

III. MONETARY AND LIQUIDITY CONDITIONS

Monetary Survey

Monetary and liquidity conditions remained largely comfortable during 2005-06 although there was some tightness in liquidity conditions during the last four months of 2005-06 reflecting partly the impact of the redemption of India Millennium Deposits (IMDs). The Reserve Bank, therefore, injected liquidity through unwinding of the Market Stabilisation Scheme (MSS) and repo operations under the liquidity adjustment facility (LAF) along with some private placement of the Central Government securities. As a result, the banking system was able to meet the sustained pick-up in credit demand from the commercial sector. However, in the face of the rising demand for commercial credit, banks restricted their incremental investments in Government paper. Strong growth in deposits as well as access to non-deposit sources also enabled the banking system to meet the enhanced demand for commercial credit. Liquidity injecting operations of the Reserve Bank led to a rise in its net domestic assets (NDA) and a higher order of expansion of reserve money during 2005-06. Concomitantly, the year-on-year (y-o-y) broad money (M_3) growth as on March 31, 2006 – at 16.2 per cent – was above the indicative growth of 14.5 per cent projected in the Annual Policy Statement in the beginning of the year (April 2005). In this context, it may be noted that data on fiscal year variation for 2005-06 are not comparable with those of the previous years as the data for 2005-06 include 27 fortnights while usually the data for a year include 26 fortnights. Moreover, the last reporting Friday of 2005-06 coincided with March 31, the closing day for banks' accounts, thereby giving rise to the phenomenon of year-end bulge in aggregate deposits and credit (Table 20). Expansion in the new monetary aggregate (NM_3) was higher than M_3 on account of net outflows under foreign currency deposits, reflecting redemption of IMDs. Based on the recommendations of the Working Group on Money Supply (Chairman: Dr. Y.V. Reddy), NM_3 is compiled on a residency basis by not directly reckoning banks' non-resident repatriable foreign currency fixed deposits such as the balances under the FCNR (B) scheme and IMDs. Expansion in liquidity aggregates (L_1 , L_2 and L_3) was also higher than a year ago. Liquidity aggregates encompass select liabilities of the postal savings, financial institutions and NBFCs in addition to that of the banking sector.

Demand for currency recorded a higher growth during 2005-06, in consonance with acceleration in economic activity. Currency demand generally

