

III. MONETARY AND LIQUIDITY CONDITIONS

Monetary Survey

Monetary and liquidity conditions, after some tightening during the last four months of 2005-06, remained comfortable during the first quarter of 2006-07 despite sustained growth of bank credit. Liquidity conditions eased following reduction in the Centre's surplus balances with the Reserve Bank and injection of liquidity arising from the Reserve Bank's foreign exchange interventions. The Reserve Bank, accordingly, reverted back to absorption of liquidity through operations under the liquidity adjustment facility (LAF) and issuance of securities under the market stabilisation scheme (MSS). Reserve money growth during the fiscal year 2006-07 so far has been driven by accretion to the Reserve Bank's net foreign assets (NFA) as against an accumulation in domestic assets during 2005-06. Bank deposits recorded strong growth during the first quarter of 2006-07 and were able to finance the continued demand for bank credit¹. Banks' investments in Government securities recorded an increase during April-June 2006 after declining in the previous two quarters. Concomitantly, broad money (M₃) growth – at 18.8 per cent as on July 7, 2006 – was above the indicative trajectory of 15.0 per cent projected in the Annual Policy Statement in the beginning of the year (April 2006). Expansion in the residency-based new monetary aggregate (NM₃) was higher than M₃ on account of continued raising of resources from the call/term market and redemption of India Millennium Deposits (IMDs) – non-resident repatriable foreign currency deposits such as IMDs are included in M₃ but not directly reckoned in NM₃ (Table 14).

Increase in demand for currency during the first quarter of 2006-07 was higher than that during the corresponding period of the previous year (Table 15). On a year-on-year (y-o-y) basis, growth in currency with the public increased from 13.7 per cent as on July 8, 2005 to 16.3 per cent as on July 7, 2006 in consonance with acceleration in economic activity.

While demand deposits declined during the first quarter of 2006-07, increase in time deposits was sharply higher than the position a year ago. The decline in demand deposits during the quarter ended June 2006 could be partly attributed to unwinding of the large accretion during the previous quarter ended March 2006

¹ Data on financial year variation during 2006-07 are not comparable with those of 2005-06 as the financial year variation for scheduled commercial banks' (SCBs) data for 2006-07 is worked out from March 31, 2006 whereas the corresponding variation during 2005-06 is worked out from March 18, 2005 (which are the last reporting Fridays for the respective years). For the purpose of comparability, the analysis of key banking and monetary aggregates for the financial year 2005-06 in this Chapter is based on variations over April 1, 2005.

Table 14: Monetary Indicators

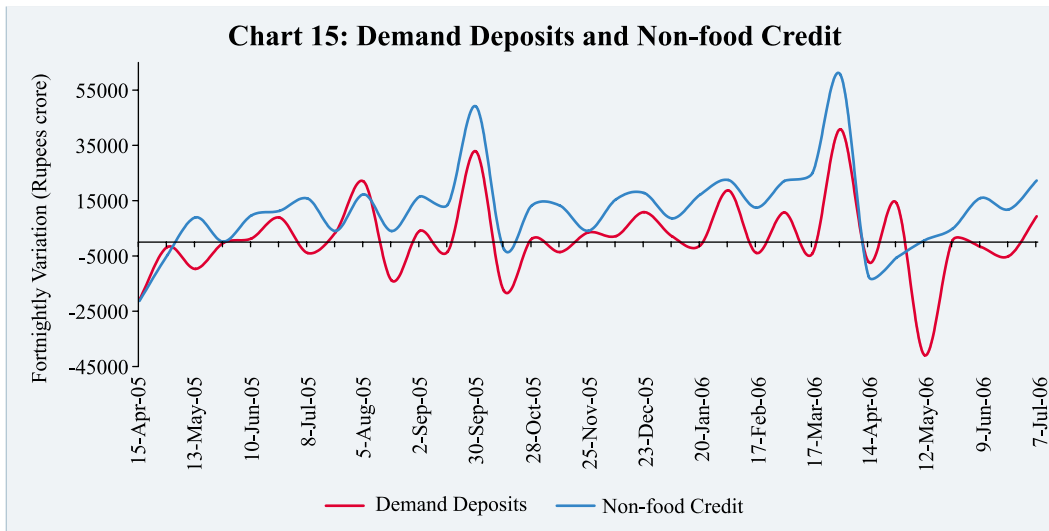
(Amount in Rupees crore)					
Item	Outstanding as on July 7, 2006	Variation (Year-on-Year)			
		July 8, 2005		July 7, 2006	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
I. Reserve Money*	5,88,231	77,488	18.0	81,290	16.0
II. Broad Money (M ₃)	28,20,649	2,90,207 (2,86,694)	13.9 (13.8)	4,47,252	18.8
a) Currency with the Public	4,38,188	45,381	13.7	61,548	16.3
b) Aggregate Deposits	23,75,782	2,44,575	14.0	3,83,919	19.3
i) Demand Deposits	3,73,084	56,148	23.5	77,532	26.2
ii) Time Deposits	20,02,698	1,88,427 (1,84,914)	12.5 (12.3)	3,06,387	18.1
<i>of which: Non-Resident Foreign Currency Deposits</i>	62,797	-580	-0.7	-14,068	-18.3
III. NM ₃	28,34,282	3,29,007 (2,90,319)	16.2 (14.3)	4,69,501	19.9
<i>of which: Call Term Funding from Financial Institutions</i>	83,642	41,280 (6,105)	139.0 (20.6)	12,660	17.8
IV. a) L ₁	29,09,178	3,00,821	14.3	4,64,514	19.0
<i>of which: Postal Deposits</i>	1,03,789	17,424	23.1	10,919	11.8
b) L ₂	29,12,110	2,97,585	14.1	4,64,220	19.0
<i>of which: FI Deposits</i>	2,932	-3,236	-50.1	-294	-9.1
c) L ₃	29,33,804	2,99,158	14.0	4,65,117	18.8
<i>of which: NBFC Deposits</i>	21,694	1,573	8.2	897	4.3
V. Major Sources of Broad Money					
a) Net Bank Credit to the Government (i+ ii)	8,02,655	11,790 (-403)	1.6 (-0.1)	31,687	4.1
i) Net Reserve Bank Credit to Government	-2,191	-6,529	-	3,068	-
<i>of which: to the Centre</i>	-2,344	-3,686	-	3,265	-
ii) Other Banks' Credit to Government	8,04,846	18,318 (6,126)	2.4 (0.8)	28,619	3.7
b) Bank Credit to Commercial Sector	17,31,749	2,99,955 (2,67,073)	28.4 (25.3)	3,74,438	27.6
c) Net Foreign Exchange Assets of Banking Sector	8,02,596	47,558	8.2	1,74,453	27.8
<i>Memo:</i>					
Scheduled Commercial Bank's Aggregate Deposits	21,77,547	2,37,533 (2,34,020)	15.2 (14.9)	3,72,977	20.7
Scheduled Commercial Bank's Non-food Credit	15,04,135	2,93,046 (2,60,164)	34.9 (31.0)	3,71,993	32.9
<p>FIs: Financial Institutions. NBFCs: Non-Banking Financial Companies. *: Data pertain to July 14, 2006. NM₃ is the residency-based broad money aggregate and L₁, L₂ and L₃ 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: L₁ = NM₃ + Select deposits with the post office saving banks. L₂ = L₁ + Term deposits with term lending institutions and refinancing institutions (FIs) + Term borrowing by FIs + Certificates of deposits issued by FIs. L₃ = L₂ + Public deposits of non-banking financial companies.</p>					
Note : 1. Data are provisional.					
2. Figures in parentheses are adjusted for the effect of conversion of a non-banking entity into a banking entity on October 11, 2004.					
3. Liquidity aggregates pertain to end-June and are adjusted for conversion effect.					
4. Data on non-resident foreign currency deposits reflect redemption of India Millennium Deposits (IMDs) on December 29, 2005.					

