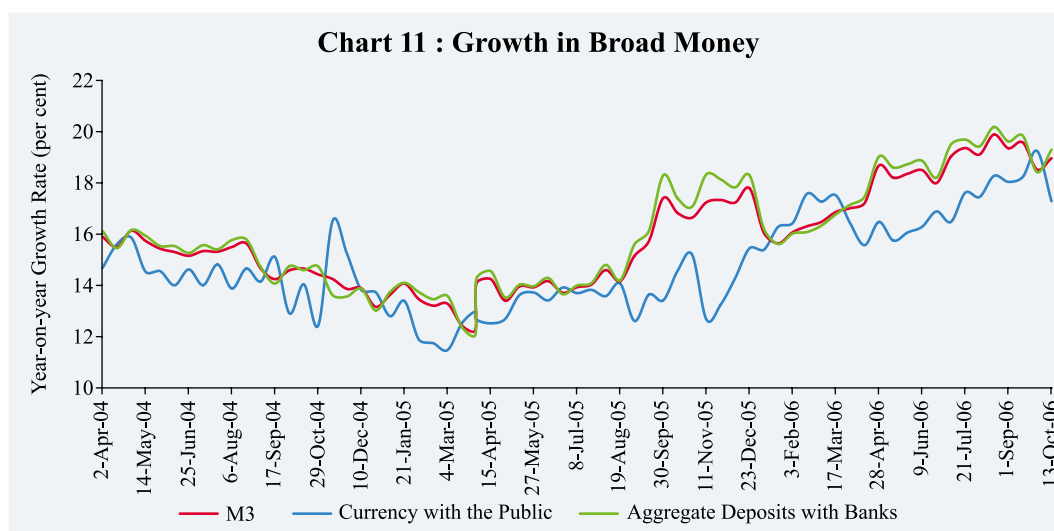


### III. MONETARY AND LIQUIDITY CONDITIONS

Monetary and liquidity conditions have remained comfortable during 2006-07 so far. Strong acceleration in deposit growth was able to accommodate sustained growth of bank credit. Growth in non-food credit has remained above 30 per cent, year-on-year (y-o-y), for more than a year. Time deposits have recorded large accretion in 2006-07 so far, partly reflecting higher interest rates as well as availability of tax benefits under Section 80C. Concomitantly, broad money growth has remained above the indicative trajectory, indicative of strong demand conditions. Banks increased their investments in Government securities in the first half of 2006-07 in contrast to the second half of 2005-06 when they liquidated their gilt investments. The Reserve Bank continued to absorb liquidity through reverse repo operations under the liquidity adjustment facility (LAF) during the first half of 2006-07 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).

#### Monetary Survey

Broad money ( $M_3$ ) growth, y-o-y, accelerated to 19.0 per cent as on October 13, 2006 from 16.8 per cent a year ago, and remained above the indicative trajectory of 15.0 per cent projected in the Annual Policy Statement in the beginning of the year (April 2006) (Chart 11). On a fiscal year basis (up to October 13, 2006),  $M_3$  growth at 7.8 per cent was higher than that of 6.1 per cent in the corresponding period of 2005-06. In this context, it may be noted that data on fiscal year variations



in monetary and banking indicators for 2005-06 have been worked out with respect to April 1, 2005 as the base date. Conventionally, the Reserve Bank publishes data on monetary and banking aggregates on a fortnightly basis on alternate Fridays. Variations in monetary and banking aggregates for a particular financial year are worked out in relation to the last reporting Friday of the previous financial year. Thus, variations for banking data during 2005-06 would have been conventionally calculated from March 18, 2005, which was the last reporting Friday of the previous financial year. This would have resulted in the incorporation of data for an additional fortnight in the variations in monetary and banking aggregates for 2005-06 in relation to the same for 2006-07. For meaningful comparison of variations in monetary and banking variables in 2005-06 with those of 2006-07 on a financial year basis, April 1, 2005 has been taken as the base date for 2005-06.

Expansion in the residency-based new monetary aggregate ( $NM_3$ ) was higher than  $M_3$ , mainly on account of net outflows under foreign currency deposits (Table 16).

**Table 16: Monetary Indicators**

Item	Outstanding as on October 13, 2006	Variation (year-on-year)			
		October 14, 2005		October 13, 2006	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
I. Reserve Money *	6,16,950	63,088	14.0	1,04,495	20.4
II. Broad Money ( $M_3$ )	29,43,426	3,56,328	16.8	4,69,205	19.0
a) Currency with the Public	4,44,102	48,164	14.6	65,445	17.3
b) Aggregate Deposits	24,93,864	3,09,741	17.4	4,03,393	19.3
i) Demand Deposits	3,94,834	62,732	24.1	71,363	22.1
ii) Time Deposits	20,99,030	2,47,009	16.3	3,32,030	18.8
of which: Non-Resident Foreign Currency Deposits	64,147	1,473	1.9	-13,889	-17.8
III. $NM_3$	29,55,303	3,61,937	17.2	4,84,379	19.6
of which: Call Term Funding from Financial Institutions	84,039	13,121	20.0	5,226	6.6
IV. a) $L_1$	30,47,504	3,89,392	18.1	4,69,905	18.2
of which: Postal Deposits	93,221	17,580	22.1	-4,027	-4.1
b) $L_2$	30,50,436	3,85,518	17.9	4,69,916	18.2
of which: FI Deposits	2,932	-3,874	-57.0	11	0.4
c) $L_3$	30,72,130	3,87,968	17.8	4,69,916	18.1
of which: NBFC Deposits	21,694	2,450	12.7	-	-
V. Major Sources of Broad Money					
a) Net Bank Credit to the Government (i+ii)	8,05,300	12,451	1.6	34,460	4.5
i) Net Reserve Bank Credit to Government	2,776	-32,198	-	14,109	-
of which: to the Centre	2,567	-26,886	-	13,928	-
ii) Other Banks' Credit to Government	8,02,524	44,649	6.1	20,351	2.6
b) Bank Credit to Commercial Sector	18,36,535	3,07,696	26.9	3,83,390	26.4
c) Net Foreign Exchange Assets of Banking Sector	7,87,161	93,449	16.1	1,13,179	16.8
<b>Memo:</b>					
SCBs' Aggregate Deposits	22,94,293	2,98,229	18.6	3,93,849	20.7
SCBs' Non-food Credit	16,10,275	2,97,903	31.8	3,76,105	30.5
* : Data pertain to October 20, 2006.					
SCBs : Scheduled Commercial Banks. 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:					
$L_1 = NM_3 +$ Select deposits with the post office saving banks.					
$L_2 = L_1 +$ 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.					
<b>Note :</b> 1. Data are provisional.					
2. Data for liquidity aggregates pertain to end-September.					
3. Data reflect redemption of India Millennium Deposits (IMDs) on December 29, 2005.					

