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बायें से दायें - श्री रंजीत कुमार चटर्जी, डॉ. (श्रीमती) मसररत शाहिद, डॉ. धर्मेन्द्र भंडारी, श्री आलोक निगम, श्री आर.के. बक्षी - कार्यकारी निदेशक, श्री एम.डी.मल्या - अध्यक्ष एवं प्रबंध निदेशक, श्री एन.एस.श्रीनाथ - कार्यकारी निदेशक, श्री ए. सोमसुंदरम, डॉ. दीपक बी. फाटक, श्री मौलिन ए. वैष्णव, डॉ. अतुल अगरवाल, श्री मिलिंद एन. नाडकर्णी

Left to Right: Shri Ranjit Kumar Chatterjee, Dr. (Smt) Masarrat Shahid, Dr. Dharmendra Bhandari, Shri Alok Nigam, Shri R.K. Bakshi - Executive Director, Shri M.D. Mallya - Chairman & Managing Director, Shri N.S. Srinath - Executive Director, Shri A. Somasundaram, Dr. Deepak B. Phatak, Shri Maulin A. Vaishnav, Dr. Atul Agarwal, Shri Milind N. Nadkarni.

महाप्रबंधक / General Managers

एन. रमणी
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 आर. के. बंसल
 एस. एस. मूंदड़ा
 नन्दन श्रीवास्तव
 एन. आर. बद्रीनारायण
 एस. के. भार्गव
 मीनल भगत (श्रीमती)
 ओ. एस. पिल्लै
 सिरिल पात्रो
 बी. बी. गर्ग
 जी. सी. शर्मा
 जे. रमेश
 वि. एच. थत्ते
 एस. के. दास
 ए. डी. एम. चावली
 उषा अनन्तसुब्रह्मण्यन (श्रीमती)
 जी. गणपति रमण
 के. एम. असावा
 सी. डी. कालकर
 एस. पी. भानोट
 आर. वी. मोदी
 एस. सी. आहूजा
 उल्हास पी. सांगेकर
 आर. एस. सेतिया
 अरुण तिवारी
 एस. कल्याणरमण
 अनिमेष चौहान

N. RAMANI
 A. K. GUPTA
 R. K. BANSAL
 S. S. MUNDRA
 NANDAN SRIVASTAVA
 N. R. BADRINARAYANAN
 S. K. BHARGAVA
 MINAL BHAGAT (Smt.)
 O. S. PILLAI
 CYRIL PATRO
 B. B. GARG
 G. C. SHARMA
 J. RAMESH
 V. H. THATTE
 S. K. DAS
 A. D. M. CHAVALI
 USHA ANANTHASUBRAMANIAN (Smt.)
 G. GANAPATHI RAMAN
 K. M. ASAWA
 C. D. KALKAR
 S. P. BHANOT
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 S. C. AHUJA
 ULHAS P. SANGEKAR
 R. S. SETIA
 ARUN TIWARI
 S. KALYANRAMAN
 ANIMESH CHAUHAN

के. आर. शेणॉय - मुख्य सतर्कता अधिकारी
 डॉ. (श्रीमती) रूपा नित्सुरे - मुख्य अर्थशास्त्री

K. R. SHENOY - Chief Vigilance Officer
 Dr. (Smt.) RUPA NITSURE - Chief Economist

लेखा परीक्षक / Auditors

ए. सचदेव एण्ड कं.
सनदी लेखाकार

A. Sachdev & Co.
Chartered Accountants

गुप्ता नायर एण्ड कं.
सनदी लेखाकार

Gupta Nayar & Co.
Chartered Accountants

अश्विनी एण्ड एसोसिएट्स
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Ashwani & Associates
Chartered Accountants

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S. K. Kapoor & Co.
Chartered Accountants

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N. C. Banerjee & Co.
Chartered Accountants

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Haribhakti & Co.
Chartered Accountants

प्रधान कार्यालय

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बड़ौदा कार्पोरेट सेंटर

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रजिस्ट्रार एवं अन्तरण एजेंट

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Registrars & Transfer Agent

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CHAIRMAN'S STATEMENT



Moving Ahead on Sustainable Performance.....