Monetary and Liquidity Conditions

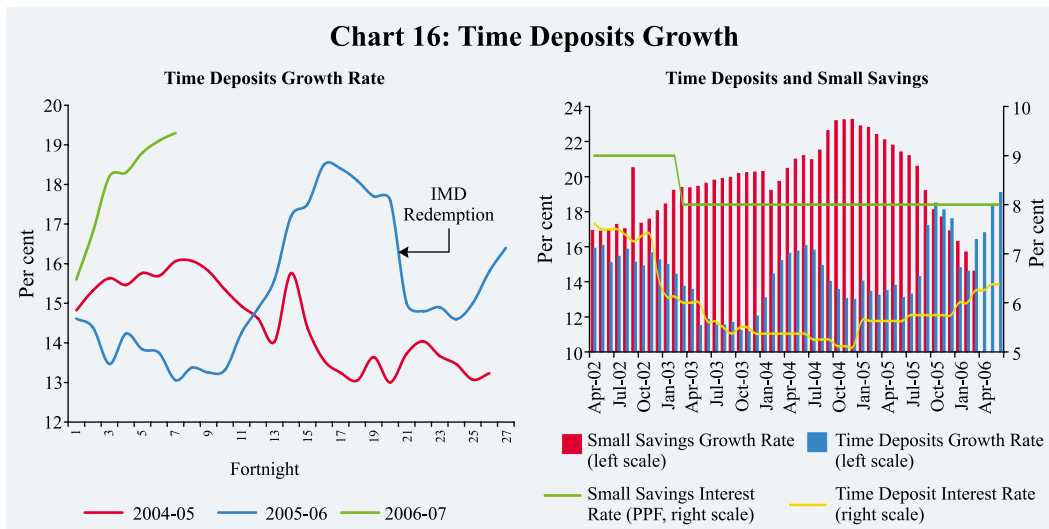
Table 15: Monetary Aggregates - Variations

(Rupees crore)								
1	Variation during							
	2005-06 (April- March)*	2005-06 (upto July 8)	2006-07 (up to July 7)	2005-06				2006-07
				Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8	9
M ₃ (= 1+ 2+ 3= 4+ 5+ 6+ 7- 8)	4,78,086	40,730	91,114	27,448	1,22,457	45,106	2,01,857	58,060
		[1,21,948]		[1,08,666]				
Components								
1. Currency with the Public	57,280	21,770	25,046	20,492	-10,835	30,124	18,491	25,795
		[20,778]		[19,500]				
2. Aggregates Deposits with Banks	4,20,406	20,386	66,268	8,819	1,32,531	15,729	1,80,958	33,115
		[1,02,754]		[91,188]				
2.1 Demand Deposits with Banks	1,20,069	-25,812	-32,140	-21,953	41,566	-2,357	66,604	-41,704
		[10,397]		[14,256]				
2.2 Time Deposits with Banks	3,00,336	46,197	98,408	30,772	90,965	18,086	1,14,354	74,818
		[92,357]		[76,932]				
3. 'Other' Deposits with Banks	401	-1,426	-200	-1,862	761	-747	2,408	-849
Sources								
4. Net Bank Credit to Government	12,326	22,261	33,562	17,398	-5,017	-5,722	13,726	20,090
		[14,201]		[9,339]				
4.1 RBI's net credit to Government	26,111	22,403	-10,328	18,963	-25,251	19,879	22,208	53
		[12,716]		[9,275]				
4.2 Other Bank's Credit to Government	-13,785	-142	43,890	-1,565	20,234	-25,601	-8,481	20,037
		[1,485]		[63]				
5. Bank Credit to Commercial Sector	4,10,712	26,053	40,789	10,235	1,18,712	61,731	1,69,025	21,879
		[77,062]		[61,245]				
6. Net Foreign Exchange Assets of Banking Sector	76,939	-19,760	76,402	-12,026	24,062	27,701	38,554	71,845
		[-21,112]		[-13,378]				
6.1 Net Foreign Exchange Assets of RBI	60,193	-20,977	76,402	-13,243	24,823	23,741	26,224	71,845
7. Government's Currency Liabilities to Public	1,306	384	64	384	910	-100	112	64
8. Net Non-Monetary liabilities of Banking Sector	23,197	-11,792	59,702	-11,456	16,210	38,504	19,560	55,818
		[-51,412]		[-51,077]				
<i>Memo:</i>								
1. Non-resident Foreign Currency Deposits with SCBs	-17,130	713	3,521	804	187	1,856	-19,723	2,992
		[460]		[550]				
2. SCBs' Call-term Borrowing from Financial Institutions	13,621	-939	498	-1,002	7,359	1,836	3,031	2,990
		[1,459]		[1,395]				
3. Overseas Borrowing by SCBs	4,169	-630	732	-925	3,618	-622	-775	3,425
		[2,244]		[1,948]				
4. SCBs' Non-food Credit	4,07,078	19,948	37,749	4,205	1,20,290	61,394	1,68,303	15,484
		[72,834]		[57,091]				
* Variation during March 31, 2005 and March 31, 2006.								
Note: 1. 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.								
2. Variation during 2006-07 is worked out from March 31, 2006 whereas the corresponding variation during 2005-06 is worked out from April 1, 2005. Figures in [] are variations for 2005-06 worked out over March 31, 2005 (which incorporate scheduled commercial banks' data as on March 18, 2005).								