Monetary and Liquidity Conditions

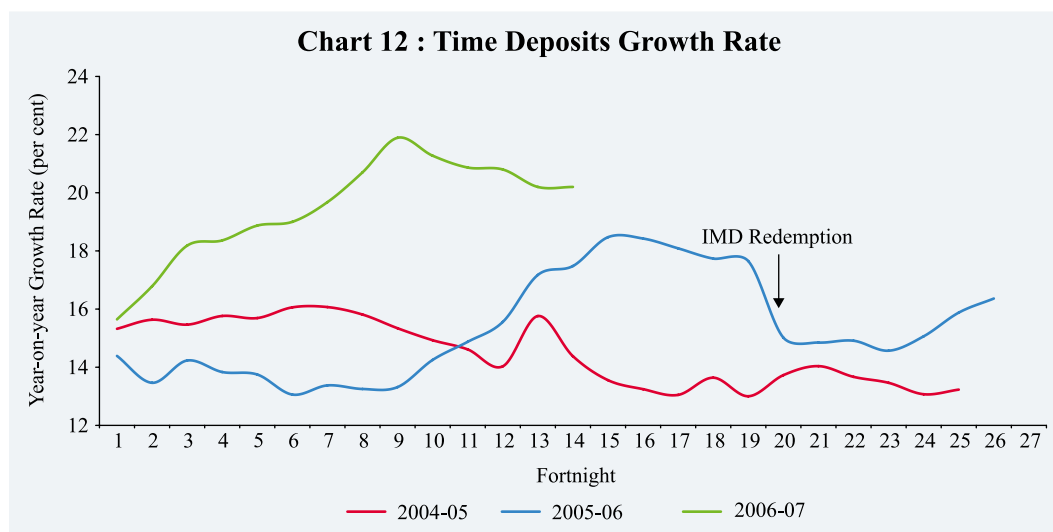
Non-resident foreign currency deposits such as India Millennium Deposits (IMDs) and FCNR(B) are not directly reckoned in  $NM_3$ . The redemption of IMDs in December 2005 depressed  $M_3$  growth while having no direct impact on  $NM_3$  growth.

Demand for currency has recorded a higher order of expansion during the fiscal year 2006-07 so far, partly reflecting early onset of festival season demand (Table 17). On a year-on-year basis, growth in currency with the public increased from 14.6 per cent as on October 14, 2005 to 17.3 per cent as on October 13, 2006 in consonance with acceleration in economic activity.

Demand deposits increased during the second quarter of 2006-07 as against a decline in the previous quarter, reflecting the usual seasonal pattern.

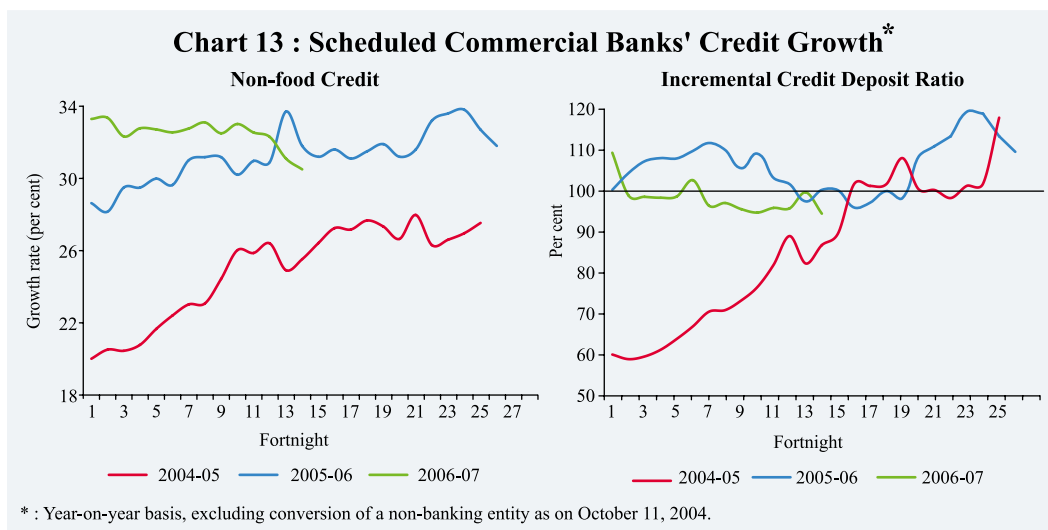
**Table 17: Monetary Aggregates – Variations**

