

IV. MONETARY CONDITIONS

The expansionary and liquidity-enhancing measures taken by the Reserve Bank since September 2008 has ensured ample liquidity in the system, which is evident in the large and sustained absorption of surplus liquidity through the LAF in 2009-10 so far. Broad money growth (year-on-year) remained strong at 20.0 per cent (up to July 3, 2009), driven by robust growth in deposits (21.0 per cent) on the components side and significant increase in banking system's credit to the Government (48.0 per cent) on the sources side. Market absorption of the government borrowing programme was facilitated by dampened demand for credit from the private sector on the backdrop of a high deposits growth. The composition of deposits has been shifting gradually in favour of time deposits since October 2008, partly in response to expectations about deposit rates following the lower policy rates of the Reserve Bank. The deceleration in commercial banks' credit to the commercial sector witnessed over the period October 2008 to May 2009 has started a slow turnaround.

IV.1 Monetary aggregates continued to exhibit strong growth in 2009-10 (up to July 3, 2009), mainly reflecting the large increases in commercial banks' credit to the Government. The expansion in non-food credit, however, moderated to a large extent and net foreign exchange assets with the banking system also declined. Broad money growth during the first quarter of 2009-10 remained strong and above the Reserve Bank's projected trajectory of 17.0 per cent for the year 2009-10. This was on account of strong growth in deposits, particularly time deposits. In the absence of adequate demand for credit from the private sector, commercial banks stepped up their lending to the Government. The increase in net commercial bank credit to the Government reflected the accommodation of enhanced market borrowing programme of the Government during 2009-10, that was essential to revive the growth momentum of the economy. Expansion in non-food credit

to the commercial sector witnessed a sharp deceleration and remained below the Reserve Bank's projected trajectory of 20.0 per cent growth for the year 2009-10. The reserve money growth during 2009-10 remained low and turned negative, mainly reflecting large reverse repo operations by the Reserve Bank to absorb the surplus liquidity from the system and the decline in net foreign exchange assets (adjusted for valuation) with the Reserve Bank.

IV.2 The monetary policy responses since September 2008 have been aimed at mitigating the adverse impact of the global economic crisis on the Indian economy. The conduct of monetary policy had to contend with the speed and magnitude of the contagion and its potential spill-over effects on the domestic economy. Accordingly, since October 11, 2008, the Reserve Bank has reduced CRR by a cumulative 400 basis points to 5.0 per cent, repo rate by 425 basis points to 4.75 per cent

and the reverse repo rate by 275 basis points to 3.25 per cent. Reserve Bank also took a series of measures to augment rupee and foreign exchange liquidity to avoid shortage of liquidity as a source for market volatility or contraction in credit. The liquidity conditions have remained easy throughout in the recent period, which was evident from the orderly conditions in the market as well as sustained net absorption under the LAF.

Monetary Survey

IV.3 Broad money (M_3) growth (y-o-y) during 2009-10 (up to July 3, 2009) continued to remain strong, although with some moderation as compared with the high

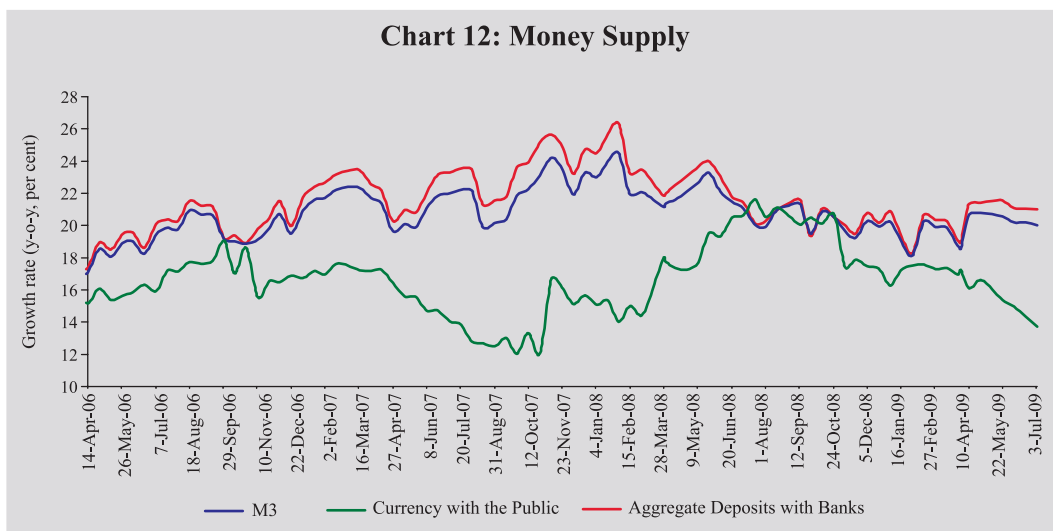
growth a year ago. On a year-on-year (y-o-y) basis, M_3 growth was 20.0 per cent as on July 3, 2009 as compared with 21.1 per cent a year ago (Table 27 and Chart 12). The strong growth in M_3 mainly reflected the sustained expansion in aggregate deposits during the period. Within aggregate deposits, time deposits registered a higher growth (y-o-y) during 2009-10 as compared with a year ago, partly reflecting some switching from demand deposits and other savings instruments to time deposits. With increase in risk perception in the face of snowballing uncertainty, risk free high interest rates offered by the banks on time deposits in relation to expected return on other financial instruments would have