M. D. Mallya

Chairman & Managing Director

Dear Stakeholder,

It gives me great pleasure to present the Annual Report and Financial Statements of Bank of Baroda for the year ended 31st March, 2010. The Bank's business and financial performance during the year under review has demonstrated its strength and stability amid uncertain economic environment.

Economic Review

Indian economic environment was fairly mixed and uncertain during 2009-10 (FY10). The first half of the year (i.e., H1, FY10) was overcast by the monsoon failure and a sharp decline in foodgrain production, a continued slowdown in final consumption expenditure, a muted demand for bank credit and a negative growth in both exports and imports.

However in the second half of 2009-10 (i.e., H2, FY10), countercyclical policies, a pickup in the global economy and a recovery in capital inflows helped India overcome an adverse monsoon and see a quick rebound in the economy. Both exports and imports turned positive by November-December, 2009 after contracting continuously for the previous 12-13 months.

The headline inflation (WPI), after remaining subdued during H1, FY10 increased at a faster pace in H2, FY10 and came close to 10.0% (y-o-y) in March, 2010. At the same time, driven by manufacturing and mining sectors, the industrial production recovered from 1.1% (y-o-y) in April, 2009 to 15.1% (y-o-y) in February, 2010. Rapid growth in both inflation and industrial production has prompted the Reserve Bank of India (RBI) to normalise its Monetary Policy and move its focus to "recovery management" from the earlier thrust on "crisis management".

While the demand for bank credit remained highly subdued and skewed throughout the year under review, credit costs increased for several banks with the maturing of restructured loans. Moreover, higher level of government market borrowings and resultant volatility in bond yields posed tough challenges for the banking industry's treasury operations.

Bank of Baroda's Resilience to Shocks

While it is challenging to remain immune to the disruptions created by economic shocks, Bank of Baroda has been able to withstand the turbulence more effectively during FY09 and FY10 mainly due to its strong business fundamentals. Again in the year FY10, the Bank could demonstrate consistent performance by delivering much better quality of earnings, healthier asset quality compared to banking industry with higher provision coverage and lower interest rate risk. It has been steadily improving its market share also. It expanded its global business level by 24.0% (y-o-y) to Rs 4,16,080 crore during the year FY10.

Despite ongoing global economic challenges, the Bank's international operations continued to remain its mainstay and contributed almost 24.0% to the Bank's total business and 20.0% to its operating profits in FY10. The Bank's international business grew by 31.0% (y-o-y) in FY10 without any compromise with credit quality. The Bank's gross NPA in international operations stood at 0.47% and net NPA at just 0.11% in FY10.

One of the greatest strengths of the Bank over a period of time has been the "trust and confidence" that it enjoys of its stakeholders. Notwithstanding the unprecedented turbulent conditions created by the global economic meltdown during the years FY09 and FY10, the Bank's stakeholders remained

firmly positive on the Bank's business and financial performance. I am happy to share with you that the Bank too met the stakeholders' expectations in terms of performance, transparency, corporate governance and integrity in guidance during the last couple of years.

New Initiatives

During the year under review, the Bank maintained its focus on introducing new business, customer and technology initiatives to further strengthen its operations and leverage its considerable domestic footprint.

The Bank launched a new business process reengineering and organisational restructuring project "Navnirmaan-Baroda Next" on 22nd June, 2009. The project envisages redesigning and streamlining of existing processes and structures including revamp of the branch architecture for better service and sales, higher revenue growth and improved efficiency. The project is primarily designed to optimise on available resources to maximise business and profits and to build a next step for Bank of Baroda, that is, "Baroda Next."

The Bank achieved 100.0% Core Banking Solution (CBS) for all its domestic branches reflecting the fastest ever roll out of such solutions in the Indian banking industry. The Bank's CBS branches are enabled for inter-bank remittances through the RTGS and NEFT. Around 94.0% of its overseas business is also covered under the CBS.

By 31st March 2010, the Bank's ATM network expanded to 1,315. Moreover, "Base 24" has been made fully operational for all domestic ATMs and for ATMs in the Bank's seven overseas territories. Today, the Bank's customers enjoy multiple service channels like Baroda Connect (Internet Banking), Phone Banking, Baroda Cash Management Services, NRI Services, Depository Services, etc.

The Bank has implemented an Integrated Global Treasury Solution in its major overseas territories. It has also started providing Online Institutional Trading to its corporate customers. During FY10, many other important technological initiatives were taken in the domain of anti-money laundering, document management system, payment messaging solution, etc.