(Rupees crore)									
	2005-06 (April- March)	2005-06 (up to Oct.14)	2006-07 (up to Oct.13)	Variation during					
				2005-06				2006-07	
				Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10
$M_3$ (=1+2+3=4+5+6+7-8)	3,96,868	1,41,555 (6.1)	2,13,891 (7.8)	27,448	1,22,457	45,106	2,01,857	55,248	1,57,634
<b>Components</b>									
1 Currency with the Public	58,272	23,787 (6.7)	30,960 (7.5)	20,492	-10,835	30,124	18,491	25,603	-4,060
2 Aggregate Deposits with Banks	3,38,037	1,18,995 (6.0)	1,84,350 (8.0)	8,819	1,32,531	15,729	1,80,958	31,259	1,61,233
2.1 Demand Deposits with Banks	83,861	2,109	-10,389	-21,953	41,566	-2,357	66,604	-43,025	33,857
2.2 Time Deposits with Banks	2,54,176	1,16,886 (7.1)	1,94,740 (10.2)	30,772	90,965	18,086	1,14,354	74,283	1,27,376
3 'Other' Deposits with Banks	560	-1,227	-1,419	-1,862	761	-747	2,408	-1,613	461
<b>Sources</b>									
4 Net Bank Credit to Government	20,386	22,133 (3.0)	36,207 (4.7)	17,398	-5,017	-5,722	13,726	22,933	9,887
4.1 RBI's net credit to Government	35,799	16,329	-5,361	18,963	-25,251	19,879	22,208	53	2,826
4.1.1 RBI's net credit to Centre	33,374	16,853	-2,593	19,556	-25,251	19,812	19,256	3,071	2,584
4.2 Other Bank's Credit to Government	-15,413	5,805	41,568	-1,565	20,234	-25,601	-8,481	22,880	7,060
5 Bank Credit to Commercial Sector	3,59,703	1,21,888 (9.2)	1,45,575 (8.6)	10,235	1,18,712	61,731	1,69,025	14,441	1,41,539
6 Net Foreign Exchange Assets of Banking Sector	78,291	26,080	60,967	-12,026	24,062	27,701	38,554	58,087	11,392
6.1 Net Foreign Exchange Assets of RBI	61,545	25,624	74,726	-13,243	24,823	23,741	26,224	71,845	11,392
7 Governments' Currency Liabilities to the Public	1,306	1,293	177	384	910	-100	112	146	31
8 Net Non-Monetary liabilities of Banking Sector	62,817	29,840	29,035	-11,456	16,210	38,504	19,560	40,357	5,215
<b>Memo:</b>									
1 Non-resident Foreign Currency Deposits with SCBs	-16,876	1,885	4,872	804	187	1,856	-19,723	3,917	1,506
2 SCBs' Call-term Borrowing from Financial Institutions	11,224	6,892	895	-1,002	7,359	1,836	3,031	3,118	-1,611
3 Overseas Borrowing by SCBs	1,295	3,823	595	-925	3,618	-622	-755	3,301	-3,903
SCBs : Scheduled Commercial Banks.									
<b>Note :</b> 1. Variation during 2006-07 so far is worked out from March 31, 2006 whereas the corresponding variation during 2005-06 is worked out from April 1, 2005.									
2. Figures in parentheses are percentage variations during the fiscal year.									
3. Data reflect redemption of India Millennium Deposits (IMDs) on December 29, 2005.									



On a y-o-y basis, growth in demand deposits was 22.1 per cent as on October 13, 2006 as compared with 24.1 per cent recorded a year ago. Growth in time deposits, on the other hand, was higher than the previous year, reflecting higher interest rates, tax benefits as well as base effects. Scheduled commercial banks' time deposits growth accelerated to 20.2 per cent (y-o-y) as on October 13, 2006 from 17.5 per cent a year ago (Chart 12). Interest rates on time deposits of 1-3 years maturity offered by public sector banks have increased from a range of 5.75-6.75 per cent in March 2006 to 6.25-7.50 per cent by September 2006. Rates offered by private sector banks on similar maturity deposits moved from a range of 5.50-7.75 per cent to 6.75-8.25 per cent over the same period. Growth in time deposits appears to have also gained from tax benefits which have become available recently under Section 80C for deposits with maturity of five years and above. Concomitantly, postal deposits registered a sharp decline between end-March 2006 and end-September 2006.

Demand for bank credit from the commercial sector continued to remain strong during the second quarter of 2006-07. Scheduled commercial banks' non-food credit has increased by 9.8 per cent in the current fiscal year (up to October 13, 2006) (11.0 per cent during the corresponding period of the previous year). On a year-on-year basis, non-food credit registered a growth of 30.5 per cent as on October 13, 2006 on top of a base as high as 31.8 per cent a year ago. Reflecting the sustained credit growth of over 30 per cent for more than a year, the incremental credit-deposit ratio of SCBs has remained high though it has exhibited some moderation in recent months. As on October 13, 2006, the incremental credit-deposit ratio was 95 per cent as compared with over 100 per cent during the most part of 2005-06 (Chart 13). Scheduled commercial banks' food credit,



on the other hand, witnessed a decline of Rs.7,246 crore during 2006-07 (up to October 13, 2006) reflecting lower order of procurement of foodgrains.