(Rs.66,604 crore), redemption pressures on mutual funds and decline in the number of public issues during June 2006. On a y-o-y basis, growth in demand deposits at 26.2 per cent as on July 7, 2006 was, however, higher than that a year ago (23.5 per cent). The strong growth in y-o-y demand deposits could be attributed to a variety of factors such as sharp rise in non-food credit, higher resource mobilisation through the primary capital market, and large mobilisation by domestic mutual funds, with funds getting temporarily parked in demand deposits pending utilisation (Chart 15).



Scheduled commercial banks' time deposits growth at 19.3 per cent (y-o-y) as on July 7, 2006 was higher than that recorded a year ago (13.4 per cent; net of the conversion effect) reflecting the higher interest rates as well as the base effect. Interest rates on time deposits of 1-3 year maturity offered by public sector banks have increased from 5.75-6.75 per cent in March 2006 to 5.75-7.00 per cent by June 2006. Rates offered by private sector banks on similar maturity deposits moved from a range of 5.50-7.75 per cent to 6.50-7.75 per cent over the same period. Concomitantly, growth in postal deposits, which was on an upward trajectory between April 2003 and December 2004, moderated to 14.6 per cent (y-o-y) as at end-March 2006 from its recent peak of 23.3 per cent in December 2004 (Chart 16).



Demand for bank credit from the commercial sector remained strong during the first quarter of 2006-07. Bank credit to commercial sector expanded by Rs.40,789 crore during the financial year 2006-07 (up to July 7, 2006), higher than that of Rs.26,053 crore during the corresponding period of the previous year (see Table 15). Scheduled commercial banks' (SCBs) non-food credit, on a year-on-year basis, registered a growth of 32.9 per cent as on July 7, 2006 on top of a base as high as 31.0 per cent a year ago. Reflecting the acceleration in deposits growth, incremental credit-deposit ratio of SCBs has shown some moderation in recent months but still remains high, hovering around 100 per cent (Chart 17). Scheduled commercial banks' food credit, however, witnessed a decline of Rs.2,837 crore during the financial year 2006-07 (up to July 7, 2006) – reflecting lower order of procurement of foodgrains – as compared with an increase of Rs.4,801 crore during the corresponding period of the previous year.

Disaggregated available data for 2005-06 show that almost 30 per cent of incremental non-food credit went to the industrial sector, while over 14 per cent of incremental non-food credit was on account of housing loans and another 12 per cent of incremental non-food credit was absorbed by the agricultural sector and allied activities (Table 16). The increase in industrial credit in consonance with sustained growth in domestic industrial production was mainly on account of infrastructure (*viz.*, power, roads, ports and telecommunications), construction, textiles, iron and steel, chemicals, petroleum, vehicles and food processing industries. Infrastructure sector alone accounted for about one fourth of incremental credit to the industry, while textiles and iron and steel industries absorbed another one-fourth of the incremental credit to the industry. Credit to agriculture recorded a robust growth, reflecting the impact of various policy initiatives to improve the flow