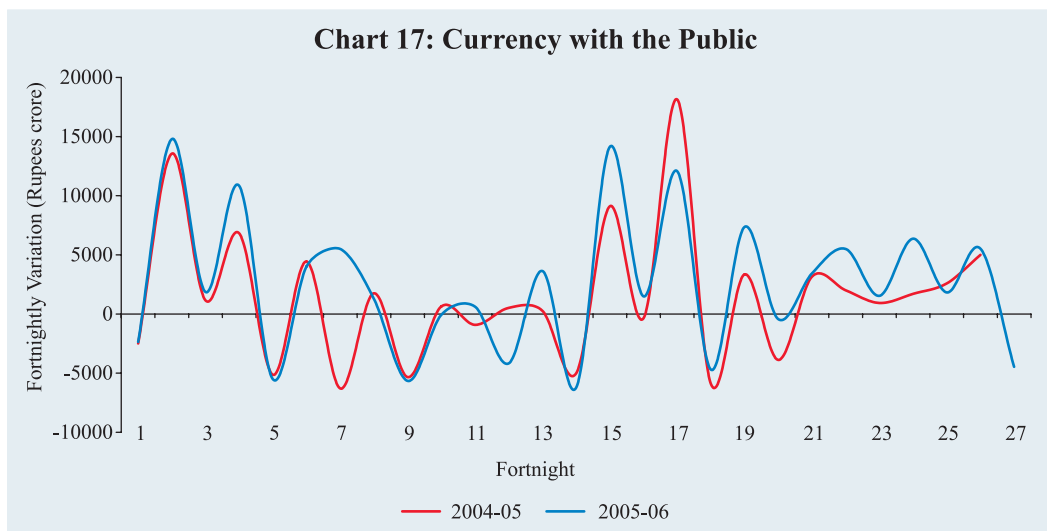
Monetary and Liquidity Conditions

Table 20: Monetary Indicators

(Amount in Rupees crore)									
Item	Outstanding as on March 31, 2006	Variation							
		Fiscal year				Year-on-year			
		2004-05		2005-06		As on April 1, 2005		As on March 31, 2006	
		Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
1	2	3	4	5	6	7	8	9	10
I. Reserve Money	5,73,043	52,623	12.1	83,907	17.2	58,998	14.2	98,399	20.7
II. Broad Money (M ₃)	27,09,905	2,42,260	12.1	4,58,456	20.4	2,84,284	13.9	3,77,238	16.2
a) Currency with the Public	4,14,404	40,892	13.0	58,541	16.5	39,894	12.7	59,533	16.8
b) Aggregate Deposits	22,88,587	2,00,009	11.9	3,99,479	21.1	2,42,443	14.1	3,17,111	16.1
i) Demand Deposits	3,87,877	26,528	10.3	1,02,723	36.0	43,585	15.7	66,514	20.7
ii) Time Deposits	19,00,710	1,73,481	12.2	2,96,757	18.5	1,98,857	13.7	2,50,597	15.2
of which: Non-Resident Foreign Currency Deposits	58,976	802	1.1	-17,429	-22.8	2,049	2.8	-17,175	-22.6
III. NM ₃	27,28,782	2,44,300	12.5	4,85,608	21.6	2,85,894	14.3	4,02,321	17.3
of which: Call Term Funding from Financial Institutions	83,681	9,678	39.2	14,158	20.4	11,077	43.2	11,761	16.4
IV. a) L ₁	28,30,903	2,61,559	12.9	4,99,082	21.4	2,61,559	12.9	4,99,082	21.4
of which: Postal Deposits	1,02,121	17,259	24.2	13,474	15.2	17,259	24.2	13,474	15.2
b) L ₂	28,33,835	2,57,437	12.6	4,99,891	21.4	2,57,437	12.6	4,99,891	21.4
of which: FI Deposits	2,932	-4,122	-66.0	809	38.1	-4,122	-66.0	809	38.1
c) L ₃	28,55,529	2,57,555	12.5	5,01,745	21.3	2,57,555	12.5	5,01,745	21.3
of which: NBFC Deposits	21,694	118	0.6	1,854	9.3	118	0.6	1,854	9.3
V. Major Sources of Broad Money									
a) Net Bank Credit to the Government (i+ii)	7,77,526	1,670	0.2	20,760	2.7	6,776	0.9	28,819	3.8
i) Net Reserve Bank Credit to Government	12,617	-62,882		30,592		-50,941		40,280	
of which: to the Centre	12,573	-60,177		35,830		-50,813		40,787	
ii) Other Banks' Credit to Government	7,64,909	64,552	9.2	-9,833	-1.3	57,717	8.2	-11,460	-1.5
b) Bank Credit to Commercial Sector	16,86,509	2,31,216	22.8	4,06,260	31.7	2,54,035	24.3	3,55,251	26.7
c) Net Foreign Exchange Assets of Banking Sector	7,13,865	1,22,669	23.3	64,610	10.0	1,18,428	22.4	65,962	10.2
<i>Memo Items:</i>									
Scheduled Commercial Bank's Aggregate Deposits	20,87,670	1,92,269	12.8	3,87,471	22.8	2,30,214	14.8	3,02,534	16.9
Scheduled Commercial Bank's Non-food Credit	14,54,687	2,21,602	27.5	3,95,379	37.3	2,41,433	28.8	3,42,493	30.8
FIs : Financial Institutions. NBFCs : Non-Banking Financial Companies.									
NM ₃ is the residency-based broad money aggregate and L ₁ , L ₂ and L ₃ are liquidity aggregates compiled on the recommendations of the Working Group on Money Supply (Chairman: Dr. Y.V. Reddy, 1998). Liquidity aggregates are defined as follows:									
L ₁ = NM ₃ + All deposits with the post office saving banks (excluding National Saving Certificates)									
L ₂ = L ₁ + Term deposits with term lending institutions and refinancing institutions (FIs) + Term borrowing by FIs + Certificates of deposits issued by FIs.									
L ₃ = L ₂ + Public deposits of non-banking financial companies.									
Note : 1. Data are provisional. Data in respect of L ₃ pertain to December 2005.									
2. Variations of select aggregates are adjusted for the effect of conversion of a non-banking entity into a banking entity effective October 11, 2004.									
3. Data on fiscal year variation for 2005-06 are not comparable with those of the previous years as the data for 2005-06 include 27 fortnights while usually the data for a year include 26 fortnights. Moreover, the last reporting Friday of 2005-06 coincided with March 31, the closing day for banks' accounts.									

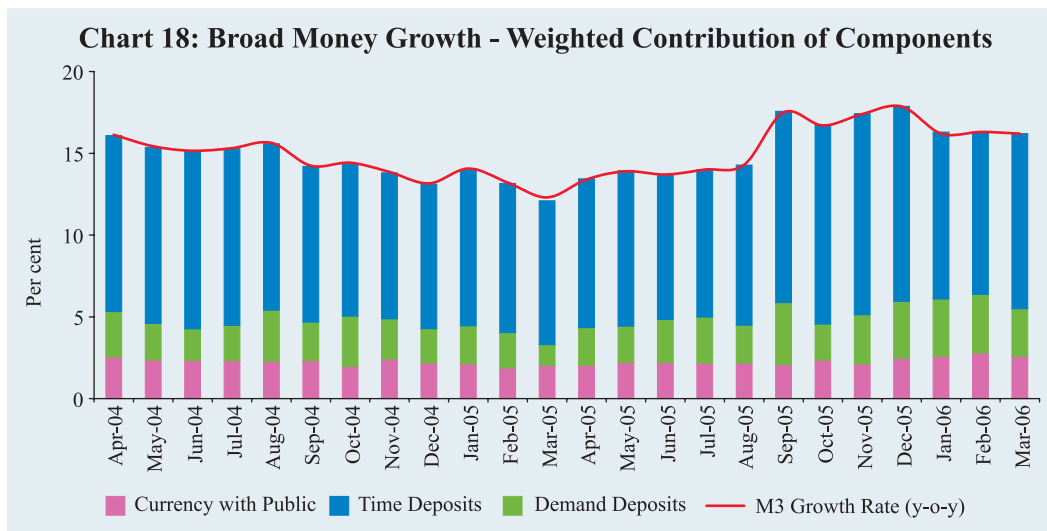
exhibited the usual intra-year seasonal pattern, typically increasing during festival seasons and the initial part of the month (Chart 17).

Aggregate deposits accelerated during 2005-06, led by both demand and time components. Growth rate of demand deposits exceeded that of time deposits



and accordingly, there was a rise in the contribution of demand deposits in growth of broad money (Chart 18). Demand deposits expansion mirrored the sustained pick-up in non-food credit and a buoyant primary capital market, with funds getting temporarily parked in demand deposits (Table 21).

Scheduled commercial banks' time deposits growth at 16.1 per cent (y-o-y) as on March 31, 2006 was higher than that recorded a year ago (14.6 per cent; net of the conversion effect) reflecting higher interest rates as well as the base effect. The slowdown in time deposits in January 2006 reflected the one-shot repayment of the proceeds under India Millennium Deposits (IMDs). Concomitantly, mobilisation under small savings schemes decelerated to 15.7 per cent by end-February 2006 from a peak of 23.3 per cent in December 2004. Thus, the growth rate of small savings,