Provisional information on sectoral deployment of bank credit indicates that growth in credit was broad-based. The y-o-y growth in credit to industry and agriculture was 27 per cent and 37 per cent, respectively, at end-June 2006 (Table 18). Retail lending rose by 47 per cent at end-June 2006, y-o-y, with growth in housing loans being 54 per cent. Loans to commercial real estate rose by 102 per cent.

In addition to bank credit, the corporate sector continued to rely on non-bank sources of funds for their financing requirements during the first half of 2006-07. Amounts raised through domestic equity issuances fell sharply during the second quarter of 2006-07 following the volatility in capital markets during May-June 2006; nonetheless, the amounts raised during the first half of 2006-07 were significantly higher. Mobilisation through equity issuances abroad (ADRs/GDRs) during April-September 2006 was also higher than a year ago. Recourse to external debt flows in the form of external commercial borrowings (ECBs) was substantially higher during the first quarter of 2006-07 than a year ago. Mobilisation through issuances of commercial papers, after remaining subdued during the second half of the 2005-06, increased during the first half of 2006-07. Internal sources of funds provided large support – higher than each of the preceding four quarters – to the corporate sector during April-June 2006 as corporate profits recorded a substantial increase during the quarter (Table 19).

In the current fiscal year 2006-07 (up to October 13, 2006), commercial banks' investments in gilts have increased by Rs.41,796 crore, partly reflecting acceleration in deposit growth. However, as banks had liquidated their investments

**Table 18: Deployment of Non-food Bank Credit**

(Amount in Rupees crore)					
Sector/Industry	Outstanding as on June 23, 2006	Year-on-year variations			
		2005 (June 24, 2005 over June 25, 2004)		2006 (June 23, 2006 over June 24, 2005)	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
<b>Non-food Gross Bank Credit (1 to 6)</b>	<b>11,87,215</b>	<b>2,30,555</b>	<b>30.7</b>	<b>3,66,174</b>	<b>44.6</b>
<b>1. Agriculture and Allied Activities</b>	<b>1,58,506</b>	<b>34,300</b>	<b>38.2</b>	<b>42,619</b>	<b>36.8</b>
<b>2. Industry (Small, Medium and Large)</b>	<b>4,48,494</b>	<b>57,747</b>	<b>18.1</b>	<b>94,133</b>	<b>26.6</b>
Small Scale Industries	82,667	8,827	13.7	14,716	21.7
<b>3. Services</b>	<b>45,466</b>	-	-	<b>30,661</b>	<b>207.1</b>
Transport Operators	13,870	-	-	9,149	193.8
Professional and Others	17,124	-	-	11,741	218.1
<b>4. Personal Loans</b>	<b>3,24,491</b>	-	-	<b>1,04,058</b>	<b>47.2</b>
Housing	1,71,917	-	-	60,495	54.3
		(29,533)	(50.1)		
Advances against Fixed Deposits	29,286	-14,072	-56.8	5,471	23.0
Credit Cards	6,818	-	-	4,539	199.2
Education	9,781	-	-	5,684	138.7
Consumer Durables	7,350	322	4.3	-113	-1.5
<b>5. Trade</b>	<b>70,679</b>	-	-	<b>29,104</b>	<b>70.0</b>
<b>6. Others</b>	<b>1,39,579</b>	-	-	<b>65,599</b>	<b>88.7</b>
Real Estate Loans	23,633	6,275	94.6	11,957	102.4
Non-Banking Financial Companies	24,933	3,094	18.5	7,787	45.4
<i>Memo:</i>					
<b>Priority Sector</b>	<b>4,57,689</b>	<b>1,05,035</b>	<b>39.4</b>	<b>1,13,962</b>	<b>33.2</b>
<b>Industry (Small, Medium and Large)</b>	<b>4,48,494</b>	<b>57,747</b>	<b>18.1</b>	<b>94,133</b>	<b>26.6</b>
Food Processing	25,806	1,929	9.5	5,299	25.8
Textiles	50,719	7,504	22.3	12,344	32.2
Paper and Paper Products	7,517	844	14.7	1,394	22.8
Petroleum, Coal Products and Nuclear Fuels	17,534	4,797	43.1	1,925	12.3
Chemical and Chemical Products	36,089	1,755	6.0	6,954	23.9
Rubber, Plastic and their Products	6,105	-	-	1,907	45.4
Iron and Steel	41,811	5,780	22.3	12,208	41.2
Other Metal and Metal Products	12,388	1,992	23.4	2,715	28.1
Engineering	31,102	682	2.7	5,818	23.0
Vehicles, Vehicle Parts and Transport Equipments	12,066	2,863	45.1	2,992	33.0
Gems and Jewellery	17,453	3,037	31.6	5,525	46.3
Construction	12,234	1,860	28.0	4,571	59.7
Infrastructure	89,946	18,940	33.2	19,859	28.3
- : Not available.					
<b>Note :</b> 1. Data are provisional and relate to select scheduled commercial banks.					
2. Owing to change in classification of sectors/industries and coverage of banks, data for 2006 are not comparable with earlier data. Figures in parentheses for 2005 pertain only to housing loans of above Rs.15 lakh. Data on housing loans for 2006, on the other hand, are also inclusive of loans less than Rs.15 lakh.					

in gilts in the second half of 2005-06, growth in their holdings of Government securities at 2.5 per cent, y-o-y, as on October 13, 2006 was lower than that of 5.9 per cent a year ago (Table 20). This growth is significantly lower than average growth of around 20 per cent per annum during 2002-2005. Commercial banks' holding of Government securities was 29.8 per cent of their net demand and time liabilities (NDTL) as on October 13, 2006 as compared with 31.3 per cent