Table 27: Monetary Indicators

Item	Outstanding as on July 03, 2009	Variation (year-on-year)			
		July 04, 2008		July 03, 2009	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
I. Reserve Money* (Reserve Money Adjusted for CRR changes)	9,46,438	1,99,944	26.6 (18.4)	-5,476	-0.6 (16.1)
II. Narrow Money (M_1)	12,57,945	1,74,393	18.2	1,27,400	11.3
III. Broad Money (M_3)	49,86,446	7,22,762	21.1	8,30,276	20.0
a) Currency with the Public	6,83,814	1,02,838	20.6	82,523	13.7
b) Aggregate Deposits	42,96,686	6,25,845	21.4	7,46,919	21.0
i) Demand Deposits	5,68,185	77,476	17.3	44,042	8.4
ii) Time Deposits	37,28,501	5,48,369	22.1	7,02,877	23.2
VI. Major Sources of Broad Money					
a) Net Bank Credit to the Government (i+ii)	14,06,681	40,069	4.4	4,56,294	48.0
i) Net Reserve Bank Credit to Government	24,502	-1,37,189	-	1,33,524	-
<i>of which:</i> to the Centre	24,261	-1,36,827	-	1,33,242	-
ii) Other Banks' Credit to Government	13,82,179	1,77,258	20.1	3,22,770	30.5
b) Bank Credit to the Commercial Sector	30,40,742	5,03,922	23.8	4,20,117	16.0
c) Net Foreign Exchange Assets of the Banking Sector	13,36,383	4,52,621	50.3	-15,590	-1.2
d) Government Currency Liability to Public	10,212	1,022	12.1	763	8.1
e) Net Non-Monetary Liabilities of the Banking Sector	8,07,571	2,74,871	54.8	31,307	4.0

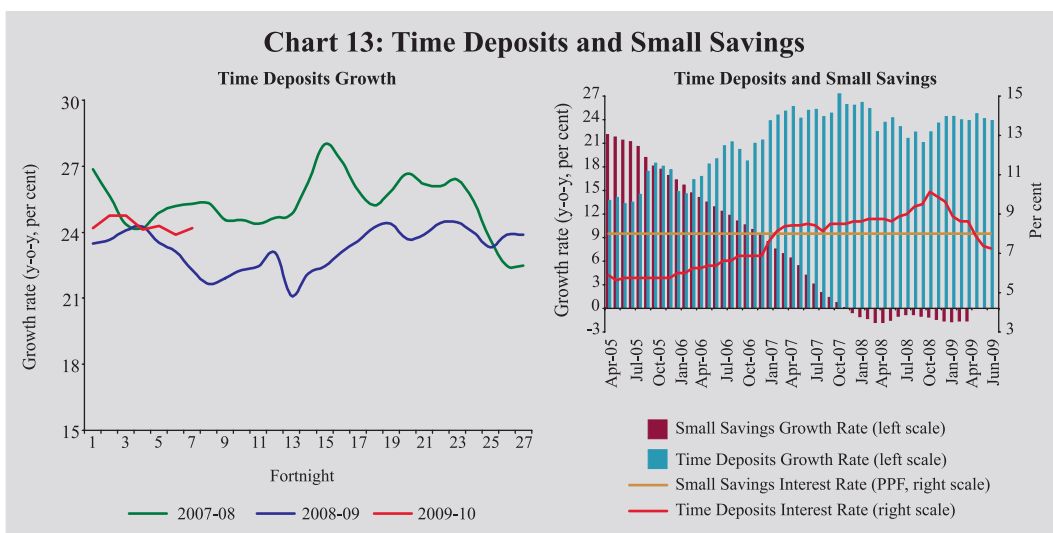
*: Data pertain to July 17, 2009.

Note: Data are provisional. Wherever data are not available, the data for last available month is repeated as estimates.



motivated investors to shift their financial savings to time deposits. The expectations of near-term decline in interest rates as a lagged response to the lower policy rates also contributed to the compositional shift in deposits in favour of term-deposits. Accordingly, demand deposits recorded a lower growth (y-o-y) as compared with the previous year. Demand deposits expanded by 8.4 per cent (y-o-y) as on July 3, 2009

as compared with 17.3 per cent a year ago. The net outflows from small savings schemes that started in December 2007 continued up to March 2009 (the latest period for which the data are available) (Chart 13). Growth in currency with the public moderated to 13.7 per cent (y-o-y) as on July 3, 2009 as compared with 20.6 per cent a year ago, mainly reflecting downturn in economic activity.



IV.4 On a financial year basis, growth in M_3 during 2009-10 (up to July 3, 2009) was 4.7 per cent as compared with 3.4 per cent during the corresponding period of the previous year (Table 28). Currency with the public expanded by 2.6 per cent (up to July 3, 2009) as compared with 5.8 per cent during the corresponding period of the previous year.

IV.5 On the sources side, broad money (M_3) growth (y-o-y) was mainly driven by

bank credit to the Government during 2009-10 (up to July 3, 2009). Growth in commercial banks' credit to the commercial sector fell significantly (Chart 14). Net foreign exchange assets with the banking sector also declined.