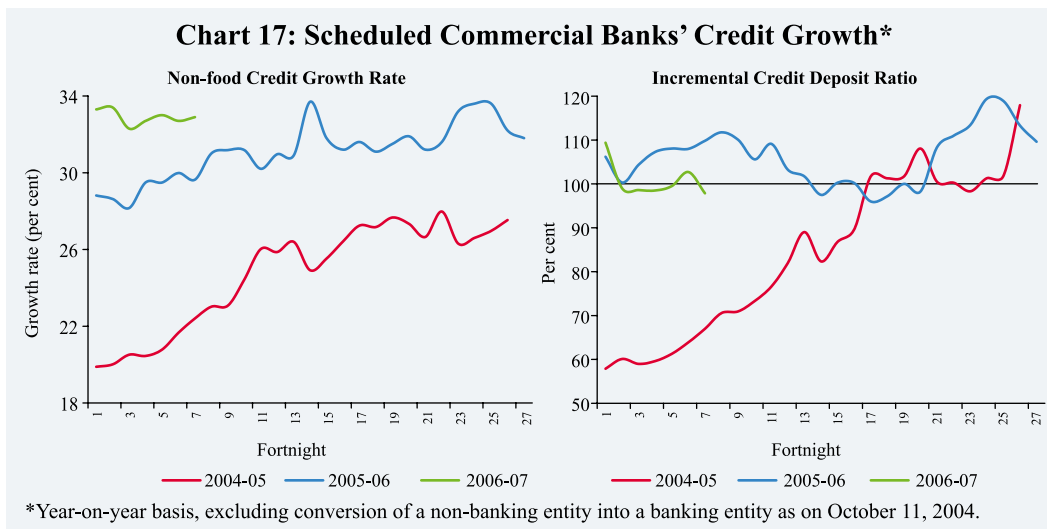


Table 16: Sectoral Deployment of Non-food Bank Credit

(Amount in Rupees crore)					
Sector / Industry	Outstanding as on March 31, 2006	Variation			
		2004-05		2005-06	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
Non-food Gross Bank Credit (1 to 6)	14,05,146	1,88,069	25.8	4,05,358	40.5
1. Agriculture and Allied Activities	1,72,292	31,774	35.1	47,042	37.6
2. Industry (Small, Medium and Large)	5,49,057	62,014	19.8	1,22,165	28.6
<i>Of which, Small Scale Industries</i>	90,239	8,051	12.2	15,651	21.0
3. Services	48,137	n.a.	n.a.	17,553	57.4
Transport Operators	16,101	n.a.	n.a.	6,502	67.7
Professional and Other Services	16,070	n.a.	n.a.	2,809	21.2
4. Personal Loans	3,53,777	n.a.	n.a.	1,08,697	44.4
Consumer Durables	8,783	108	1.3	-300	-3.3
Housing	1,86,429	n.a.	n.a.	57,701	44.8
		(23,192)	(44.6)		
Advances against Fixed Deposits	34,897	3,259	12.4	5,047	16.9
Advances to Individuals against Shares, Bonds	5,089	366	18.1	972	23.6
Credit Card Outstandings	9,177	n.a.	n.a.	3,417	59.3
Education	10,057	n.a.	n.a.	4,938	96.5
5. Trade	81,402	31,262	125.7	23,454	40.5
6. Others	2,00,481	n.a.	n.a.	86,447	75.8
Real Estate Loans	26,682	7,622	136.7	13,380	100.6
Non-Banking Financial Companies	30,942	2,501	14.9	8,458	37.6
<i>Memo:</i>					
Priority Sector	5,09,910	1,06,235	40.3	1,28,434	33.7
Industry (Small, Medium and Large)	5,49,057	62,014	19.8	1,22,165	28.6
Food Processing	30,843	1,109	5.4	6,410	26.2
Textiles	57,716	4,648	13.6	13,739	31.2
Paper and Paper Products	9,216	-228	-3.8	2,336	33.9
Petroleum, Coal Products and Nuclear Fuels	24,103	1,426	10.6	8,534	54.8
Chemicals and Chemical Products	48,935	1,661	5.4	9,443	23.9
Rubber, Plastic and their Products	6,989	717	27.7	3,323	90.6
Iron and Steel	50,385	3,120	11.9	14,384	40.0
Other Metal and Metal Products	14,436	1,938	23.7	2,800	24.1
All Engineering	34,666	273	1.0	5,270	17.9
Vehicles, Vehicle Parts and Transport Equipments	18,667	2,900	54.7	6,805	57.4
Gems and Jewellery	19,866	3,013	32.8	5,560	38.9
Construction	13,867	1,708	28.6	5,745	70.7
Infrastructure	1,08,787	21,829	42.5	29,778	37.7
n.a. : Not available.					
Note : 1. Data are provisional and relate to select scheduled commercial banks which account for over 90 per cent of bank credit of all scheduled commercial banks.					
2. Owing to change in classification of sectors/industries and coverage of banks, data for 2005-06 are not comparable with earlier data. Figures in parentheses for 2004-05 pertain only to housing loans of above Rs.15 lakh. Data on housing loans for 2005-06, on the other hand, are also inclusive of loans less than Rs.15 lakh.					

of credit to the sector. Credit to the housing sector continued to be strong, benefiting from low interest rates and tax incentives. Apart from housing, strong credit demand emanated from education and other personal loans as well as from credit card holders. Credit to the commercial real estate continued to increase sharply, constituting around three per cent of incremental non-food credit.

Monetary and Liquidity Conditions

Table 17: Select Sources of Funds to Industry

Item	(Rupees crore)					
	2005-06 (April-March)	2005-06			2006-07	
		Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7
A. Bank Credit to Industry	1,22,165	11,148	28,061	24,484	58,472	-
B. Flow from Non-banks to Corporates						
1 Capital Issues (i+ii)	12,661	1,264	2,758	5,549	3,090	10,275 *
i) Non-Government Public Ltd. Companies (a+b)	12,288	1,264	2,758	5,549	2,717	10,275 *
a) Bonds/Debentures	118	118	0	0	0	0 *
b) Shares	12,170	1,146	2,758	5,549	2,717	0 *
ii) PSUs and Government Companies	373	0	0	0	373	0 *
2 ADR/GDR Issues	6,445	789	739	3,643	1,274	3,793 *
3 External Commercial Borrowings (ECBs)	40,496	4,326	12,989	9,132	14,049	-
4 Issue of CPs	-1,517	3,562	1,928	-2,491	-4,516	4,203
C. Depreciation Provision ++	25,014	7,137	7,617	7,748	7,265	-
D. Profit after Tax ++	60,747	16,726	18,169	18,790	19,686	-

* : Pertain to April-May, 2006.
 ++ : Data are based on audited/ unaudited abridged results of select sample of non-financial non-Government companies. Quarterly variations may not add up to annual variation due to difference in coverage of companies.

Note : 1. Data are provisional.
 2. Data on capital issues pertain to 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. Data on ADR/GDR issues exclude issuances by banks and financial institutions.
 3. Data on external commercial borrowings include short-term credit. Data for 2005-06 are exclusive of the IMD redemption.

The corporate sector continued to augment its recourse to bank credit with a variety of other sources. Equity issuances in the domestic market during April-May 2006 were substantially higher as corporates took advantage of buoyancy in the secondary market. Mobilisation through external commercial borrowings (ECBs) remained strong during 2005-06. Mobilisation through issuances of commercial papers, after remaining subdued during the second half of 2005-06, staged a turnaround during the first quarter of 2006-07. Internal sources – backed by strong corporate sector profitability – continued to constitute a significant source of funds for the corporate sector (Table 17).