Monetary and Liquidity Conditions

**Table 19: Select Sources of Funds to Industry**

Item	(Rupees crore)						
	2005-06	2005-06				2006-07	
	(April-March)	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8
A. Bank Credit to Industry #	1,22,165	11,148	28,061	24,484	58,472	-1,967	9,786 *
B. Flow from Non-banks to Corporates							
1. Capital Issues (i+ii)	13,781	1,264	2,758	5,549	4,210	10,627	1,882
i) Non-Government Public Ltd. Companies (a+b)	13,408	1,264	2,758	5,549	3,837	10,627	1,882
a) Bonds/Debentures	245	118	0	0	127	0	0
b) Shares	13,163	1,146	2,758	5,549	3,710	10,627	1,882
ii) PSUs and Government Companies	373	0	0	0	373	0	0
2. ADR/GDR Issues	7,704	789	739	3,643	2,533	4,965	2,130
3. External Commercial Borrowings (ECBs)	40,496	4,326	12,989	9,132	14,049	18,747	-
4. Issue of CPs	-1,517	3562	1928	-2,491	-4,516	6,931	4,770
C. Depreciation Provision +	28,883	7,137	7,617	7,748	8,340	8,449	-
D. Profits after Tax +	67,506	16,726	18,169	18,790	21,634	24,845	-

# : Data pertain to select banks which account for over 90 per cent of bank credit of all scheduled commercial banks.  
+ : Data are based on audited/ unaudited abridged results of select of non-financial non-Government companies. Quarterly variations may not add up to annual variation due to difference in coverage of companies.  
\* : Data pertain to July 2006 only.

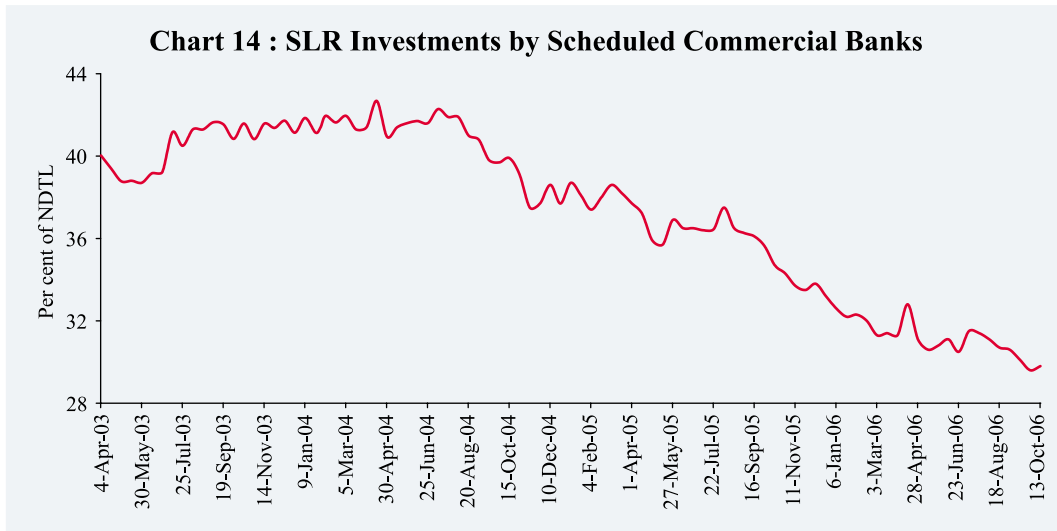
**Note:** 1. Data are provisional.  
2. Data on capital issues pertain to gross issuances excluding issues by banks and financial institutions. Figures are not adjusted for banks' investments in capital issues, which are not expected to be significant.  
3. Data on ADR/GDR issues exclude issuances by banks and financial institutions.  
4. Data on external commercial borrowings include short-term credit. Data for 2005-06 are exclusive of the IMD redemption.

at end-March 2006 and 34.7 per cent a year ago (Chart 14). Excess SLR investments of SCBs were Rs. 1,23,010 crore as on October 13, 2006 as compared with Rs. 2,07,903 crore a year ago. Raising funds through equity issuances in the

**Table 20: Scheduled Commercial Banks' Survey**

Item	(Amount in Rupees crore)				
	Outstanding as on October 13, 2006	Variation (year-on-year)			
		As on October 14, 2005		As on October 13, 2006	
1	2	Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
<b>Sources of Funds</b>					
1. Aggregate Deposits	22,94,293	2,98,229	18.6	3,93,849	20.7
2. Call/Term Funding from Financial Institutions	84,039	13,121	20.0	5,226	6.6
3. Overseas Foreign Currency Borrowings	30,430	7,877	32.2	-1,933	-6.0
4. Capital and Reserves	1,93,141	33,161	25.9	31,790	19.7
<b>Uses of Funds</b>					
1. Bank Credit	16,43,720	2,99,151	30.8	3,72,342	29.3
of which: Non-food Credit	16,10,275	2,97,903	31.8	3,76,105	30.5
2. Investments in Government Securities	7,42,538	40,438	5.9	18,378	2.5
3. Investments in Other Approved Securities	21,831	-2,352	-10.8	2,327	11.9
4. Investments in Non-SLR Securities	1,49,174	-4,950	-3.4	10,040	7.2
5. Foreign Currency Assets	39,896	-8,753	-24.7	13,179	49.3
6. Balances with the RBI	1,25,080	29,562	35.0	11,151	9.8