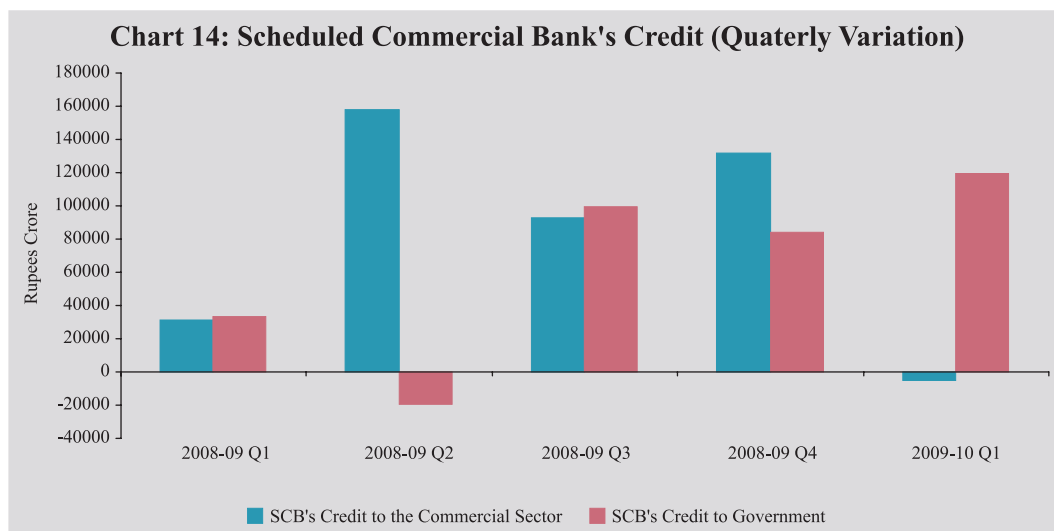
IV.6 Much of the financial year expansion in broad money (M_3) during 2009-10 (up to July 3, 2009) resulted from the increase in bank credit to the

Table 28: Monetary Aggregates – Variations

Item			(Rupees crore)				
	2008-09	2009-10	2008-09				2009-10
	(up to July 04)	(up to July 03)	Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8
M_3 (1+2+3 = 4+5+6+7-8)	1,38,287 (3.4)	2,22,427 (4.7)	89,283	1,76,379	1,60,488	3,19,986	1,72,702
Components							
1 Currency with the Public	32,881 (5.8)	17,451 (2.6)	35,772	-18,037	40,405	39,813	24,449
2 Aggregates Deposits with Banks	1,09,349 (3.2)	2,04,603 (5.0)	57,621	1,93,902	1,13,039	2,87,103	1,42,626
2.1 Demand Deposits with Banks	-54,230 (-9.4)	-13,063 (-2.2)	-79,325	52,771	-62,157	91,586	-33,948
2.2 Time Deposits with Banks	1,63,579 (5.7)	2,17,666 (6.2)	1,36,946	1,41,131	1,75,195	1,95,517	1,76,574
3 'Other' Deposits with Banks	-3,943 (-43.5)	373 (6.7)	-4,110	514	7,045	-6,931	5,626
Sources							
4 Net Bank Credit to Government	50,869 (5.7)	1,29,482 (10.1)	36,124	31,654	1,29,335	1,80,568	1,12,756
4.1 RBI's Net Credit to Government	4,187	-37,078	-13	51,360	30,230	93,212	-11,145
4.1.1 RBI's Net Credit to the Centre	5,655	-37,500	1,430	51,379	29,932	93,657	-11,497
4.2 Other Banks' Credit to Government	46,682	1,66,560	36,137	-19,706	99,106	87,356	1,23,902
5 Bank Credit to the Commercial Sector	41,636 (1.6)	27,405 (0.9)	30,811	1,63,138	90,616	1,49,783	1,640
6 NFEA of Banking Sector	56,841	-15,801	66,858	7,271	-1,32,461	1,15,385	-16,750
6.1 NFEA of the RBI	93,915	-15,801	1,03,932	10,336	-1,56,330	86,048	-16,750
7 Government's Currency Liabilities to the Public	225	157	225	206	186	213	157
8 Net Non-Monetary Liabilities of the Banking Sector	11,284	-81,183	44,735	25,890	-72,812	1,25,962	-74,899

SCBs : Scheduled Commercial Banks. NFEA : Net Foreign Exchange Assets.

Note : 1. Data are provisional.
2. Figures in parentheses are percentage variations.



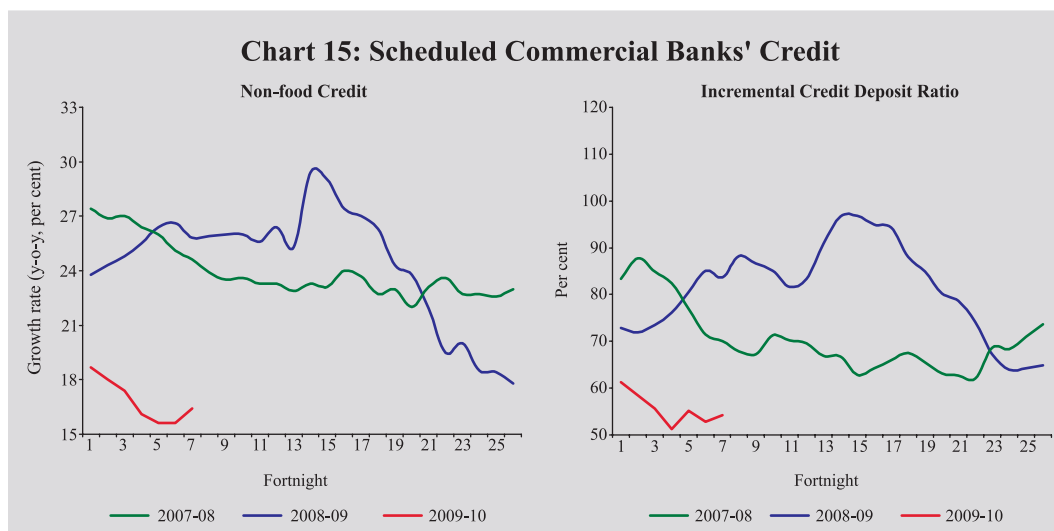
Government from the commercial banks which also includes temporary acquisition of securities from the Reserve Bank under LAF.

