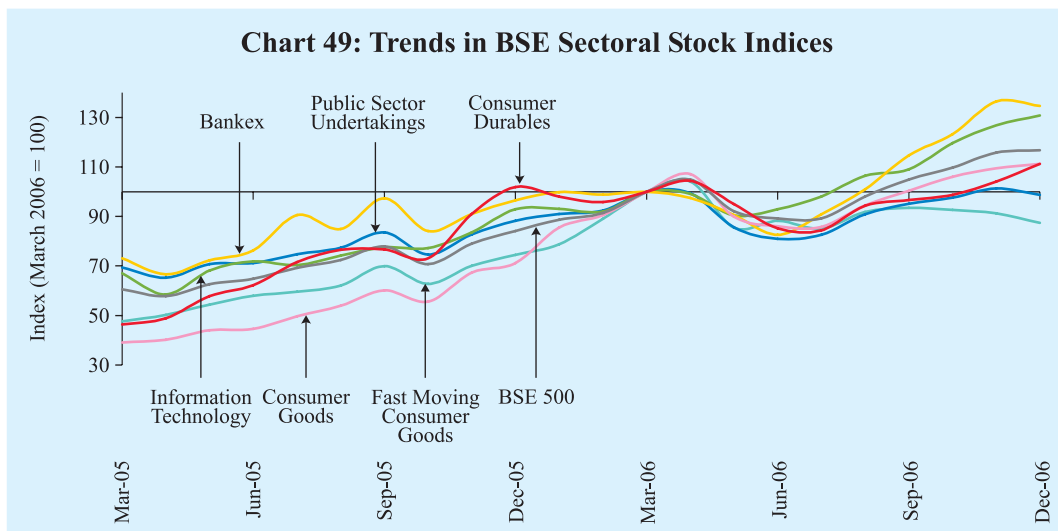
**Note :** 1. Growth rates are percentage change in the level for the period under reference over the corresponding period of the previous year.  
 2. Data in column (2) and (3) are based on audited balance sheets while those in column (4) onwards are based on the un-audited/audited abridged results of the non Government non-financial companies.

made net investments of Rs.12,172 crore in the current financial year so far (up to January 19, 2007) as compared with net purchases of Rs.9,438 crore during the corresponding period of last year.





Major indices and sectors have shown mixed trends during 2006-07 so far (Chart 49). On a point-to-point basis (up to January 22, 2007), BSE 500, BSE Mid-cap and BSE Small-cap increased by 20.7 per cent, 13.8 per cent and 14.8 per cent, respectively. Amongst major sectors, bank stocks recorded gains of 42.0 per cent over end-March 2006, followed by oil and gas (34.7 per cent), IT stocks (32.8 per cent), consumer durables (20.2 per cent), capital goods (15.1 per cent), auto (6.2 per cent), public sector undertakings (1.9 per cent), metals (1.3 per cent) and healthcare (1.0 per cent). However, fast moving consumer goods registered losses of 10.7 per cent (Chart 49).



**Table 42: Stock Market Indicators**

Indicator	BSE				NSE			
	April-March		April-December		April-March		April-December	
	2004-05	2005-06	2005-06	2006-07	2004-05	2005-06	2005-06	2006-07
	1	2	3	4	5	6	7	8
BSE Sensex / S&P CNX Nifty								
End-period	6493	11280	9398	13787	2036	3403	2837	3966
Average	5741	8279	7668	11845	1805	2513	2339	3454
Volatility	11.2	16.7	12.2	10.4	11.3	15.6	11.3	9.7
P/E Ratio (end-period)*	15.61	20.92	18.61	22.76	14.60	20.26	17.16	21.26
Turnover (Rupees crore)	5,18,716	8,16,074	5,47,922	7,01,710	11,40,071	15,69,556	10,75,345	14,22,014
Market Capitalisation (Rupees crore) (end-period)	16,98,429	30,22,191	24,89,386	36,24,357	15,85,585	28,13,201	23,22,392	34,26,236

\* : For 30 scrips included in the BSE Sensex and 50 scrips included in the S&P CNX Nifty.  
**Source** : The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Ltd. (NSE).

The price-earnings (P/E) ratio for the 30 scrips included in the BSE Sensex increased from 20.9 at end-March 2006 to 22.8 at end-December 2006 (Table 42). The market capitalisation of the BSE increased by 19.9 per cent between end-March 2006 and end-December 2006. Volatility during April-December 2006 was lower than that in the same period a year ago.

Total turnover (BSE and NSE) in the cash segment during April-December 2006 at Rs.21,23,724 crore was 30.8 per cent higher than that in the corresponding period of 2005 (Chart 50). Total turnover (BSE and NSE) in the derivative segment increased by 72.0 per cent during April-December 2006 to Rs.53,49,595 crore.