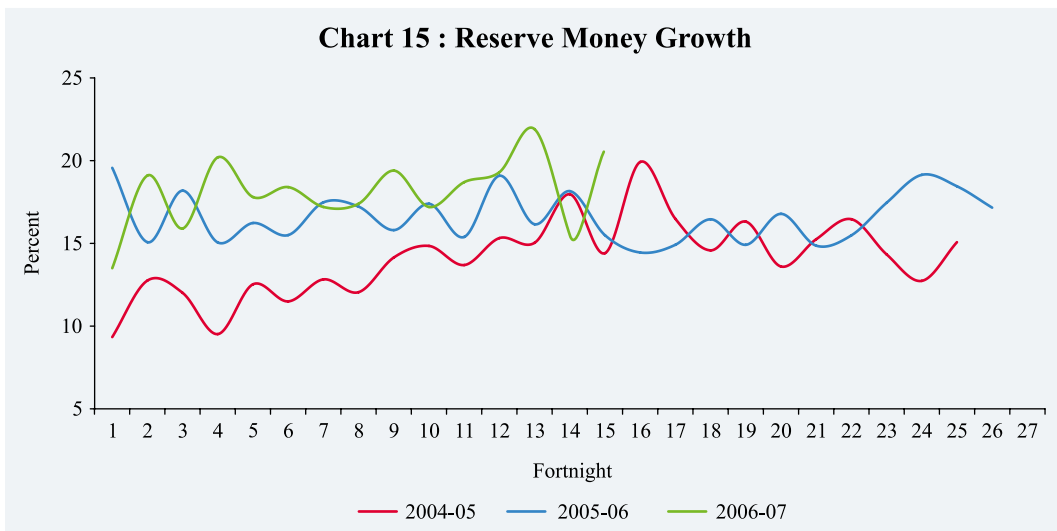
**Note :** Data are provisional.



primary market as well as internal reserves also helped banks to fund strong credit demand. Banks curtailed their overseas foreign currency borrowings while increasing their investments abroad in contrast to the trends of the previous year.

### Reserve Money Survey

Reserve money growth at 20.4 per cent, y-o-y, as on October 20, 2006 was higher than that of 14.0 per cent a year ago (Chart 15). Growth of reserve money during 2006-07 so far has usually remained higher than a year ago. Intra-year movements in reserve money largely reflected the Reserve Bank's market operations.





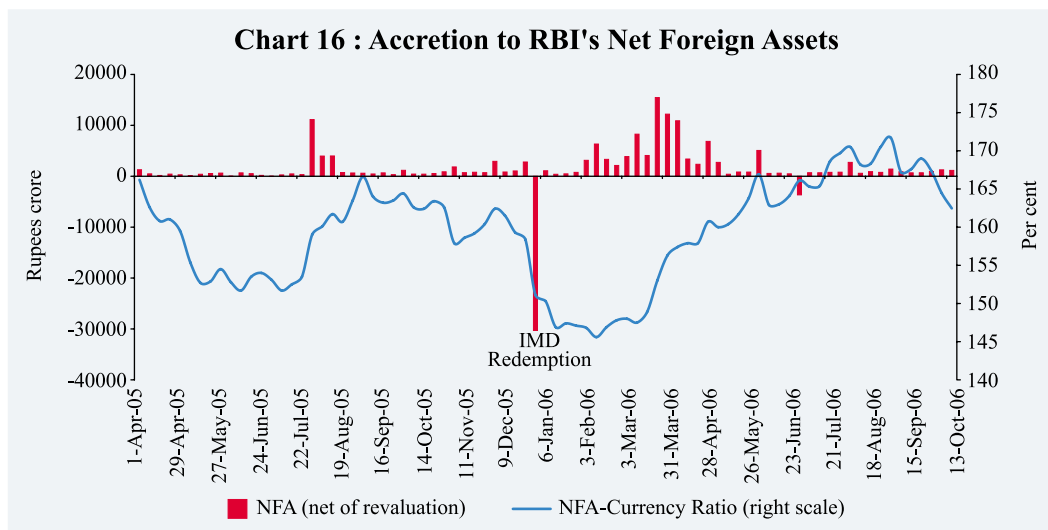
Monetary and Liquidity Conditions

Growth of reserve money during 2006-07 (up to October 20, 2006) continued to be driven largely by expansion in the Reserve Bank's net foreign assets (NFA). The Reserve Bank's foreign currency assets (net of revaluation) have increased by Rs.42,544 crore during the fiscal year 2006-07 so far as compared with an increase of Rs.30,077 crore during the corresponding period of the previous year (Table 21 and Chart 16).

Mirroring the liquidity management operations, the Reserve Bank's holdings of Government securities increased by Rs.491 crore during 2006-07 (up to October 20) as against a decline of Rs.175 crore in the corresponding period of 2005-06. During 2006-07 (up to October 20), there was a decline of Rs.14,670 crore in Central Government deposits with the Reserve Bank. The