IV.7 Non-food credit growth (y-o-y) of scheduled commercial banks (SCBs) that reached its peak in October 2008, witnessed deceleration thereafter. This trend also continued in the first quarter of 2009-10. While it is not unusual for the first quarter to show deceleration in expansion of credit because of seasonal factors, the deceleration was particularly pronounced during the first quarter of 2009-10. This was because of the decline in credit by Rs.18,796 crore to petroleum and fertiliser companies during April-May 2009, as against an increase of Rs.6,530 crore in the corresponding period of the previous year. Since June 2009, some early signs of turnaround in the credit growth could be observed. Non-food credit by SCBs expanded by 16.4 per cent, y-o-y, as on July 3, 2009 as compared with 25.8 per cent a year ago. The lower expansion

in credit relative to the expansion in deposits during 2009-10 resulted in a decrease in the incremental credit-deposit ratio (Chart 15).

IV.8 Scheduled commercial Banks' (SCBs') investment in SLR securities as a per cent of their net demand and time liabilities (NDTL) increased during 2009-10 so far. SCBs' investment in SLR securities expanded by 31.5 per cent (y-o-y) as on July 3, 2009 as compared with 19.5 per cent a year ago (Table 29). Commercial banks' holdings of such securities as on July 3, 2009 was at 30.5 per cent of their NDTL as compared with 27.7 per cent a year ago. However, adjusted for LAF collateral securities on an outstanding basis, SCB's holding of SLR securities was 26.9 per cent of their NDTL as on July 3, 2009.

IV.9 The flow of credit from scheduled commercial banks witnessed sizeable moderation (y-o-y) during 2009-10 (up to July 3, 2009) as compared with a year ago. Within the commercial banks the expansion



in credit declined sharply for private banks while foreign banks registered a negative growth (Table 30).

IV.10 During 2003-04 to 2008-09, Indian economy experienced an average real GDP growth of 8.5 per cent, average WPI

Table 29: Scheduled Commercial Bank Survey

Item	Outstanding as on July 3, 2009	Variation (year-on-year)			
		As on July 4, 2008		As on July 3, 2009	
		Amount	Per cent	Amount	Per cent
		1	2	3	4
(Amount in Rupees crore)					
Sources of Funds					
1. Aggregate Deposits	40,28,707	5,85,449	21.5	7,24,678	21.9
2. Call/Term Funding from Financial Institutions	89,594	20,460	24.8	-13,392	-13.0
3. Overseas Foreign Currency Borrowings	31,610	21,215	84.1	-14,838	-31.9
4. Capital	48,438	9,107	25.4	3,449	7.7
5. Reserves	3,25,389	64,109	30.1	48,092	17.3
Uses of Funds					
1. Bank Credit	27,98,747	4,89,222	25.5	3,93,148	16.3
<i>of which: Non-food Credit</i>	27,41,073	4,82,729	25.8	3,86,195	16.4
2. Investments in Government and Other Approved Securities	13,34,720	1,65,823	19.5	3,19,728	31.5
a) Investments in Government Securities	13,17,926	1,68,691	20.2	3,15,083	31.4
b) Investments in Other Approved Securities	16,794	-2,868	-19.1	4,645	38.2
3. Investments in non-SLR Securities	2,45,195	3,161	1.8	67,934	38.3
4. Foreign Currency Assets	62,109	-28,862	-45.8	27,970	81.9
5. Balances with the RBI	1,96,855	69,889	35.0	-72,626	-27.0
Note: Data are provisional.					

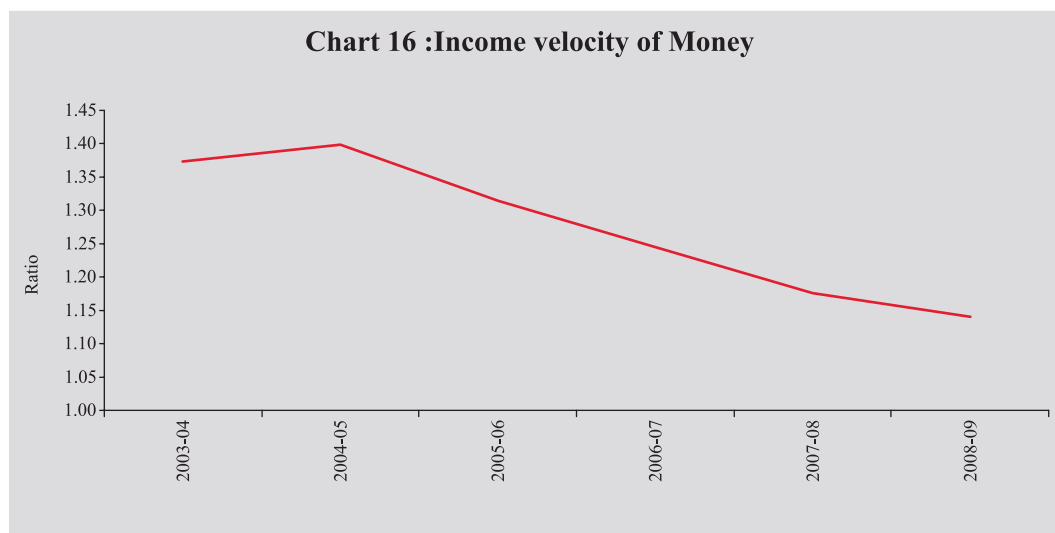
Table 30: Credit Flow from Scheduled Commercial Banks