Monetary and Liquidity Conditions

Table 21: Monetary Aggregates - Variations

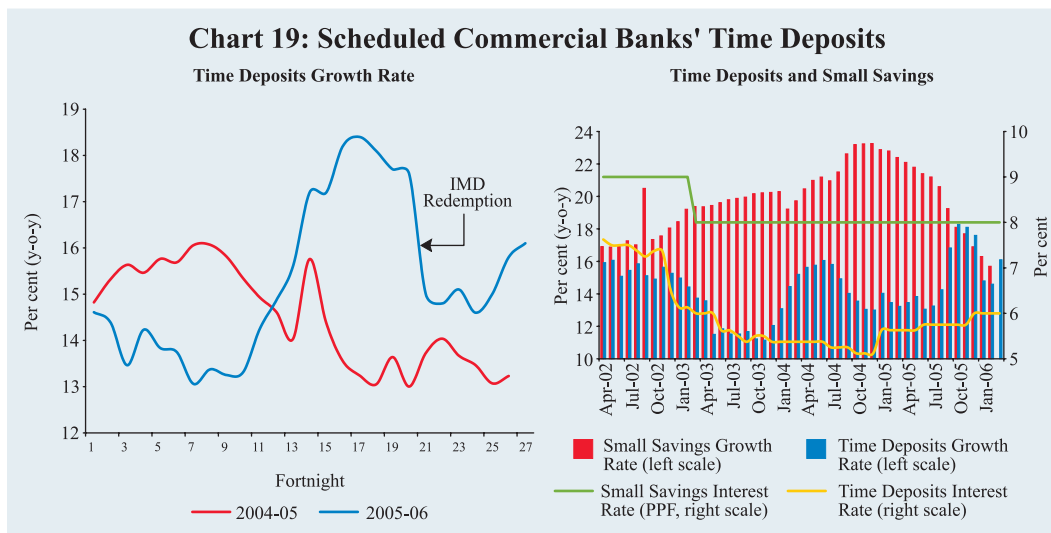
(Rupees crore)										
Item	2004-05	2005-06	2004-05				2005-06			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11
M3 (=1+2+3 = 4+5+6+7-8)	2,45,773 (2,42,260)	4,58,456	69,831	16,999	53,458 (49,945)	1,05,485	1,08,666	1,23,864	45,215	1,80,711
Components										
1. Currency with the Public	40,892	58,541	14,540	-3,098	15,422	14,027	19,500	-10,594	29,901	19,735
2. Aggregate Deposits with Banks	2,03,522	3,99,479	56,754	19,342	37,725	89,701	91,188	1,33,697	16,056	1,58,539
2.1 Demand Deposits with Banks	26,528	1,02,723	-14,038	2,094	15,721	22,751	14,256	41,653	-3,173	49,987
2.2 Time Deposits with Banks	1,76,994 (1,73,481)	2,96,757	70,792	17,248	22,004 (18,491)	66,949	76,932	92,044	19,229	1,08,553
3. 'Other' Deposits with RBI	1,359	436	-1,463	755	310	1,757	-2,021	761	-742	2,437
Sources										
4. Net Bank Credit to Govt. Sector	13,863 (1,670)	20,760	12,986	-11,798	-4,524 (-16,717)	17,199	9,339	-3,551	-4,216	19,188
4.1 RBI's Net Bank Credit to Govt. Sector	-62,882	30,592	-34,143	-6,179	184	-22,744	9,275	-25,251	19,879	26,689
4.1.1 RBI's Net Credit to Central Govt.	-60,177	35,830	-30,029	-4,499	203	-25,852	14,600	-25,251	19,812	26,669
4.2 Other Bank Credit to Govt. Sector	76,745	-9,833	47,129	-5,619	-4,708	39,943	63	21,700	-24,095	-7,501
5. Bank Credit to Commercial Sector	2,64,098 (2,31,216)	4,06,260	38,057	40,093	1,07,789 (74,907)	78,160	61,245	114,289	63,713	1,67,013
6. Net Foreign Exchange Assets of Banking Sector	1,22,669	64,610	49,206	-1,335	32,891	41,907	-13,378	24,062	27,701	26,224
6.1 Net Foreign Exchange Assets of RBI	1,28,377	60,193	57,525	-5,260	31,462	44,651	-14,595	24,823	23,741	26,224
7. Governments' Currency Liabilities to the Public	152	1,247	37	9	89	17	384	910	-100	54
8. Net Non-Monetary Liabilities of Banking Sector	1,55,008	34,421	30,454	9,969	82,788	31,798	-51,077	11,846	41,884	31,768
Memo items										
1. Non-resident Foreign Currency Deposits	802	-17,429	953	-189	-654	692	550	-447	1,602	-19,134
2. SCBs' Call-term Borrowing from Financial Institutions	44,853 (9,677)	14,158	5,409	530	35,464 (288)	3,451	1,395	7,359	1,836	3,568
3. Overseas Borrowing by Scheduled Commercial Banks	8,529	5,530	3,012	-658	6,267	-90	1,948	6,008	384	-2,809

Note : Figures in parentheses are adjusted for the effect of conversion of a non-banking entity into a banking entity on October 11, 2004.

which was significantly higher than that of time deposits over the previous three years, turned out to be close to that of time deposits in 2005-06 (Chart 19).

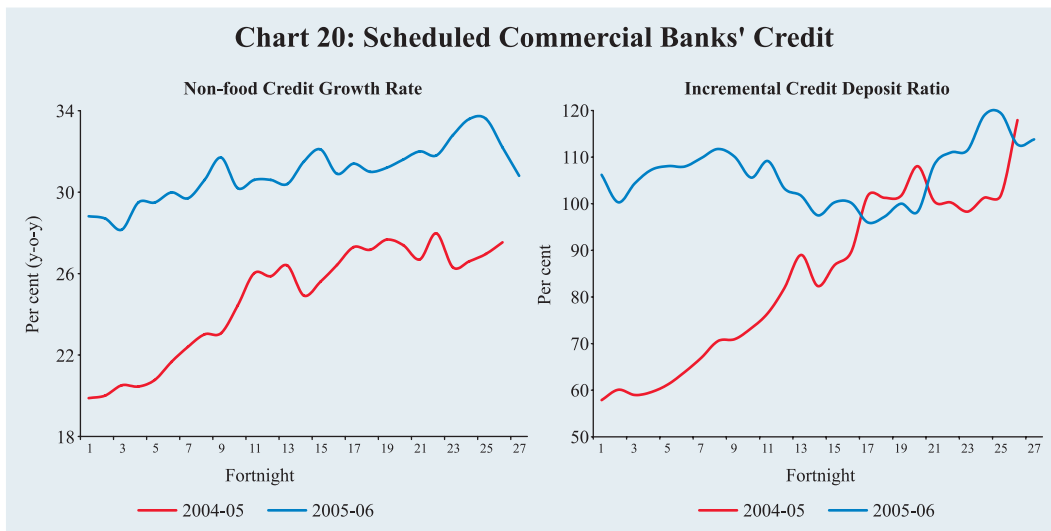
Credit growth remained strong for the second successive year on account of acceleration in credit to commercial sector. Food credit increased by Rs.1,771 crore as on March 31, 2006 (y-o-y) – reflecting a lower order of procurement of foodgrains – in contrast to an increase of Rs.3,043 crore during the previous year. On the other hand, non-food credit growth was broad-based reflecting strengthening of economic activity. Non-food credit, on a year-on-year basis, registered a growth of 30.8 per cent as on March 31, 2006 on top of a base as high as 28.8 per cent a year ago. Despite a higher order of accretion to deposits, incremental credit-deposit ratio of SCBs remained above 100 per cent (Chart 20).