In order to improve credit flows under the retail business and to consolidate that portfolio, the Bank has realigned its retail bouquet of products. The Bank has also launched a new subsidy-linked housing loan scheme under the Home Loan Product styled as "Interest Subsidy Scheme for Housing the Urban Poor."

A couple of years ago, the Bank introduced a Retail Loan Factory model as a fast delivery channel for the benefit of its retail customers. Going by the success of this initiative, the Bank opened six new Retail Loan Factories during FY10, taking the total number of such factories to 30.

Leveraging its newly created robust technological platform, the Bank made "Home Loan and Education Loan Application Modules" online during the year under review.

The Bank has always believed in making a difference to the society at large. The Bank took several initiatives on the "Financial Inclusion" front during FY10 to harness the emerging opportunities for rural and agriculture lending. To augment its Agriculture advances, the Bank conducted special campaigns for Crop Loans and Investment Credit. The Bank organized 2,857 Village Level Credit Camps and disbursed Rs 2,484 crore to over 1.9 lakh borrowers during FY10. The Bank identified 450 thrust branches across India to enhance agricultural lending. The Bank formulated various area-specific agricultural lending schemes with various concessions in the rate of interest, charges, etc., in the interest of poor farmers.

Towards the effective use of technology in rural agricultural lending, the Bank has introduced IT-enabled smart card based technology for financial inclusion. With nine additional Baroda Swarojgar Vikas Sansthan (Baroda R-SETI) Centres opened during FY10, the total number of BSVS has gone up to 25. Over two million no-frill savings accounts have been opened so far. As part of the Financial Inclusion Initiative, the Bank has opened four Financial Literacy and Credit Counselling Centres (FLCCs) christened as "SARTHEE".

Adding its offerings in wealth management products, the Bank has entered into tie-up arrangements with two more leading asset management companies in FY10 for distribution of mutual fund products. The Bank's joint venture in life insurance, in association with Andhra Bank and L & G (U.K.) – IndiaFirst Life Insurance Co. Ltd. commenced its operation during the year. The IndiaFirst has received an overwhelming response from the Bank's customers across the country, making the company the fastest growing Insurance company to reach Rs 100 crore premium collections in the first 100 days of its launch.

Business & Financial Performance

The Bank has reported a healthy growth in its business and profits with improvement in all key parameters during FY10.

As stated earlier, its Global Business touched a new milestone of Rs 4,16,080 crore in FY10 reflecting a growth of 24.0% (y-o-y). Both its domestic deposits and advances increased at the above-industry pace of 22.4% and 21.3%, respectively. The Bank's domestic low-cost or CASA deposits grew by an unprecedented 25.1% taking the share of domestic CASA deposits to 35.63% in FY10 versus 34.87% in FY09. Its Social Sector Advances or Priority Sector Credit surpassed the mandatory requirement and posted a growth of 24.0% (y-o-y). The Bank recorded a growth of 44.0% in SME credit, 27.0% in farm credit and 24.0% in retail credit reflecting a well-diversified growth achievement.

In its overseas business, while the Bank's deposits grew by 36.0% (y-o-y), its advances grew by 25.0% during FY10. Within total overseas deposits, the customer deposits grew by 33.7%. Total assets of the Bank's overseas operations

increased from Rs 51,165 crore to Rs 68,375 crore registering a growth of 33.6% during the year under review.

The growth in profits was led by healthy topline growth, prudent management of deposit costs and better operating efficiency. The Bank's Net Profit at Rs 3,058.33 crore for FY10 reflected a robust year-on-year growth of 37.3%.

As the Bank's primary objective has been to grow with quality, the Bank focused on containing the impaired assets to the minimum possible level. While the Gross NPA in domestic operations stood at 1.64% at end-March 2010, the same for Overseas Operations was at 0.47%. In spite of growing slippages for Indian banking industry during FY10, our Bank succeeded in restricting its global Gross NPA level to 1.36% and Net NPA level to 0.34% by end-March, FY10. While the RBI has extended the deadline for recovery from the Agricultural Debt Relief accounts till end-June, 2010, the Bank has continued to classify these accounts as NPA as a prudent measure. Despite this, the Bank enjoys one of the lowest ratios for Gross and Net NPA in the industry. The Bank's NPA coverage ratio at 74.90% as on 31st March, 2010 has been comfortably above the norm of 70.0% set recently by the RBI.