Item	Outstanding as on, July 3, 2009	Variation (year-on-year)			
		As on July 4, 2008		As on July 3, 2009	
		Amount	Per cent	Amount	Per cent
		1	2	3	4
1. Public Sector Banks	20,63,202	3,51,818	26.3	3,71,160	21.9
2. Foreign Banks	1,58,971	42,697	33.3	-12,090	-7.1
3. Private Banks	5,08,707	89,069	22.3	20,409	4.2
4. All Scheduled Commercial Banks*	27,98,747	4,89,222	25.5	3,93,148	16.3

*: Includes Regional Rural Banks.
Note: Data are provisional.

inflation of 5.8 per cent and average money supply growth of 17.9 per cent. Growth and inflation conditions, however, changed significantly during the course of 2008-09, and the broad money growth at 18.6 per cent at end-March 2009 in the face of moderating growth and near zero (year-on-year) inflation has to be seen in the context of significant fall in the velocity of circulation of money or increase in income elasticity of money demand (Chart 16).

IV.11 Disaggregated data on sectoral deployment of gross bank credit available up to May 22, 2009 showed that 47.4 per cent of incremental non-food credit (y-o-y) was absorbed by industry as compared with 43.2 per cent a year ago. The expansion of incremental non-food credit to industry during this period was led by infrastructure, iron & steel, engineering and construction industries. The agricultural sector absorbed 16.9 per cent of the

Chart 16 :Income velocity of Money


incremental non-food bank credit as compared with 10.1 per cent a year ago. Personal loans that accounted for 7.6 per cent of the incremental non-food credit witnessed some moderation; within personal loans, housing loans decelerated

to a large extent. Growth in loans to commercial real estate, however, remained high (Table 31).

IV.12 Apart from banks, the commercial sector mobilised resources from a variety

Table 31: Non-food Bank Credit - Sectoral Deployment

(Amount in Rupees crore)					
Sector/Industry	Outstanding as on May 22, 2009	Year-on-Year Variations			
		May 23, 2008		May 22, 2009	
		Absolute	%	Absolute	%
1	2	3	4	5	6
Non-Food Gross Bank Credit (1 to 4)	25,58,250	4,23,189	24.2	3,83,483	17.6
1. Agriculture & Allied Activities	3,29,757	42,745	19.3	64,970	24.5
2. Industry	10,40,363	1,82,857	27.1	1,81,848	21.2
3. Personal Loans	5,57,482	72,777	16.0	29,266	5.5
Housing	2,75,514	31,735	13.8	13,028	5.0
Advances against Fixed Deposits	45,801	3,128	8.0	3,581	8.5
Credit Card Outstanding	26,977	7,116	36.5	381	1.4
Education	28,690	5,914	38.3	7,338	34.4
Consumer Durables	7,997	-534	-6.0	-300	-3.6
4. Services	6,30,648	1,24,810	31.3	1,07,399	20.5
Transport Operators	39,032	9,917	39.1	3,784	10.7
Professional Services	44,665	7,108	28.6	12,723	39.8
Trade	1,42,042	16,902	16.0	19,604	16.0
Real Estate Loans	94,499	17,018	37.7	32,321	52.0
Non-Banking Financial Companies	94,668	27,549	62.0	22,694	31.5
<i>Memo</i>					
Priority Sector	9,07,956	1,27,334	20.3	1,54,459	20.5
Small Enterprises	2,69,466	84,127	72.1	68,590	34.1
Industry	10,40,363	1,82,857	27.1	1,81,848	21.2
Food Processing	53,392	13,126	35.1	2,899	5.7
Textiles	1,01,734	16,503	21.3	7,818	8.3
Paper & Paper Products	15,811	2,435	21.4	1,985	14.4
Petroleum, Coal Products and Nuclear Fuels	50,841	18,250	62.8	3,552	7.5
Chemicals and Chemical Products	70,758	13,304	25.5	5,361	8.2
Rubber, Plastic & their Products	13,405	2,261	25.5	2,289	20.6
Iron and Steel.	1,02,439	15,460	24.4	23,605	29.9
Other Metal and Metal Products	30,504	4,873	24.1	5,392	21.5
Engineering	65,266	9,959	23.4	12,715	24.2
Vehicles, Vehicle Parts and Transport Equipments	32,995	6,324	26.7	2,980	9.9
Gems & Jewellery	27,861	1,403	6.0	3,035	12.2
Construction	37,752	5,959	29.6	11,670	44.7
Infrastructure	2,74,758	59,811	41.7	71,427	35.1
Note: Data are provisional and relate to select banks. Data also include the effects of mergers of Bharat Overseas Bank with Indian Overseas Bank, American Express Bank with Standard Chartered Bank and State Bank of Saurashtra with State Bank of India.					