The corporate sector continued to augment its recourse to bank credit with a variety of other sources. Resources raised from ADR/GDR issuances more than doubled during April-February 2005-06 as compared with the corresponding



period of the previous year. Equity issuances in the domestic market were also higher during the year, benefiting from buoyancy in the secondary market. Mobilisation through issuances of commercial papers, however, was subdued and declined during the second half of the year, mainly on account of tight liquidity conditions in domestic markets. After some moderation in the first quarter of 2005-06, funds raised through external commercial borrowings (ECBs) turned buoyant. Internal sources – backed by strong corporate sector profitability – also constituted a significant source of funds for the corporate sector (Table 22).

With credit demand continuing to record strong growth and outpacing deposit growth, banks liquidated their existing investments in Government



Monetary and Liquidity Conditions

Table 22: Select Sources of Funds to Corporates

Item	(Rupees crore)									
	2004-05		2004-05				2005-06			
	April-February		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 ^ ^
1	2	3	4	5	6	7	8	9	10	11
A. Bank Credit to Industry	35,485 #	66,480 #	6,636	11,186	13,733	21,680	11,148	28,061	24,484	2,787 @
B. Flow from Non-banks to Corporates										
1. Capital Issues * (i+ii)	9,597	12,661	228	4,529	3,214	2,495	1,264	2,758	5,549	3,090
i) Non-Government Public Ltd. Companies (a+b)	6,913	12,288	228	4,529	530	2,495	1,264	2,758	5,549	2,717
a) Bonds/Debentures	0	118	0	0	0	0	118	0	0	0
b) Shares	6,913	12,170	228	4,529	530	2,495	1,146	2,758	5,549	2,717
ii) PSUs and Government Companies	2,684	373	0	0	2,684	0	0	0	0	373
2. ADR/GDR Issues +	2,475	6,445	770	597	872	721	789	739	3,643	1,274
3. External Commercial Borrowings (ECBs) \$	26,353	25,707	12,077	3,795	10,481	13,164	3,789	12,740	9,178	-
4. Issue of CPs	5,104 ^	-1,542 ^	1,819	421	1,901	963	3,562	1,928	-2,491	-4,541 &
C. Depreciation Provision ++	14,020 £	21,227 £	5,504	5,836	5,731	6,106	7,137	7,617	7,748	-
D. Profit after Tax ++	31,066 £	51,364 £	10,396	13,004	13,196	16,798	16,726	18,169	18,790	-

* : Gross issuances excluding issues by banks and financial institutions. Figures are not adjusted for banks' investments in capital issues, which are not expected to be significant.
+ : Excluding issuances by banks and financial institutions.
\$: Including short-term credit. Data for 2005-06 are exclusive of the IMD redemption.
@ : Data pertain to January 2006. £ : Data pertain to April-December. & : January-March.
^ : Data pertain to April-March. # : Data pertain to April-January. ^ ^ : Data pertain to January-February 2006.
++ : Data are based on audited/ unaudited abridged results of select sample of non-financial non-Government companies. Data for nine months period (April-December) are derived by adding the quarterly data on common companies for the first three quarters.

Note : Data are provisional.

papers as well as non-SLR securities. The gilt portfolio of commercial banks registered a decline of Rs.15,562 crore as on March 31, 2006 (y-o-y) in contrast to an increase of Rs.42,473 crore (net of the conversion effect) during the previous year. Consequently, commercial banks' holding of Government securities declined to nearly 32 per cent of their net demand and time liabilities (NDTL) as on March 31, 2006 from around 38 per cent a year ago (Chart 21). Banks also