The Bank's Return on Average Assets (ROAA) at 1.21%, Earnings per Share (EPS) at Rs 83.96, Book Value per Share (BVPS) at Rs 378.40, and ROE (Return on Equity) at 22.19% reflect a significant improvement over their previous year's levels. The Bank's Capital Adequacy Ratio too stood at the healthy level of 14.36% with the Tier 1 capital at 9.20% during FY10. The Bank's Cost-Income ratio also eased from 45.38% to 43.57% on year-on-year basis.

Looking Forward

Bank of Baroda's long standing reputation for financial soundness, long-term customer relationships and proactive management are as important today as ever. Going forward also, the Bank would continue with its thrust on growth with quality. At the same time, it would try to grow above the industry average on the back of strongly positive growth outlook for India in FY11.

The Bank would try to protect or improve further the current levels of its key financials like ROAA, ROE, EPS, BVPS, asset quality, etc., through its dedicated focus on low-cost deposit mobilization & fee-based income, efficient pricing of deposits and loans, reduction in high cost or low yielding bulk business and through improved credit origination and effective credit monitoring.

In all core operations, the Bank has put in place strategies that seek to address near-term challenges as well as to seize opportunities to strengthen its foundations for sustainable growth. The focus of these strategies has been on well-balanced, qualitative growth, service and operational excellence and people management.

In fact, the Bank has been aggressively recruiting the best

possible talent in the country from the premier Institutions during the last couple of years. The Bank has been working on the business process reengineering (BPR) project in consultation with the McKinsey & Co. so as to achieve the optimum use of technology and right skilling of the manpower to yield maximum customer satisfaction. During FY10, the Bank also launched a series of marketing campaigns to promote its brand value. The same would continue in future also, in order to strengthen the Bank's market share both from the asset and liability sides.

The Bank has been actively designing strategies for enhancing sales and raising brand equity through continuous market research. The Bank has also focused on evolving a Strategic Mass Communication and Events Plan to ensure brand enhancement. Besides this, significant initiatives in customer education would continue for putting in place an effective Customer Relationship Management system in the Bank.

Bank's Corporate Goals & Strategy

For the year 2010-11, the Bank has selected the motto "Leveraging technology for augmenting business growth and profitability."

The ultimate objective of the Top Management of the Bank is to equip the Bank with more stability and growth-orientation. To attain this goal, we have adopted a Business Model that focuses on achieving sustainable growth. This model has four pillars – Healthy CASA, Well-diversified Advances Portfolio, Strong back up of Non-interest income and Stringent NPA Management. The Bank is well geared to ensure that its performance will be driven across all these parameters.

The Bank is aware of the fact that the market leadership can be achieved only through a visionary, strategic and sustainable model of pursuit and perseverance. The success lies in attaining the acceptance of our stakeholders about the Bank's core values, passion for customer service and the credibility of leaders, which alone would give our Bank a unique place in the banking space. In a bid to gain better market share, we will work relentlessly to provide financial stability and brand value that matters the most.

It will be our endeavour in FY11 to work towards more customer-centricity by upgrading our institutional processes, systems and capabilities. In the current economic environment, prudence and proactive vigilance are most important to convert challenges into opportunities. So, our central focus will be on risk management and growth with quality.

In our pursuit to move towards the top position in the industry, I solicit your continued cooperation and patronage.



M. D. Mallya

Chairman & Managing Director

DIRECTORS' REPORT

Your Directors have pleasure in presenting the One Hundred and Second Annual Report of the Bank with the audited Balance Sheet, Profit & Loss Account and the Report on Business and Operations for the year ended March 31, 2010 (FY10).