of other sources such as capital markets, commercial papers (CPs), non-banking financial companies (NBFCs), financial institutions, external commercial borrowings, American Depository Receipts (ADRs)/Global Depository Receipts (GDRs) and foreign direct investment. During 2008-09 flow of resources from domestic non-bank sources increased while flow of resources from external sources declined sharply as compared with the previous year. Among the domestic non-bank sources, resources raised through systemically important NBFCs, gross private placements by non-financial

entities, total gross accommodation by four Reserve Bank-regulated AIFIs and gross investment by LIC increased, while resources raised by other sources declined. Within external sources, resources raised through external commercial borrowing, ADR/GDR issues and short-term credit declined significantly, while investment through FDI routes registered an increase. Thus, besides the decline in the flow of non-food credit during 2008-09 as compared with 2007-08, the flow of resources from non-bank sources also declined substantially, resulting in lower annual flow of financial resources to the commercial sector (Table 32). During

Table 32: Flow of Financial Resources to Commercial Sector

(Rupees crore)				
1	April-March		April-June	
	2007-08	2008-09	2008-09	2009-10
	2	3	4	5
A. Adjusted non-food Bank Credit (NFC)	4,44,807	4,21,091	30,631	5,697
i) Non-food credit	4,32,846	4,11,824	37,364	11,735
<i>of which:</i> petroleum and fertilizer credit	5,057	31,632	6,530*	-18,796*
ii) Non-SLR investment by SCBs	11,961	9,267	-6,733	-6,038
B. Flow from Non-banks (B1+B2)	5,87,659	4,66,895	1,28,490	84,969
B1. Domestic Sources	2,55,230	2,96,679	77,138	63,984
1. Public issues by non-financial entities	51,478	14,205	2,031	236
2. Gross private placements by non-financial entities	68,249	76,184	16,955	29,135
3. Net issuance of CPs subscribed by non-banks	10,660	5,590	25,104	35,460
4. Net credit by housing finance companies	41,841	26,634	10,702	-3,792
5. Total gross accommodation by 4 RBI regulated AIFIs - NABARD, NHB, SIDBI & EXIM Bank	22,267	31,423	-644	-5,513
6. Systemically important non-deposit taking NBFCs (net of bank credit)	36,460	76,828	21,866*	1,932*
7. LIC's gross investment in corporate debt, infrastructure and social sector	24,275	65,815	1,124*	6,526*
B2. Foreign Sources#	3,32,429	1,70,216	51,352	20,985
1. External Commercial Borrowings / FCCB	91,180	38,009	6,111	-1,504
2. ADR/GDR issues excluding banks and financial institutions	34,937	4,788	4,056	215
3. Short-term credit from abroad	68,878	-31,160	9,636*	416*
4. Foreign direct investment to India	1,37,434	1,58,579	31,549*	21,858*
C. Total Flow of Resources (A+B)	10,32,466	8,87,986	1,59,121	90,666

* : up to May.

2009-10 so far, latest available data indicate that flow of financial resources to the commercial sector was lower as compared with the corresponding period of the previous year.

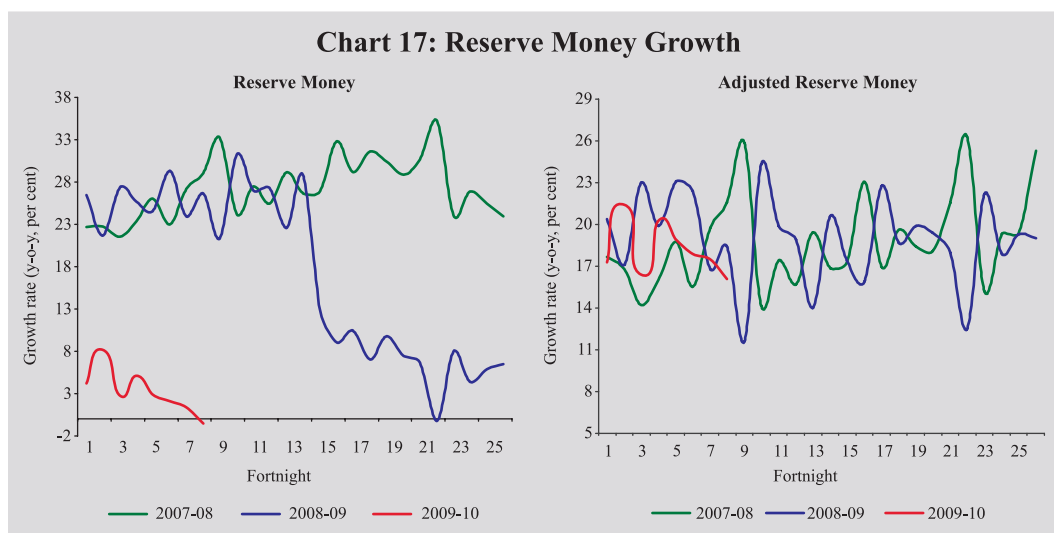
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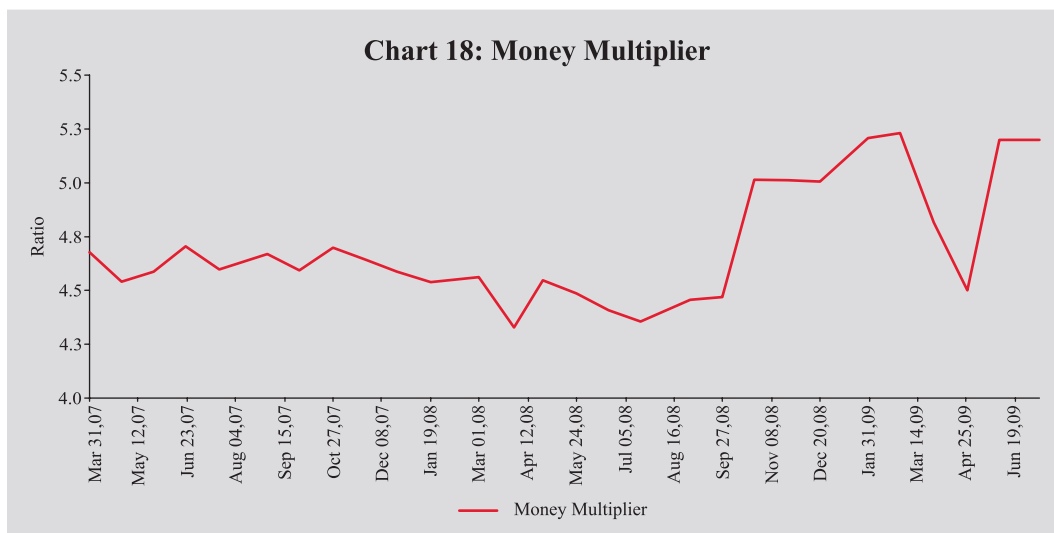
IV.13 Reserve money registered a decline of 0.6 per cent, y-o-y, as on July 17, 2009 as compared with an increase of 26.6 per cent a year ago. In the context of sharp changes in CRR during 2008-09, it is more appropriate, for analytical purposes, to compare reserve money movements adjusted for CRR. The decline in reserve money should not be interpreted as an indication of monetary contraction, since it reflects the impact of a deliberate expansionary monetary policy action in the form of reduction in CRR. While a reduction in CRR may lead to a corresponding fall in reserve money in the first round, the higher money multiplier resulting from lower CRR leads to higher