**Table 21: Variation in Reserve Money**

(Rupees crore)									
1	Variation during								
				2005-06			2006-07		
	2005-06 (April- March)	2005-06 (up to Oct.21)	2006-07 (up to Oct.20)	Q1	Q2	Q3	Q4	Q1	Q2
<b>Reserve Money</b>	83,930	23,320 (4.8)	43,884 (7.7)	7,177	1,062	25,440	50,251	14,533	18,551
<b>Components (1+2+3)</b>									
1. Currency in Circulation	62,015	21,877 (5.9)	38,262 (8.9)	19,877	-9,479	29,154	22,462	23,349	-2,134
2. Bankers' Deposits with RBI	21,515	3,289	7,047	-10,680	9,780	-2,967	25,382	-7,204	20,224
3. 'Other' Deposits with RBI	401	-1,846	-1,425	-2,021	761	-747	2,408	-1,613	461
<b>Sources (1+2+3+4-5)</b>									
1. RBI's net credit to Government	26,111	-240	11,988	9,275	-25,251	19,879	22,208	53	2,826
of which: to Centre (i+ii+iii+iv-v)	28417	5,073	15,029	14,600	-25,251	19,812	19,256	3,071	2,584
i. Loans and Advances	0	0	0	0	0	0	0	0	0
ii. Treasury Bills held by the RBI	0	0	0	0	0	0	0	0	0
iii. RBI's Holdings of Dated Securities	13,869	-175	491	8,221	-17,243	19,378	3,513	-27,610	24,944
iv. RBI's Holdings of Rupee Coins	7	116	-132	-40	-33	157	-77	9	-107
v. Central Government Deposits	-14,541	-5,133	-14,670	-6,419	7,974	-277	-15,820	-30,672	22,253
2. RBI's credit to banks and commercial sector	535	-1,325	-377	1,155	-1,869	101	1,148	-3,135	3,107
3. NFEA of RBI	60,193	25,475 (4.2)	77,310 (11.5)	-14,595	24,823	23,741	26,224	71,845	11,392
of which : FCA, adjusted for revaluation	68,834	30,077	42,544	5,034	23,665	11,998	28,137	28,107	10,948
4. Governments' Net Currency Liabilities to the Public	1,306	1,293	177	384	910	-100	112	146	31
5. Net Non-Monetary liabilities of RBI	4,215	1,884	45,214	-10,957	-2,449	18,180	-559	54,376	-1,194
<i>Memo* :</i>									
Net Domestic Assets	23,737	-2,155	-33,426	21,771	-23,761	1,700	24,027	-57,313	7,158
Reserve Bank's Primary Subscription to Dated Securities	10,000	0	0	0	0	0	10,000	0	0
LAF, Repos (+) / Reverse Repos (-)	12,080	3,350	8,730	9,660	-14,835	18,635	-1,380	-23,060	28,395
Net Open Market Sales #	3,913	2,588	2,945	1,543	941	261	1,168	1,536	1,176
Mobilisation under MSS \$	-35,149	5,037	11,860	7,469	-4,353	-19,713	-18,552	4062	8,940
Net Purchases(+)/Sales(-) from Authorised Dealers	32,884	17,027	21,545 @	0	17,027	0	15,857	21,545	0 @
NFEA/RM (per cent) (end-period)	117.4	124.6	121.6	120.5	125.3	123.7	117.4	126.6	124.8
NFEA/Currency (per cent) (end-period)	156.3	163.4	160.0	154.0	164.4	158.4	156.3	164.1	167.3
NFEA : Net Foreign Exchange Assets.	FCA : Foreign Currency Assets.	@ : up to end-August 2006.							
* : At face value.	# : Excludes Treasury Bills	\$ : Adjusted for Centre's surplus investment.							
<b>Note :</b>	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.								



Reserve Bank's net credit to the Centre, therefore, increased by Rs.15,029 crore during the fiscal year 2006-07 (up to October 20) as compared with an increase of Rs.5,073 crore during the corresponding period of 2005-06 (see Table 21).

### Liquidity Management

Liquidity conditions largely remained comfortable during the first half of 2006-07. During the first quarter, unwinding of the Centre's surplus balances with the Reserve Bank and the Reserve Bank's purchase of foreign exchange from authorised dealers led to increase in liquidity of the banking system, which was mirrored in the amounts accepted under LAF reverse repos. Liquidity conditions during the second quarter of 2006-07 continued to remain comfortable till mid-September notwithstanding some build-up of Centre's surplus balances with the Reserve Bank during August 2006. Consequently, the balances under LAF reverse repos witnessed some decline during the second quarter. Liquidity conditions turned tight from the second half of September 2006 on account of advance tax outflows and festival season currency demand amidst high credit off-take. During the second quarter, the Reserve Bank injected liquidity through repos on two occasions only (Rs. 275 crore on September 15, 2006 and Rs. 5,010 crore on September 29, 2006). During October 2006 (up to October 23), the Reserve Bank provided liquidity to some market participants through repos on four occasions (Rs. 35 crore on October 13, Rs. 1,000 crore on October 19, Rs. 1,585 crore on October 20 and Rs. 1,465 crore on October 23). However, there was net injection of liquidity through LAF only on October 20 and October 23, 2006. On an average, the Reserve Bank absorbed liquidity through net reverse repos to the extent of Rs. 36,857 crore during July-September 2006 as compared with Rs. 51,490 crore during the previous quarter. Liquidity is also being absorbed through the MSS,