Performance Highlights

- **Total Business** (Deposit+Advances) increased to **Rs 4,16,080 crore** reflecting a growth of 24.0%.
- **Gross Profit** and **Net Profit** were **Rs 4,935 crore** and **Rs 3,058 crore** respectively. Net Profit registered a growth of 37.3% over previous year.
- **Credit-Deposit Ratio** stood at **84.55%** as against 81.94% last year.
- **Retail Credit** posted a growth of **23.5%** constituting 18.15% of the Bank's Gross Domestic Credit in FY10.
- **Net Interest Margin (NIM)** in global operations as per cent of interest earning assets was at the level of **2.74%** and in domestic operations at 3.12%.
- **Net NPAs to Net Advances** stood at **0.34%** this year against 0.31% last year.
- **Capital Adequacy Ratio (CAR)** as per Basel I stood at **12.84%** and as per Basel II at **14.36%**.
- **Net Worth** improved to **Rs 13,785.14 crore** registering a rise of 20.6%.
- **Book Value** improved from Rs 313.82 to **Rs 378.44** on year.
- **Business per Employee** moved up from Rs 911 lakh to **Rs 1,068 lakh** on year.

Segment-Wise Performance

The Segment Results for the year 2009-10 (FY10) reveal that the contribution of Treasury Operations was Rs 1,048 crore, that of Corporate/Wholesale Banking was Rs 1,585 crore, that of Retail Banking was Rs 779 crore, and of Other Banking

Operations was Rs 2,732 crore. The Bank earned a Profit after Tax (PAT) of Rs 3,058 crore after deducting Rs 1,906 crore of unallocated expenditure and Rs 1,180 crore towards provision for tax.

Dividend

The Bank's Directors have proposed a dividend of Rs 15/- per share (on the face value of Rs 10/-per share) for the year ended March 31st, 2010. The total outgo in the form of dividend, including taxes, will be Rs 639.26 crore.

Capital Adequacy Ratio (CAR)

The Bank's Capital Adequacy Ratio (CAR) is comfortable at 14.36% under Basel II as on 31st March 2010. During the year, the Bank strengthened its capital-base by raising Rs 1,000 crore through unsecured subordinated bonds and Rs 900 crore through innovative perpetual bonds.

The Bank's Net Worth as at 31st March 2010 was Rs 13,785.14 crore comprising paid-up equity capital of Rs 365.53 crore and reserves (excluding revaluation reserves) of Rs 13,419.61 crore. An amount of Rs 2,419.07 crore was transferred to reserves from the profits earned.

Other Prudential Measures

As a prudent measure, the Bank has made provision towards contribution to **gratuity** (Rs 131.93 crore), **pension funds** (Rs 120.21 crore), **leave encashment** (Rs 134.29 crore) and **additional retirement benefits** (Rs 16.28 crore) on actuarial basis. Total provisions under these four categories amounted to Rs 402.71 crore during the year 2009-10, against Rs 550.60 crore during 2008-09. Total corpus available with the

Key Financial Ratios

Particulars	2009-10	2008-09
Return on Average Assets (ROAA) (%)	1.21	1.09
Average Interest Bearing Liabilities (Rs crore)	2,15,886.21	1,71,666.55
Average Cost of Funds (%)	4.98	5.81
Average Interest Earning Assets (Rs crore)	2,16,735.54	1,75,818.59
Average Yield (%)	7.70	8.58
Net Interest Margin (%)	2.74	2.91
Cost-Income Ratio (%)	43.57	45.38
Book Value per Share (Rs)	378.44	313.82
EPS (Rs)	83.96	61.14

Bank at the end of March 2010 under these heads is: Rs 948.54 crore (**gratuity**), Rs 2,835.10 crore (**pension funds**), Rs 488.31 crore (**leave encashment**), and Rs 340.56 crore (**additional retirement benefits**).

Management Discussion and Analysis

Economic Scenario in 2009-10

Indian economy strongly rebounded during the year FY10 ahead of most countries in the world, thanks to the timely monetary easing and strong fiscal stimulus provided by the Reserve Bank of India (RBI) and the Central Government, respectively, in the wake of the global crisis. Other factors that facilitated its bounce-back during FY10 were an improving global economy, a return of risk appetite in financial markets and large capital inflows.

Moreover, India was not at the centre of the crisis and its growth is largely dependent on domestic drivers. So, the global crisis could not dent the country's medium-term growth potential.

The Government's advance estimates for the year have put India's real GDP growth at 7.2% for FY10 reflecting a marked improvement over the 6.7% recorded in FY09. The main contributors to this growth have been manufacturing (8.9%), mining & quarrying (8.7%) and the services sector (8.8%). Agriculture output, however, is estimated to have fallen by 0.2% as against a growth of 1.6% in FY09 reflecting the poor South-West monsoon rains. According to the Government reports, production of foodgrains and oilseeds is likely to have declined by 8.0% and 5.0%, respectively, on year on year basis. However, the adverse impact of sub-normal monsoon has been contained to a large extent by a better-than-expected rabi (winter) crop in FY10.