growth in broad money, though with a lag. The adjusted reserve money, thus, makes the trends over time more comparable, since they are adjusted for policy induced changes to the reserve money. Adjusted for the first round effect of the changes in CRR, reserve money growth (y-o-y) as on July 17, 2009 was 16.1 per cent as compared with 18.4 per cent a year ago (Chart 17).

IV.14 The money multiplier, which had declined from 4.7 at end-March 2007 to 4.3 at end-March 2008 in the wake of CRR hikes, increased to 5.2 as on March 31, 2009, reflecting subsequent lowering of CRR by 400 basis points. The money multiplier, however, had declined to 4.5 as at end-April 2009 reflecting large excess cash holdings by banks. The money multiplier reverted to its trend by June 2009 (Chart 18).

IV.15 On a financial year basis during 2009-10 (up to July 17, 2009) reserve money declined by 4.2 per cent as against an increase of 2.5 per cent in the





corresponding period of the previous year (Table 33). On the sources side, net Reserve Bank credit to the Centre decreased while net foreign exchange assets (adjusted for valuation) increased marginally. Net Reserve Bank's credit to the Centre decreased by Rs.19,780 crore (up to July 17, 2009) as against an increase of Rs.55,581 crore during the corresponding period of the previous year. The Reserve

Bank's foreign currency assets (adjusted for valuation) increased by Rs.3,977 crore as against a decrease of Rs.18,139 crore during the corresponding period of the previous year (Chart 19). Adjusted for the first round impact of the changes in CRR (up to July 17, 2009), reserve money declined by 4.1 per cent as compared with a decline of 1.7 per cent during the corresponding period of the previous year.