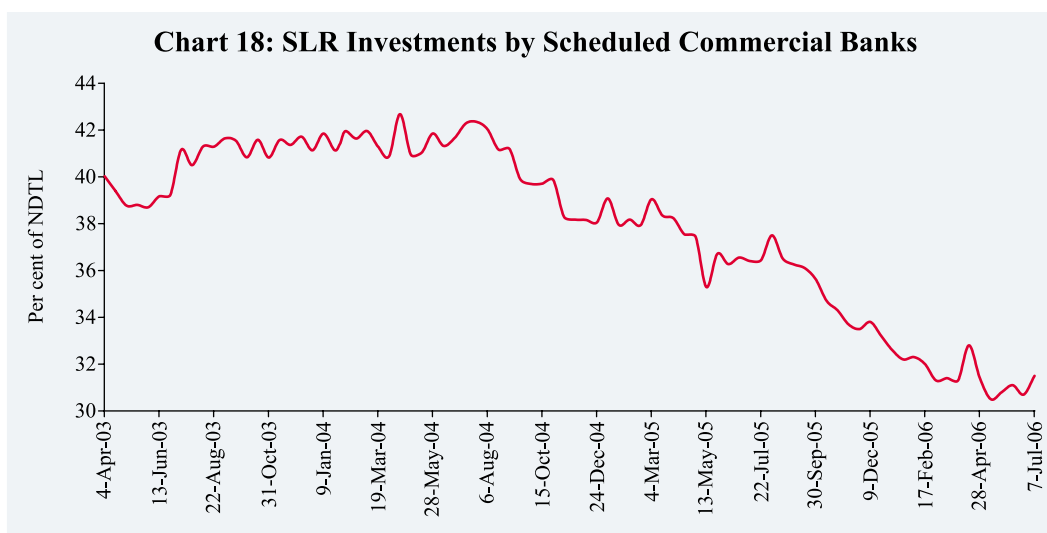
In view of strong credit demand, apart from increasing their deposit mobilisation efforts, banks continued with recourse to funding from financial institutions as well as borrowings from abroad. Raising funds through equity issuances in the primary market as well as large internal reserves also helped banks to fund credit demand. Furthermore, banks continued to restrict their incremental investments in Government papers to fund demand for credit (Table 18). On a year-on-year basis, commercial banks' holding of Government and other approved securities increased by 3.8 per cent as on July 7, 2006 as against a decline of 0.4 per cent a year ago. In the current fiscal year so far (up to July 7, 2006), commercial banks' investment in such securities registered an increase of Rs.49,697 crore, reflecting acceleration in deposit growth. Commercial banks' holding of Government securities fell from over 36 per cent

Table 18: Scheduled Commercial Bank's Survey

Item	(Amount in Rupees crore)			
	Variation (year-on-year)			
	As on July 08, 2005		As on July 07, 2006	
	Amount	Per cent	Amount	Per cent
1	2	3	4	5
Sources of Funds				
Aggregate Deposits	2,34,020	14.9	3,72,977	20.7
Call/Term Funding from Financial Institutions	6,105	20.6	12,660	17.8
Overseas Foreign Currency Borrowings	7,326	35.6	2,657	9.5
Capital and Reserves	37,255	30.8	30,248	19.1
Uses of Funds				
Bank Credit	2,61,524	29.6	3,65,031	31.0
Investments in Government Securities	-69	-	25,079	3.5
Investments in Other Approved Securities	-2,806	-12.5	2,942	15.0
Investments in Non-SLR Securities	2,527	1.8	10,668	7.6
Foreign Currency Assets	-2,731	-8.8	3,458	12.2
Balances with the RBI	26,060	37.2	19,542	20.3

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.

of their net demand and time liabilities (NDTL) as on July 8, 2005 to 31.5 per cent as on July 7, 2006 (Chart 18).

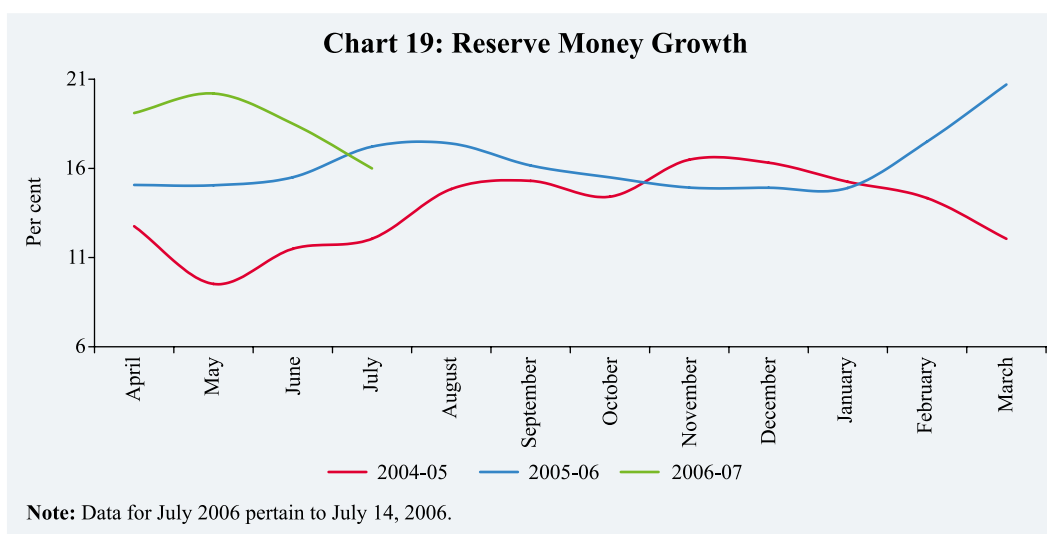


Reserve Money Survey

Reserve money growth at 16.0 per cent, y-o-y, as on July 14, 2006 was lower than that a year ago (18.0 per cent) (Chart 19)

Growth of reserve money during the financial year 2006-07 (up to July 14, 2006) was driven largely by expansion in the Reserve Bank's net foreign assets