Monetary and Liquidity Conditions

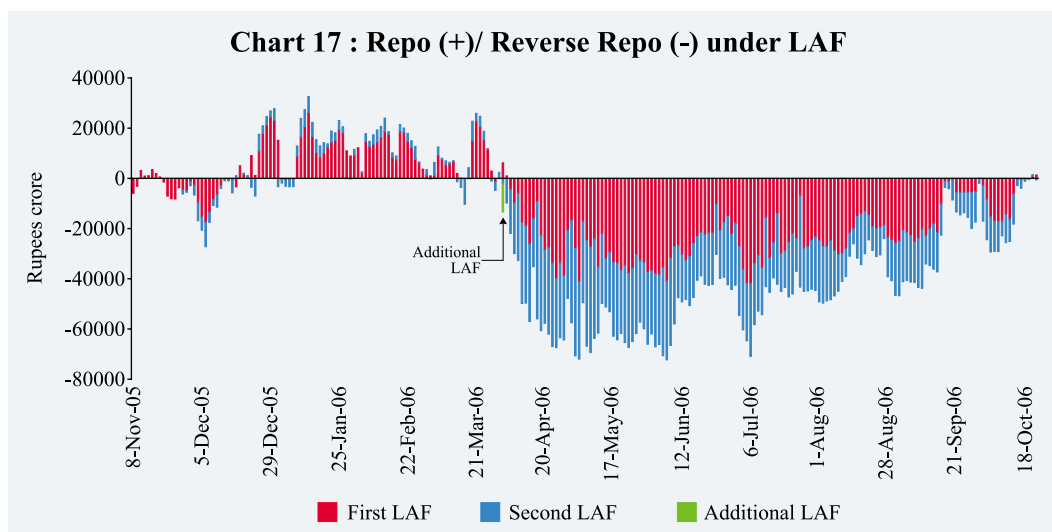
<b>Table 22: Phases of Reserve Bank's Liquidity Management Operations</b>						
(Rupees crore)						
Item	Variations during					
	2005-06 (April-March)	2006-07				
		Q1	Q2	July	August	September
1	2	3	4	5	6	7
<b>A. Drivers of Liquidity (1+2+3+4)</b>	<b>-31,719</b>	<b>35,506</b>	<b>-15,837</b>	<b>1,290</b>	<b>-10,228</b>	<b>-6,900</b>
1. RBI's Foreign Currency Assets (adjusted for revaluation)	68,834	28,517	10,538	2,942	2,958	4,638
2. Currency with the Public	-57,280	-21,454	-89	1,713	-1,645	-156
3. Surplus Cash balances of the Centre with the Reserve Bank	-22,726	40,206	-26,199	-149	-18,020	-8,030
4. Others (residual)	-20,547	-11,762	-88	-3,216	6,481	-3,351
<b>B. Management of Liquidity (5+6+7+8)</b>	<b>57,969</b>	<b>-39,002</b>	<b>32,026</b>	<b>-7,265</b>	<b>16,871</b>	<b>22,421</b>
5. Liquidity impact of LAF Repos	12,080	-35,315	40,650	-1,590	20,170	22,070
6. Liquidity impact of OMO (Net) *	10,740	545	145	25	70	50
7. Liquidity impact of MSS	35,149	-4,232	-8,769	-5,700	-3,369	301
8. First round liquidity impact due to CRR change	0	0	0	0	0	0
<b>C. Bank Reserves (A+B) #</b>	<b>26,250</b>	<b>-3,496</b>	<b>16,188</b>	<b>-5,975</b>	<b>6,643</b>	<b>15,521</b>

(+) : 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) and Other Investments and including private placement.  
**Note** : Data pertain to March 31 and last Friday for all other months.

following the reintroduction of issuances under the MSS effective May 3, 2006 (Tables 22 and 23).

<b>Table 23: Liquidity Management</b>				
(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
<b>2005</b>				
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
<b>2006</b>				
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	44,155	38,995	8,770	91,920
August	23,985	42,364	26,791	93,140
September	1,915	42,064	34,821	78,800
October \$	-1,480	40,922	29,711	69,153

@ : Excludes minimum cash balances with the Reserve Bank. \* : Data pertain to March 31.  
\$ : As on October 20, 2006.  
**Note** : Negative sign in column 2 indicates injection of liquidity through LAF repo.



An analysis of the recourse by market participants to the second LAF vis-a-vis the first LAF shows that (i) recourse to second LAF was relatively small during the phase of liquidity injection between November 2005 and March 2006, and (ii) with the easing of liquidity conditions, there was a significant recourse to the second LAF during April-September 2006. The daily average absorption under the second LAF during the first quarter of 2006-07 at Rs. 26,860 crore exceeded that of Rs.24,631 crore in the first LAF. The daily average absorption under the second LAF during the second quarter of 2006-07 (Rs. 16,538 crore) remained large, *albeit* lower than the first LAF (Rs. 20,319 crore) (Chart 17 and Table 24).

**Table 24: 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	74.9	25.1
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
July 2006	-48,027	-26,486	-21,541	55.2	44.9
August 2006	-36,326	-21,677	-14,649	59.7	40.3
September 2006	-25,862	-12,544	-13,318	47.8	52.2

@ : Additional LAF conducted on March 31, 2006 has been shown under second LAF.

**Note :** (+) indicates injection of liquidity through LAF repos while (-) indicates absorption of liquidity through LAF reverse repos.

Reflecting the comfortable liquidity conditions, call rates generally remained close to the reverse repo rate during the first half of 2006-07 (Chart 18). During the second quarter of 2006-07, the call rates edged upwards from July 25, 2006 onwards in consonance with the increase of 25 basis points each in the reverse repo rate and the repo rate. Call rates edged higher in the second half of September 2006, as there was some moderation in surplus liquidity due to advance tax outflows and festival season currency demand. Call rates reached 7.38 per cent as on September 29, 2006 but eased to around 6.50 per cent in early October 2006. Call rates again edged higher in the third week of October 2006. Call rate was at 7.15 per cent on October 23, 2006.