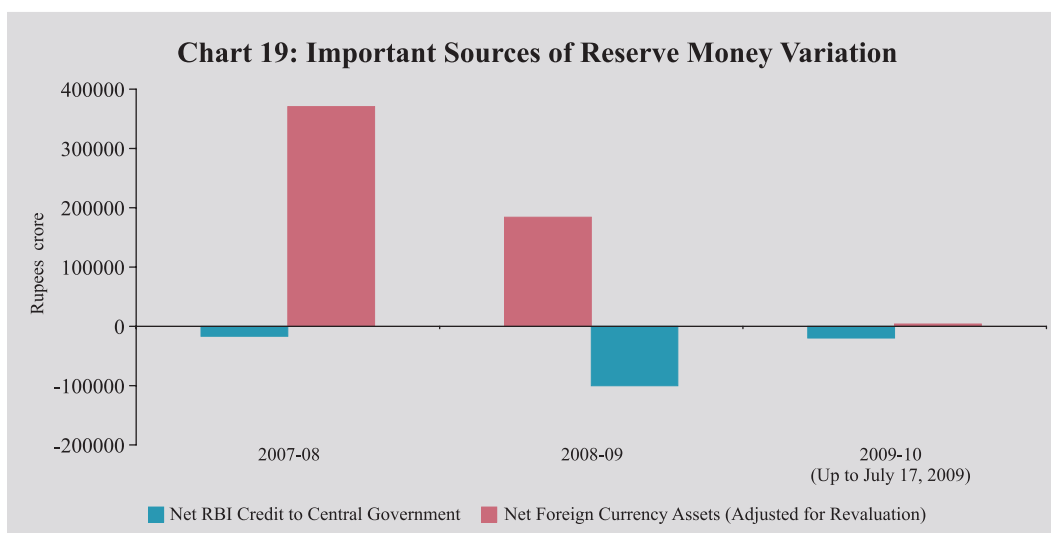


Table 33: Reserve Money - Variations

Item	(Amount in Rupees crore)							
	2008-09 (April- March)	2008-09 (Up to July 18)	2009-10 (Up to July 17)	2008-09				2009-10
				Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8	9
Reserve Money	59,698	23,612	-41,563	3,416	25,218	-70,452	1,01,516	-37,443
		(2.5)	(-4.2)					
<i>(Adjusted Reserve Money)</i>		<i>(-1.7)</i>	<i>(-4.1)</i>					
Components (1+2+3)								
1. Currency in Circulation	1,00,352	35,043	23,428	36,859	-14,516	38,277	39,733	29,595
		(5.9)	(3.4)					
2. Bankers' Deposits with RBI	-37,172	-7,481	-65,057	-29,333	39,219	-1,15,773	68,714	-72,664
		(-2.3)	(-22.3)					
3. 'Other' Deposits with the RBI	-3,482	-3,950	66	-4,110	514	7,045	-6,931	5,626
		(-43.6)	(1.2)					
Sources (1+2+3+4-5)								
1. RBI's net Credit to Government	1,74,789	54,113	-19,640	-13	51,360	30,230	93,212	-11,145
<i>of which: to Centre (i+ii+iii+iv-v)</i>	1,76,397	55,581	-19,780	1,430	51,379	29,932	93,657	-11,497
2. RBI's Credit to Banks and Commercial Sector	17,799	-873	-11,779	-3,358	4,963	5,032	11,163	-9,623
3. Net Foreign Exchange Assets of RBI	43,986	75,552	10,262	1,03,932	10,336	-1,56,330	86,048	-16,750
		(6.1)	(0.8)					
<i>of which : FCA, adjusted for revaluation</i>	-1,00,308	-18,139	3,977	15,535	-31,641	-92,102	7,900	-6,245
4. Governments' Currency Liabilities to the Public	831	289	157	225	206	186	213	157
5. Net Non-Monetary Liabilities of RBI	1,77,706	1,05,470	20,564	97,369	41,648	-50,431	89,120	81
<i>Memo:</i>								
Net Domestic assets	15,712	-51,940	-51,825	-1,00,516	14,882	85,878	15,468	-20,692
LAF- Repos (+) / Reverse Repos(-)	-51,835	-16,025	-1,39,175	-45,350	51,480	-62,170	4,205	-1,32,800
Net Open Market Sales # *	-94,548	-18,183	-43,658	-8,696	-10,535	-7,669	-67,649	-42,001
Centre's Surplus	-60,367	-56,919	-9,547	-42,427	6,199	-32,830	8,691	-13,156
Mobilisation under the MSS	-80,315	3,047	-66,101	6,040	-628	-53,754	-31,973	-65,187
Net Purchases(+)/Sales(-) from Authorised Dealers	-1,78,592	-35,749	-18,966	3,956	-52,761	-1,11,877	-17,910	-18,966
NFEA/Reserve Money @	129.6	137.8	136.3	143.8	141.1	134.7	129.6	132.9
NFEA/Currency @	185.2	209.6	180.6	213.5	220.2	183.3	185.2	175.3
NFEA: Net Foreign Exchange Assets.	FCA: Foreign Currency Assets.	LAF: Liquidity Adjustment Facility.						
* : At face value. # : Excludes Treasury Bills. @ : Per cent; end of period. ^ : Up to May 29, 2009.								
Note: 1. Data are based on March 31 for Q4 and last reporting Friday for all other quarters.								
2. Figures in parentheses are percentage variations during the fiscal year.								

IV.16 Movements in the Reserve Bank's net credit to the Central Government during 2009-10 (up to July 17, 2009) largely reflected the liquidity management operations of the Reserve Bank and changes in Central Government deposits with the Reserve Bank. Liquidity condition eased from mid-November 2008, and on an average, Reserve Bank started absorbing large amount of liquidity through reverse repo under the LAF. Accordingly, Reserve Bank's holding of government securities (up to July 17, 2009) declined on account of an increase in absorption under LAF (Rs.1,39,175 crore). On the other hand, unwinding of MSS securities (Rs.66,101 crore) led to a decline in Central Government deposits with the Reserve Bank and, therefore increased net Reserve Bank credit to the Centre. The Centre's surplus cash balances with the Reserve Bank also decreased (Rs.9,547 crore). Furthermore, net open market purchases

under OMO/special market operations (SMO) led to higher holding of Central Government securities/bonds (Rs.43,658 crore) by the Reserve Bank. Reflecting combined effect of these developments, the Reserve Bank's net credit to the Centre decreased during 2009-10 (up to July 17, 2009) as against an increase during the corresponding period of the previous year.

IV.17 To sum up, broad money continued to exhibit high growth during 2009-10 (up to July 3, 2009), reflecting large market borrowing programme of the Government on the sources side and high growth in deposits on the component side of monetary aggregates. Sustained moderation in non-food credit growth since October 2008 gave banks additional space to subscribe to the government securities; since end-May 2009, however, some early sign of turnaround in the credit growth could be observed.