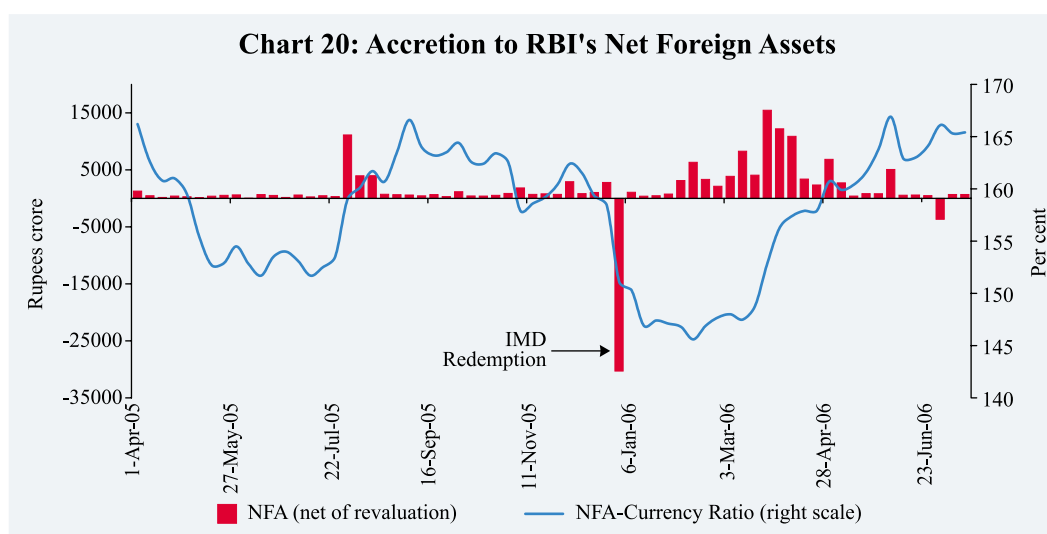
Monetary and Liquidity Conditions



(NFA) in contrast to being driven by accretion to its domestic assets during the corresponding period of 2005-06. The Reserve Bank's foreign currency assets (net of revaluation) have increased by Rs.29,894 crore during the fiscal year 2006-07 so far as compared with an increase of Rs.6,094 crore during the corresponding period of the previous year (Table 19 and Chart 20).

Table 19: Major Components and Sources of Reserve Money

	(Rupees crore)								
	Variation during								
	2005-06 (April- March)	2005-06 (up to July 15)	2006-07 (up to July 14)	2005-06				2006-07	
			Q1	Q2	Q3	Q4	Q1		
1	2	3	4	5	6	7	8	9	
Reserve Money	83,930	17,806	15,165	7,177	1,062	25,440	50,251	15,215	
Components									
Currency in Circulation	62,015	19,536	23,646	19,877	-9,479	29,154	22,462	23,268	
Bankers' Deposits with RBI	21,515	-171	-8,214	-10,680	9,780	-2,967	25,382	-7,204	
Other Deposits with RBI	401	-1,559	-266	-2,021	761	-747	2,408	-849	
Sources									
RBI's net credit to Government Sector	26,111	20,407	-4,754	9,275	-25,251	19,879	22,208	53	
<i>of which:</i> to Centre	28,417	25,530	-1,736	14,600	-25,251	19,812	19,256	3,071	
RBI's Credit to Banks and Commercial Sector	535	-1,663	-3,082	1,155	-1,869	101	1,148	-3,135	
NFEA of RBI	60,193	-20,941	78,467	-14,595	24,823	23,741	26,224	71,845	
Govt's Currency Liabilities to the Public	1,306	384	64	384	910	-100	112	64	
Net Non-Monetary liabilities of RBI	4,215	-19,619	55,530	-10,957	-2,450	18,180	-559	53,612	
<i>Memo:</i>									
Net Domestic Assets	23,737	38,747	-63,302	21,771	-23,760	1,700	24,027	-56,631	
FCA, adjusted for revaluation	68,834	6,094	29,894	5,034	23,665	11,998	28,137	28,107	
Net Purchases from Authorised Dealers	32,884	-467	21,545*	0	17,027	0	15,857	21,545*	
NFEA/RM (per cent) (end-period)	117.4	116.7	127.7	120.5	125.3	123.7	117.4	126.6	
NFEA/Currency (per cent) (end-period)	156.3	152.5	165.4	154.0	164.4	158.4	156.3	164.1	
NFEA : Net Foreign Exchange Assets.	FCA : Foreign Currency Assets.	RM : Reserve Money.							
* : Up to May 26, 2006.									
Note: Data are based on March 31 for Q4 and last reporting Friday for all other quarters.									



Mirroring the liquidity absorption operations through LAF, the Reserve Bank's holdings of Government securities declined by Rs.30,766 crore during the financial year 2006-07 (up to July 14) as against an increase of Rs.15,993 crore in the corresponding period of 2005-06. Over the same period, there was a decline

Table 20: Net Reserve Bank Credit to the Centre

Item	(Rupees crore)							
					Variation during			
	2005-06 (April- March)	2005-06 (up to July 15)	2006-07 (up to July 14)					
				Q1	Q2	Q3	Q4	Q1
1	2	3	4	5	6	7	8	9
Net Reserve Bank Credit to the Centre (1+2+3+4-5)	28,417	25,530	-1,736	14,600	-25,251	19,812	19,256	3,071
1. Loans and Advances	0	0	0	0	0	0	0	0
2. Treasury Bills held by the Reserve Bank	0	0	0	0	0	0	0	0
3. Reserve Bank's Holdings of Dated Securities	13,869	15,993	-30,766	8,221	-17,243	19,378	3,513	-27,610
4. Reserve Bank's Holdings of Rupee Coins	7	-48	-13	-40	-33	157	-77	9
5. Central Government Deposits	-14,541	-9,586	-29,043	-6,419	7,974	-277	-15,820	-30,672
<i>Memo*</i>								
1. Market Borrowings of Dated Securities by the Centre #	1,31,000	52,000	59,000	42,000	39,000	24,000	26,000	52,000
2. Reserve Bank's Primary Subscription to Dated Securities	10,000	0	0	0	0	0	10,000	0
3. Repos (+) / Reverse Repos (-) (LAF), net position	12,080	11,965	-32,435	9,660	-14,835	18,635	-1,380	-23,060
4. Net Open Market Sales @	3,913	2,069	2,503	1,543	941	261	1,168	1,536
5. Mobilisation under MSS	-35,149	6,047	7,198	7,469	-4,353	-19,713	-18,552	4,062
6. Primary Operations \$	-33,328	27,313	75,386	18,205	-24,689	-38,715	11,871	62,063
* :At face value. #: Excluding Treasury Bills. @: Excluding Treasury Bills but including Consolidated Sinking Funds (CSF) and other investments. \$: 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.								