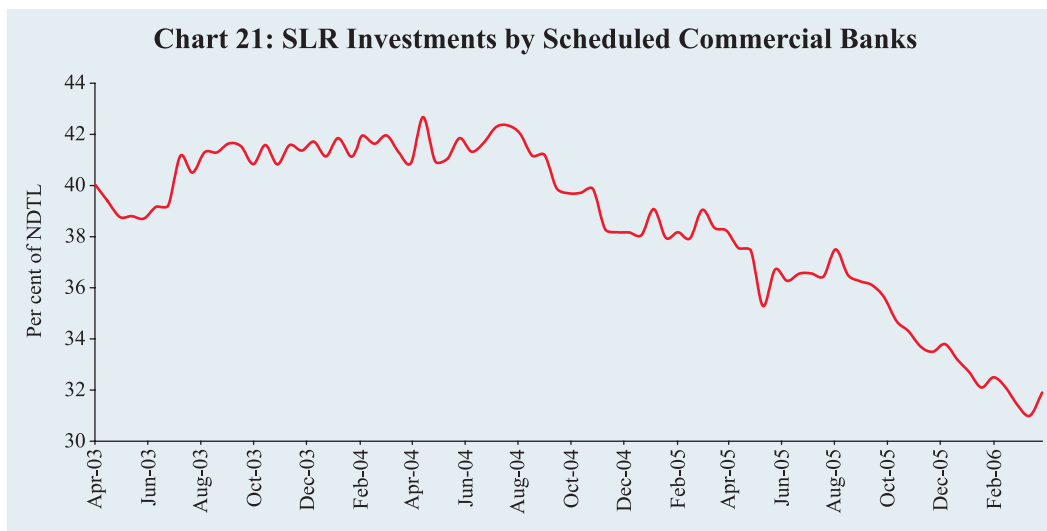


Table 23: Scheduled Commercial Banks' Survey

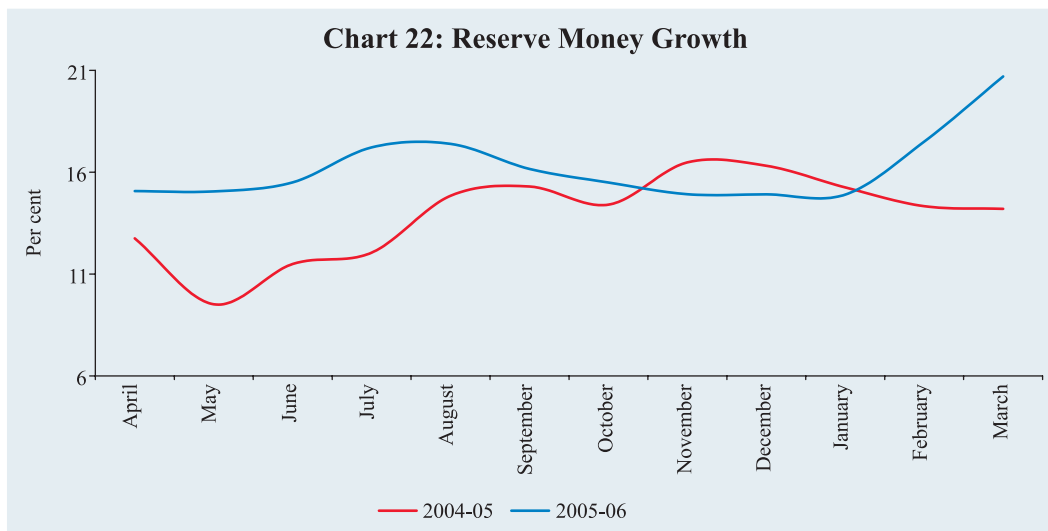
Item	(Amount in Rupees crore)			
	Variation (year-on-year)			
	As on April 1, 2005		As on March 31, 2006	
	Amount	Per cent	Amount	Per cent
1	2	3	4	5
Sources of Funds				
I. Aggregate Deposits	2,30,214	14.8	3,02,534	16.9
II. Call Term Funding from Financial Institutions	11,077	43.2	11,761	16.4
III. Overseas Foreign Currency Borrowings	11,712	69.6	2,657	9.3
IV. Capital and Reserves	24,957	22.2	48,886	35.6
Uses of Funds				
I. Bank Credit	2,44,476	27.9	3,44,264	29.9
II. Investments in Government Securities	42,473	6.4	-15,562	-2.2
III. Investments in Other Approved Securities	-2,622	-11.6	2,876	14.4
IV. Investments in Non-SLR Securities	2,670	1.8	-12,820	-8.7
V. Foreign Currency Assets	-3,253	-10.0	11,296	38.4
VI. Balances with Reserve Bank	14,715	18.8	34,077	36.6

Note : 1. Data are provisional.
2. Variations of select aggregates are adjusted for the effect of conversion of a non-banking entity into a banking entity on October 11, 2004.

liquidated their non-SLR investments (*i.e.*, investments in commercial papers, bonds and debentures) by Rs.12,820 crore. Continued access to call-term funding from financial institutions, raising of funds through equity issuances in the primary market as well as higher internal reserves also helped banks to fund credit demand (Table 23).

Reserve Money Survey

Reserve money growth at 20.7 per cent as on March 31, 2006 (y-o-y) was higher than the previous year (14.2 per cent) (Chart 22). Apart from the base



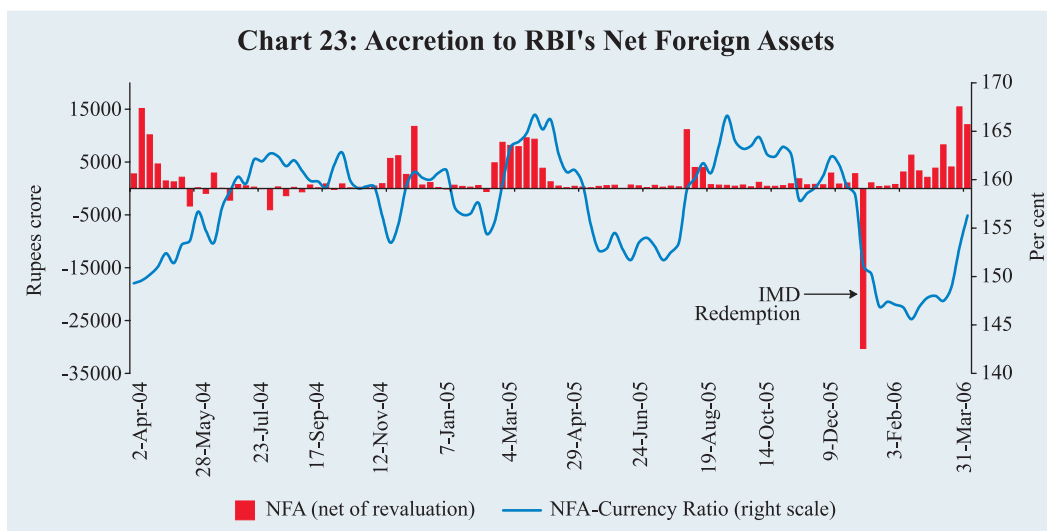
Monetary and Liquidity Conditions

effect, the higher order of reserve money expansion reflected liquidity injection operations of the Reserve Bank during the year in the wake of higher credit demand and redemption of IMDs (Table 24).

The Reserve Bank's foreign currency assets (net of revaluation) recorded a lower order of increase during 2005-06, partly reflecting the redemption of IMDs on December 29, 2005 out of its foreign exchange reserves. The increase in the NFEA during 2005-06 was concentrated in the three-week period during July 23 – August 12, 2005 and during February-March 2006 (Chart 23).