Within the manufacturing sector, the industries like infrastructure, cement, steel, automobiles, machinery & equipment, transport equipment, rubber, plastic & chemical products, etc., have grown strongly during FY10. However, sectors like consumer non-durables, power generation and labour intensive export-oriented industries like textiles, gems & jewellery, etc., continued to remain fragile.

The expansion of services sector was healthier at 8.8% in FY10. However, it slowed down from a year earlier due to a moderate pace of spending by the Government on compensation to employees.

Final consumption expenditure too remained subdued during FY10, as growth in both private and Government final consumption expenditure slowed down. However, investment demand, especially gross fixed capital formation showed a gradual recovery during the year.

The Wholesale Price Index (WPI) inflation, after remaining significantly subdued during the first half of FY10, increased at a faster pace in the second half and reached 9.9% by March, 2010. While a significant portion of inflation could be explained by a shortfall in agricultural production and spikes in international crude oil prices, indications of generalization of inflation became increasingly evident starting from November 2009. Inflation in non-food manufactured products increased from (-) 0.4% in November 2009 to 4.7% in March 2010.

A rebound in the economy and rising inflation pressures prompted the RBI to signal the beginning of an exit from its crisis policy stance since October 2009 when it restored the Statutory Liquidity Ratio (SLR) to 25.0% and tightened provisioning requirements for property loans. Subsequently, it raised the Cash Reserve Ratio (CRR) by 75 bps to 5.75% in late January, 2010. Again, it raised the Repo and Reverse Repo Rates by 25 bps each on March 19th 2010 ahead of the Annual Monetary Policy in April, 2010 to guard against inflationary expectations becoming entrenched. This was the first change in policy rates since April 2009.

A strong revival in global demand brought back India's export growth to a positive zone in November 2009 after 13 months of year-on-year declines. Imports too moved to positive growth in December 2009 after 12 months of year on year contraction. In cumulative terms, however, exports declined by 11.3% (y-o-y) in Apr-Feb, FY10, while imports declined by 13.5%. The trade deficit during the first eleven months of FY10 stood at US\$ 95.42 billion as against US\$ 114.72 in the corresponding period of FY09. The robust growth in invisible receipts observed during the past few years was reversed in FY10 due to the lagged impact of recession in advanced economies. Despite lower trade deficit, the fall in invisibles surplus led to marginally higher current account deficit during FY10. The latest available data show that the current account deficit during April-December, 2009 stood at US\$ 30.3 billion, higher than US\$ 27.5 billion during April-December, 2008.

A noteworthy feature of economic revival during FY10 was the resumption of large capital inflows led by both the FII and FDI inflows. According to the RBI Report, the FII (net) investment in India during FY10 was US\$ 29 billion while FDI inflows amounted to US\$ 33.1 billion during April-February, FY10. In nominal terms, the rupee appreciated against the US Dollar by 11.5% during FY10 primarily due to an upsurge in capital inflows. However, an increase in inflation differentials between India and its trading partners during the year resulted in much higher appreciation of real exchange rate.

During FY10, India's foreign exchange reserves (FER) increased by US\$ 27.1 billion to reach US\$ 279.1 billion as at end-March 2010. Furthermore, the RBI purchased 200 metric tonnes of gold from the IMF on November 3, 2009 as part of the RBI's FER management operations.

India's external debt stock at US\$ 251.4 billion at end-December 2009 recorded an increase of US\$ 26.8 billion over its level at March 2009 primarily on account of an increase in long-term debt.

Indian equity markets displayed vibrancy and increased momentum during FY10 except for some occasional corrections caused by Dubai World default and the Greek sovereign debt concerns during the last two quarters of FY10. On the whole, the benchmark indices Sensex and the Nifty gained 81.0% and 74.0% respectively, on year-on-year basis, primarily on the back of huge FII inflows.

The Central Government's fiscal deficit for FY10 is expected to remain within the 6.8% of GDP target. Stronger divestment receipts and direct tax revenue could make up for the shortfall, if any, in 3G auction proceeds and indirect tax collections,