of Rs.29,043 crore in Central Government deposits with the Reserve Bank. The Reserve Bank's net credit to the Centre, therefore, declined by Rs.1,736 crore during the fiscal year 2006-07 (up to July 14) as against an increase of Rs.25,530 crore during the corresponding period of 2005-06 (Table 20).

Liquidity Management

After a spell of some tightness in market liquidity during December 2005-March 2006, liquidity conditions have eased significantly during 2006-07 so far. The turnaround in the liquidity conditions could be attributed to unwinding of the Centre's surplus balances with the Reserve Bank and the Reserve Bank's purchase of foreign exchange from authorised dealers (Table 21). Accordingly, the Reserve Bank reverted back to liquidity absorption mode during 2006-07. On an average, the Reserve Bank absorbed liquidity through reverse repos to the extent of Rs.51,490 crore during April-June 2006 as against a net injection of liquidity through repos to the extent of Rs.11,686 crore during the previous quarter (January - March 2006). Average daily liquidity absorption during April-June 2006 was more than double of that during the corresponding quarter of the previous year (Rs.22,481 crore during April-June 2005).

On a review of liquidity conditions, issuances under the MSS were re-introduced effective May 3, 2006. The balances under the MSS, which had

Table 21: Phases of Reserve Bank's Liquidity Management Operations

Item	Variation during					
	April 1- July 22, 2005	July 23- August 12, 2005	August 13- October 28, 2005	October 29- Dec 30, 2005	Dec 30, 2005- Mar 31, 2006	April 1- July 14, 2006
1	2	3	4	5	6	7
A. Drivers of Liquidity (1+2+3+4)	-6,587	27,406	-14,621	-60,555	22,638	28,928
1. RBI's Foreign Currency Assets (adjusted for revaluation)	6,412	19,348	5,193	-21,696	59,577	29,894
2. Currency with the Public	-15,125	-1,914	-7,434	-12,734	-20,073	-25,990
3. Surplus Cash Balances of the Centre with the Reserve Bank	6,053	5,972	-7,421	-24,357	-2,973	39,158
4. Others (residual)	-3,927	4,000	-4,959	-1,768	-13,893	-14,134
B. Management of Liquidity (5+6+7+8)	1,329	-24,567	16,187	72,235	-7,215	-39,486
5. Liquidity Impact of LAF Repos	8,845	-26,565	16,210	48,595	-35,005	-32,435
6. Liquidity Impact of OMO (net)	0	0	0	0	10,740	147
7. Liquidity Impact of MSS	-7,516	1,998	-23	23,640	17,050	-7,198
8. First Round Liquidity Impact due to CRR change	0	0	0	0	0	0
C. Bank Reserves # (A+B)	-5,258	2,839	1,566	11,680	15,423	-10,558

+ : 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 22: Liquidity Management

(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
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
April	47,805	24,276	5,611	77,692
May	57,245	27,817	0	85,062
June	42,565	33,295	8,621	84,481
July (as on July 14)	39,685	36,260	9,670	85,615

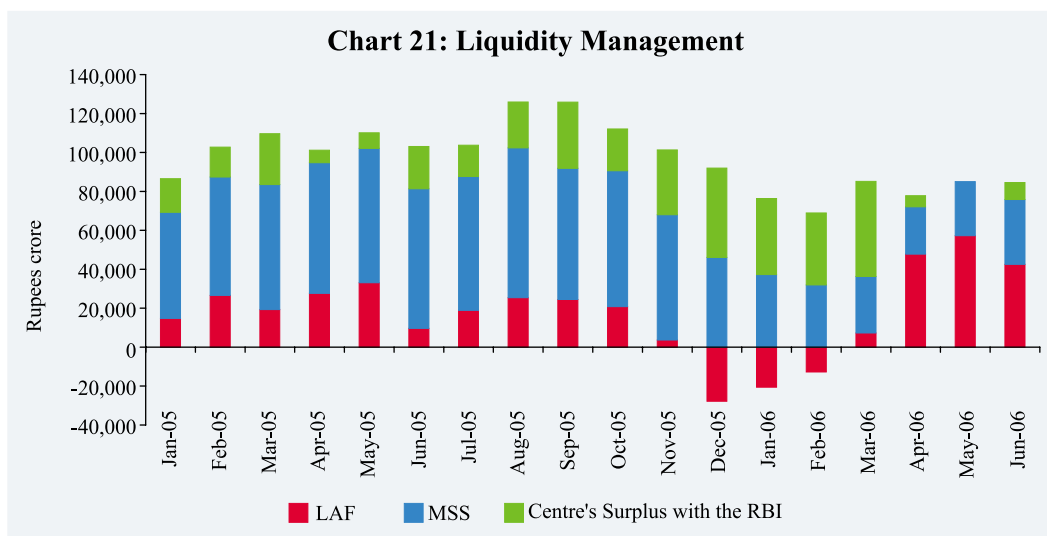
@ : Excludes minimum cash balances with the Reserve Bank.