Mirroring the liquidity injection operations as well as private placement, the Reserve Bank's net credit to the Centre registered an increase of Rs.35,830 crore during the fiscal 2005-06 in contrast to a decline of Rs.60,177 crore during 2004-05 (Table 25). The increase during the year was mainly on account of unwinding of the balances under the MSS which led to a decline of Rs.21,954 crore in the Centre's deposits with the Reserve Bank in contrast to an increase of Rs.72,558 crore on account of large issuances under the scheme during 2004-05. Furthermore, the balances under the LAF reverse repos declined by Rs.12,080 crore during 2005-06 reflecting injection of liquidity through LAF operations. This coupled with the private placement of Rs.10,000 crore resulted in an increase

Table 24: Variation in Major Components and Sources of Reserve Money										
(Rupees crore)										
Item	2004-05	2005-06	2004-05				2005-06			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11
Reserve Money	52,623	83,907	-6,812	-6,285	31,546	34,174	7,177	1,062	25,446	50,223
Components										
1. Currency in circulation	41,633	61,956	14,317	-4,166	16,467	15,015	19,877	-9,479	29,154	22,403
2. Bankers' Deposits with RBI	9,631	21,515	-19,665	-2,874	14,769	17,401	-10,680	9,780	-2,967	25,382
3. Other Deposits with RBI	1,359	436	-1,463	755	310	1,757	-2,021	761	-742	2,437
Sources										
1. RBI's net credit to Government	-62,882	30,592	-34,143	-6,179	184	-22,744	9,275	-25,251	19,879	26,689
<i>of which:</i> to Central Government	-60,177	35,830	-30,029	-4,499	203	-25,852	14,600	-25,251	19,812	26,669
2. RBI's credit to banks and commercial sector	-833	535	-2,985	-740	3,726	-835	1,155	-1,869	101	1,148
3. NFEA of RBI	1,28,377	60,193	57,525	-5,260	31,462	44,651	-14,595	24,823	23,741	26,224
4. Government's Currency Liabilities to the Public	152	1,247	37	9	89	17	384	910	-100	54
5. Net Non-Monetary Liabilities of RBI	12,191	8,660	27,245	-5,885	3,916	-13,085	-10,957	-2,450	18,175	3,892
<i>Memo:</i>										
1. Net Domestic Assets	-75,754	23,714	-64,336	-1,025	84	-10,477	21,771	-23,760	1,705	23,998
2. FCA, adjusted for revaluation	1,15,044	68,834	33,160	-3,413	29,858	55,440	5,034	23,665	11,998	28,137
3. NFEA/Reserve Money (per cent) (end-period)	125.3	117.4	126.1	126.7	124.9	125.3	120.5	125.3	123.7	117.4
4. NFEA/Currency (per cent)	166.2	156.3	158.8	159.2	160.7	166.2	154.0	164.4	158.4	156.3
NFEA : Net Foreign Exchange Assets. FCA : Foreign Currency Assets.										
Note : Data are based on March 31 for Q4 and last reporting Friday for all other quarters.										



of the Reserve Bank's holding of dated securities. The increase in the Reserve Bank credit to the Centre, thus, largely reflected liquidity management operations of the Reserve Bank rather than passive financing of the Centre's fiscal gap.

Table 25: Net Reserve Bank Credit to the Centre - Variations

Item	(Rupees crore)											
	2004-05		2005-06		2004-05				2005-06			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	2	3	4	5	6	7	8	9	10	11		
Net Reserve Bank Credit to the Centre (1+2+3+4+5)	-60177	35,830	-30,029	-4,499	203	-25,852	14,600	-25,251	19,812	26,669		
1. Loans and Advances	0	0	3,222	-3,222	0	0	0	0	0	0	0	
2. Treasury Bills held by the Reserve Bank	0	0	0	0	0	0	0	0	0	0	0	
3. Reserve Bank's Holdings of Dated Securities	12,323	13,869	-2,900	22,176	14,095	-21,048	8,221	-17,243	19,378	3,513		
4. Reserve Bank's Holdings of Rupee Coins	57	7	175	-10	-94	-14	-40	-33	157	-77		
5. Central Government Deposits	72,558	-21,954	30,525	23,443	13,799	4,791	-6,419	7,974	-277	-23,232		
<i>Memo Items*</i>												
1. Market Borrowings of Dated Securities by the Centre #	80,350	1,31,000	28,000	26,000	14,000	12,350	42,000	39,000	24,000	26,000		
2. Reserve Bank's Primary Subscription to Dated Securities	1,197	10,000	0	847	0	350	0	0	0	10,000		
3. Repos (+) / Reverse Repos (-) (LAF), net position	15,315	12,080	-26,720	34,205	27,600	-19,770	9,660	-14,835	18,635	-1,380		
4. Net Open Market Sales +	2,899	3,913	429	427	871	1,171	1,543	941	261	1,168		
5. Mobilisation under MSS	64,211	-35,149	37,812	14,444	353	11,602	7,470	-4,353	-19,174	-18,552		
6. Primary Operations \$	-6,625	-25,915	37,353	-30,484	-36,984	23,490	18,205	-24,689	-38,715	19,284		
* : At face value. + : Excluding Treasury Bills but including Consolidated Sinking Funds (CSF) and other investments. # : Excluding Treasury Bills. \$: Adjusted for MSS and Centre's surplus investment.												
Note : Quarterly variations are based on March 31 for Q4 and last reporting Fridays for other quarters.												

Liquidity Management

In the face of strong credit demand and the lower order of accretion of the foreign exchange reserves to the Reserve Bank during 2005-06, the Reserve Bank injected liquidity through LAF operations and unwinding of the balances under the MSS in contrast to liquidity absorption through issuances under the MSS during the preceding year. Liquidity management operations during 2005-06 could be analysed in terms of five phases (Table 26). Between end-March 2005 and up to July 22, 2005, banks curtailed their investments in Government securities following the widening of the trade deficit, outflows by the FIIs during April-May 2005, currency demand and buoyant credit demand. The concomitant unwinding of balances under reverse repos led to net injection of primary liquidity into the system.

During July 23 - August 12, 2005 liquidity in the system increased following the spurt in foreign exchange inflows and a reduction in the Centre's surplus investment balances with the Reserve Bank. This resulted in a sharp increase in absorption of liquidity by the Reserve Bank through LAF reverse repos which rose from Rs.10,485 crore as on July 22 to a peak of Rs.50,610 crore on August 3, 2005. In the third phase (August 13 – October 28), the Reserve Bank's purchase of foreign exchange assets moderated. Government surplus balances with the Reserve Bank also started building up following the advance tax outflows leading to some tightness in liquidity. Consequently, this phase experienced unwinding of LAF reverse repo balances (Rs.16,210 crore) (Table 27 and Chart 24). On the whole, liquidity conditions were broadly stable and comfortable. Call money rates, therefore, generally stayed within the reverse repo and the repo rate corridor. In

Table 26: Phases of Reserve Bank's Liquidity Management Operations

	(Rupees crore)				
	April 1 - July 22, 2005	July 23 - August 12, 2005	August 13 - October 28, 2005	October 29 - December 30, 2005	December 31, 2005- March 31, 2006
1	2	3	4	5	6
A. Drivers of Liquidity (1+2+3)	-6,587	27,406	-14,678	-60,516	21,336
1. RBI's Foreign Currency Assets (adjusted for revaluation)	6,412	19,348	5,193	-21,696	59,577
2. Currency with the Public	-15,125	-1,914	-7,490	-12,695	-21,317
3. Others (residual)	2,126	9,972	-12,381	-26,125	-16,924
3.1 Surplus Cash balances of the Centre with the Reserve Bank	6,053	5,972	-7,421	-24,357	-2,973
B. Management of Liquidity (4+5+6+7)	1,329	-24,567	16,187	72,235	-7,215
4. Liquidity impact of LAF Repos	8,845	-26,565	16,210	48,595	-35,005
5. Liquidity impact of OMO* (net) and private placement	0	0	0	0	10,740
6. Liquidity impact of MSS	-7,516	1,998	-23	23,640	17,050
7. First round liquidity impact due to CRR change	0	0	0	0	0
C. Bank Reserves # (A+B)	-5,258	2,839	1,510	11,720	14,121
+ : Indicates injection of liquidity into the banking system.					
- : Indicates absorption of liquidity from the banking system.					
# : Includes vault cash with banks and adjusted for first round liquidity impact due to CRR change.					
* : Adjusted for Consolidated Sinking Funds (CSF).					

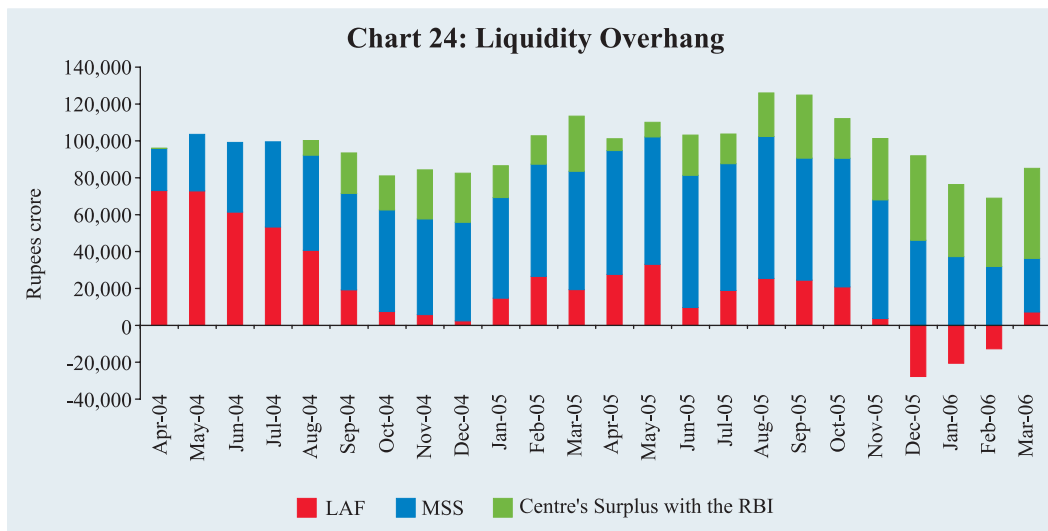
Table 27: Liquidity Overhang

(Rupees crore)				
Outstanding as on last Friday of	LAF	MSS	Centre's Surplus with the RBI @	Total (2 to 4)
1	2	3	4	5
2004				
April	73,075	22,851	0	95,926
May	72,845	30,701	0	103,546
June	61,365	37,812	0	99,177
July	53,280	46,206	0	99,486
August	40,640	51,635	7,943	100,218
September	19,245	52,255	21,896	93,396
October	7,455	55,087	18,381	80,923
November	5,825	51,872	26,518	84,215
December	2,420	52,608	26,517	81,545
2005				
January	14,760	54,499	17,274	86,533
February	26,575	60,835	15,357	102,767
March	19,330	64,211	26,102	109,643
April	27,650	67,087	6,449	101,186
May	33,120	69,016	7,974	110,110
June	9,670	71,681	21,745	103,096
July	18,895	68,765	16,093	103,753
August	25,435	76,936	23,562	125,933
September	24,505	67,328	34,073	125,906
October	20,840	69,752	21,498	112,090
November	3,685	64,332	33,302	101,319
December	-27,755 #	46,112	45,855	64,212
2006				
January	-20,555 #	37,280	39,080	55,805
February	-12,715 #	31,958	37,013	56,256
March	7,250	29,062	48,828	85,140

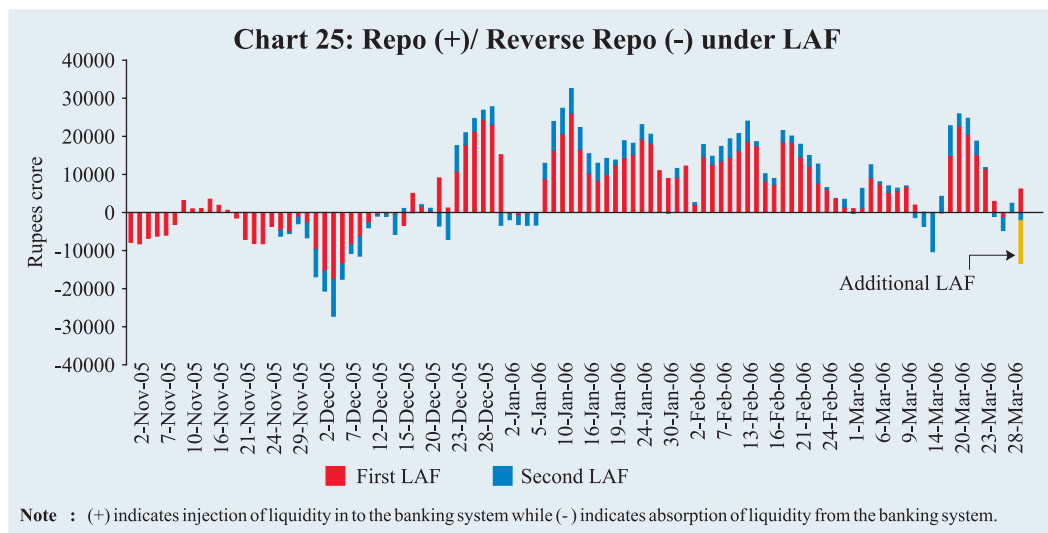
: Negative sign indicates injection of liquidity through LAF repo.
@ : Excludes minimum cash balances with the Reserve Bank.