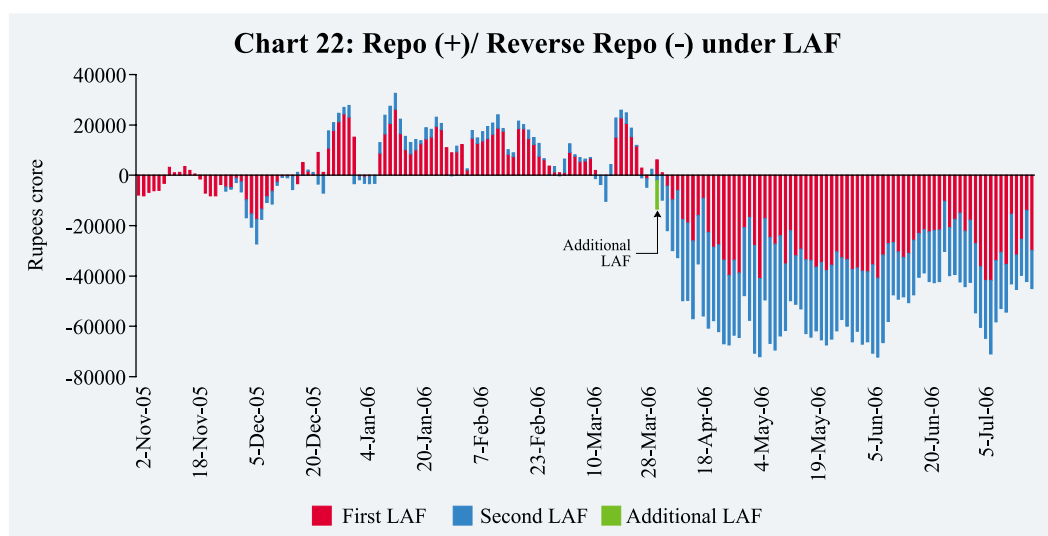
Note : Negative sign in column 2 indicates injection of liquidity through LAF repo.

* : Data pertain to March 31, 2005.

been falling since November 2005, thus, increased during May-June 2006 (Table 22 and Chart 21).

In order to fine-tune the management of liquidity and in response to suggestions from the market participants, the Reserve Bank had introduced a





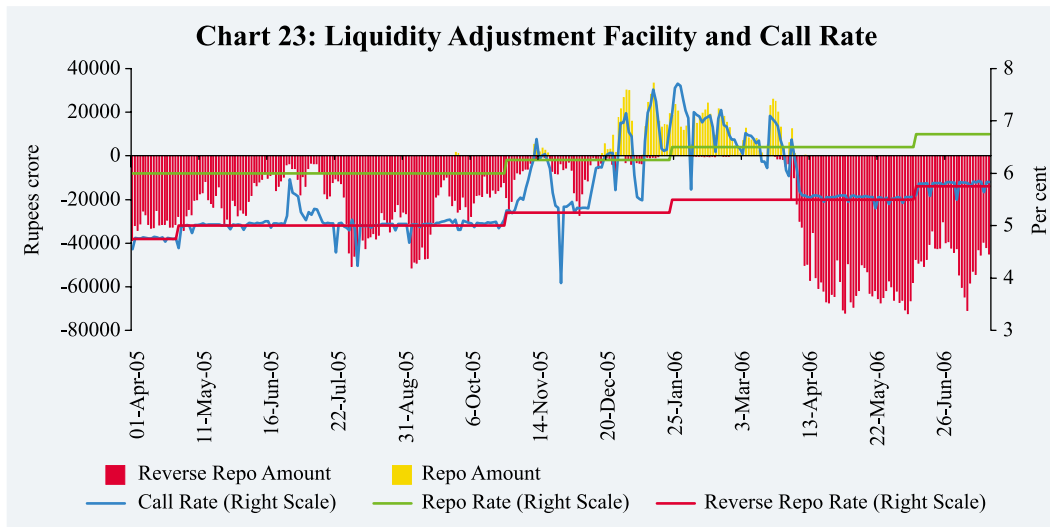
Second Liquidity Adjustment Facility with effect from November 28, 2005. The recourse by market participants to the second LAF *vis-a-vis* the first LAF was relatively small during the phase of liquidity injection between November 2005 and March 2006. However, with the easing of liquidity conditions, there has been a significant increase in the recourse to the second LAF since April 2006 onwards (Chart 22). The daily average absorption under the second LAF during April-May 2006 at Rs.28,776 crore exceeded that of Rs.24,131 crore in the first LAF. The daily average absorption under the second LAF declined during June 2006 and was also somewhat lower than that in the first LAF (Table 23).

Liquidity absorption through LAF fell during June 2006 reflecting increase in the Centre's surplus balances with the Reserve Bank and fresh issuances under the MSS. Liquidity absorption, however, increased again during the first week of

Table 23: Dynamics of First and Second LAF

(Amount in Rupees crore)					
	Average daily LAF Operations (net)	Average daily First LAF Operations (net)	Average daily Second LAF Operations (net)	Share of First LAF in Total LAF (per cent)	Share of Second LAF in Total LAF (per cent)
1	2	3	4	5	6
December 2005	-1,452	654	-2,106	64.6	35.4
January 2006	15,386	12,938	2,447	72.9	27.1
February 2006	13,532	10,850	2,682	75.0	25.0
March 2006 @	6,319	5,520	799	54.1	45.9
April 2006	-46,088	-18,480	-27,608	41.1	58.9
May 2006	-59,505	-29,600	-29,905	49.7	50.3
June 2006	-48,611	-25,647	-22,964	52.8	47.2

Note : (+) indicates injection of liquidity through LAF repo while (-) indicates absorption of liquidity through LAF reverse repos.
 @ : LAF amounts for Additional LAF conducted on March 31, 2006 have been shown under second LAF.



July 2006 mirroring the decline in the Centre's surplus balances. Reflecting the easing of liquidity conditions, call rates have remained close to the reverse repo rate during 2006-07 so far. The call rates edged higher from June 9, 2006 onwards in consonance with the increase of 25 basis points each in the reverse repo rate and the repo rate (Chart 23).