view of comfortable liquidity conditions, till the third phase, the Reserve Bank injected liquidity through LAF repos only on four occasions; on a net basis, the Reserve Bank absorbed liquidity even on those four days.

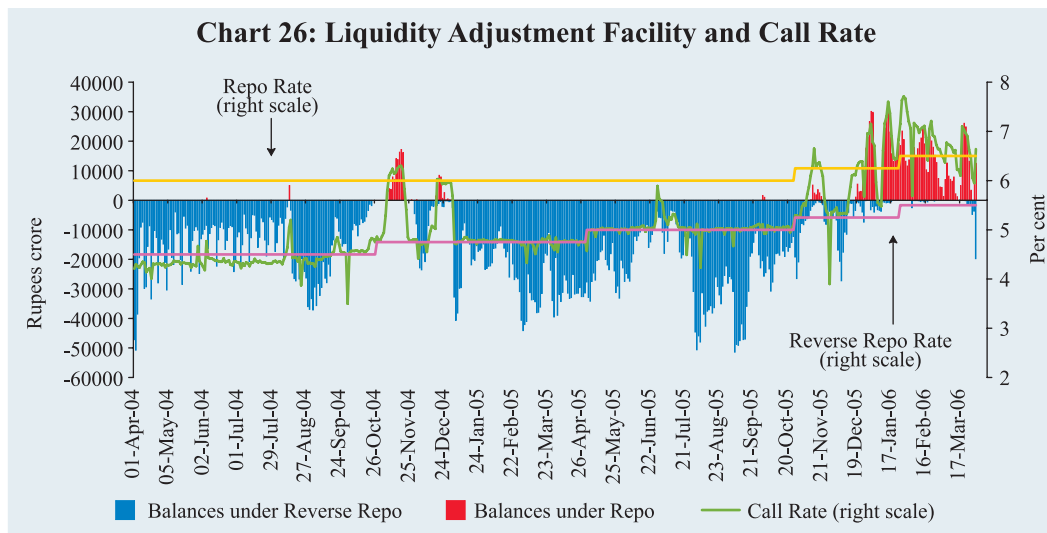
Between end-October, 2005 and March 2006, the banking system faced some tightness with liquidity pressures emanating from a host of factors such as festival season currency demand, scheduled auctions, advance tax outflows and redemption of IMDs against the backdrop of a continuing strong demand for commercial credit. In view of tight liquidity conditions, the Reserve Bank provided liquidity on a net basis to the market through repo operations during November 9-18, 2005 (daily average net injection of Rs.1,142 crore). Furthermore, in order to assuage the liquidity conditions, auctions of Treasury Bills (TBs) under the MSS were cancelled effective November 16, 2005. In order to fine-tune the management of liquidity and in response to suggestions from the market participants, the Reserve Bank also introduced a Second Liquidity Adjustment Facility (SLAF) with effect from November 28, 2005 (Chart 25).



Liquidity conditions became tighter from mid-December 2005 due to IMD redemptions and build-up of Centre's cash balances. To ensure smooth redemption of IMDs, the Reserve Bank sold foreign exchange of US \$ 7.1 billion out of its foreign exchange reserves to the State Bank of India during December 27-29, 2005 against equivalent rupees (Rs.31,959 crore). On a review of the prevalent macroeconomic, monetary and liquidity conditions, including the redemptions of IMDs, the Reserve Bank decided on December 30, 2005 to suspend the issue of Treasury Bills and dated securities under the MSS. Consequently, between end-October 2005 and end-March 2006, there was an unwinding of balances held under the MSS (around Rs.40,690 crore). The Reserve Bank also injected liquidity



Note : (+) indicates injection of liquidity in to the banking system while (-) indicates absorption of liquidity from the banking system.



through repo operations (on a net basis) averaging Rs.15,386 crore during January 2006, Rs.13,532 crore during February 2006 and Rs.6,017 crore during March 2006 (Chart 26). Although call money rates edged above the repo rate during January-February 2006, the rates in the collateralised segment of the money market - market repos and Collateralised Borrowing and Lending Obligations (CBLO), which account for about 70 per cent of the market volumes - remained below the repo rate. Illustratively, in February 2006, when call rates had averaged 6.93 per cent, the average rates for market repo and CBLO at 6.41 per cent and 6.43 per cent, respectively, were well within the indicative reverse repo - repo rate corridor.

During March 2006, the private placement of dated Government securities (Rs.10,000 crore) with the Reserve Bank and the Reserve Bank's forex operations in addition to LAF operations had a positive impact on the liquidity conditions. As a result, repo volumes under LAF declined in the first half of March 2006 and there was absorption of liquidity on a few occasions. Call money rates also started easing. In the third week of March 2006, some tightness in market liquidity was observed due to advance tax outflows and build-up of Centre's surplus with the Reserve Bank. Liquidity conditions, however, improved during the last week of March 2006 and the LAF window witnessed net absorption of liquidity of Rs.7,250 crore as at end-March 2006. Call rates edged lower to below the repo rate. At the request of the market participants, the Reserve Bank conducted an additional LAF on March 31, 2006 between 9.00 p.m. to 9.30 p.m. to facilitate funds management by banks on account of the year-end closing on March 31, 2006 falling on a reporting Friday. Liquidity conditions improved further during April 2006 with liquidity absorption at Rs.49,690 crore as on April 12, 2006. Call rates eased further to 5.55 per cent on April 12, 2006.