

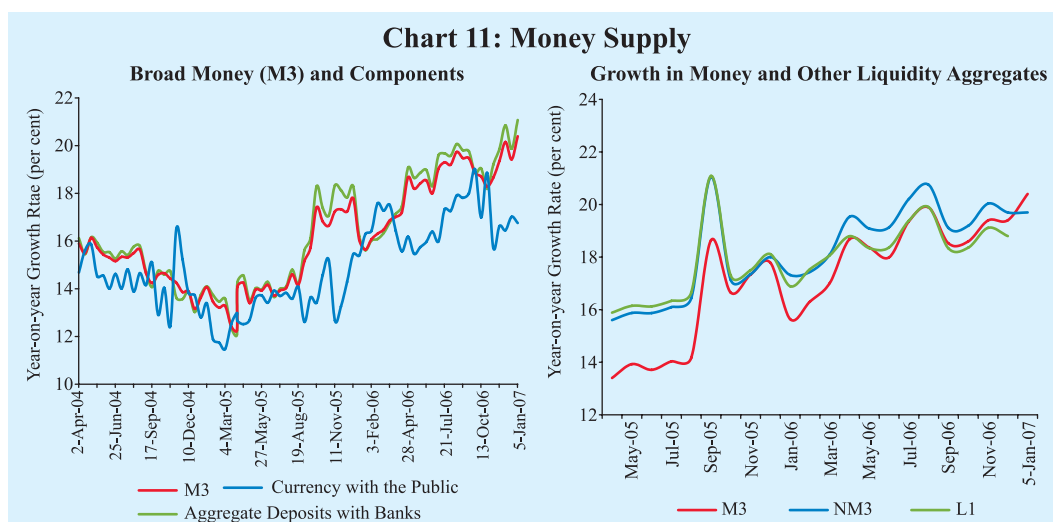
III. MONETARY AND LIQUIDITY CONDITIONS

Bank credit has continued to grow at a strong pace. Sustained growth of bank credit was accommodated by acceleration in deposit growth. Concomitantly, broad money growth has remained above the indicative trajectory, reflecting strong demand conditions. Banks' SLR investments, as a proportion of their net demand and time liabilities (NDTL), have declined further from their end-March 2006 levels. The Reserve Bank continued to modulate market liquidity with the help of LAF repo and reverse repos and issuance of securities under the Market Stabilisation Scheme (MSS). Furthermore, the Reserve Bank raised cash reserve ratio (CRR) by 50 basis points in two phases with effect from the fortnight beginning December 23, 2006.

Monetary Survey

Broad money (M_3) growth, year-on-year (y-o-y), accelerated to 20.4 per cent as on January 5, 2007 from 17.0 per cent at end-March 2006 and 16.0 per cent a year ago. On a fiscal year basis too, M_3 growth during 2006-07 so far (January 5, 2007 over March 31, 2006), at 11.9 per cent, was higher than that of 8.8 per cent in the corresponding period of 2005-06 (January 6, 2006 over April 1, 2005). Taking into account, *inter alia*, these trends in monetary aggregates, sustained growth in credit offtake, and additional absorption of liquidity under the MSS, the Reserve Bank, on December 8, 2006, decided to increase the CRR by 50 basis points in two stages – 25 basis points each effective the fortnights beginning December 23, 2006 and January 6, 2007. Other developments in the domestic economy impacting upon the decision to increase the CRR included growth in real GDP, acceleration in inflation, expectations of the private corporate sector of higher increase in prices of both inputs and outputs, reports of growing strains on domestic capacity utilisation, and challenges emanating from capital flows and consequent impact on increasing liquidity (see Box 1, Chapter IV). The increase in the CRR is estimated to have absorbed banks' resources to the extent of Rs.13,500 crore.

Expansion in the residency-based new monetary aggregate (NM_3) – which, *inter alia*, does not directly reckon non-resident foreign currency deposits such as India Millennium Deposits (IMDs) and FCNR(B) – was lower than M_3 , partly reflecting lower recourse to call/term funding from financial institutions. Growth in liquidity aggregate L_1 was lower than that in NM_3 on account of decline in postal deposits (Chart 11 and Table 17).



Amongst its major components, both currency and time deposits contributed to acceleration in growth in M_3 (Table 18). On a year-on-year basis,

Table 17: Monetary Indicators

Item	Outstanding as on January 5, 2007	(Amount in Rupees crore)			
		Variation (year-on-year)			
		January 6, 2006		January 5, 2007	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
I. Reserve Money*	6,41,790	69,213	14.9	1,06,846	20.0
II. Broad Money (M_3)	30,54,159	3,50,747	16.0	5,17,318	20.4
a) Currency with the Public	4,64,820	53,106	15.4	66,719	16.8
b) Aggregate Deposits	25,83,864	2,97,561	16.2	4,49,751	21.1
i) Demand Deposits	4,06,292	76,065	28.7	65,584	19.2
ii) Time Deposits	21,77,571	2,21,496	14.1	3,84,167	21.4
of which: Non-Resident Foreign Currency Deposits	65,068	-19,944	-26.5	9,658	17.4
III. NM3	30,64,566	3,79,996	17.4	5,04,467	19.7
of which: Call Term Funding from FIs	84,629	16,070	24.6	3,265	4.0
IV. a) L_1	31,20,180	4,02,881	18.1	4,92,888	18.8
of which: Postal Deposits	95,752	17,552	21.0	-5,447	-5.4
b) L_2	31,23,112	4,03,916	18.1	4,92,888	18.7
c) L_3	31,44,806	4,05,712	18.1	4,92,888	18.6
V. Major Sources of Broad Money					
a) Net Bank Credit to the Government (i+ii)	8,02,930	22,088	2.9	21,932	2.8
i) Net Reserve Bank Credit to Government	-312	21,206	-	-19,253	-
of which: to the Centre	-919	22,611	-	-19,845	-
ii) Other Banks' Credit to Government	8,03,242	882	0.1	41,184	5.4
b) Bank Credit to Commercial Sector	19,51,885	3,16,802	26.1	4,20,026	27.4
c) Net Foreign Exchange Assets of Banking Sector	8,28,046	60,495	10.1	1,68,746	25.6
Memo:					
SCBs Aggregate Deposits	23,81,242	2,85,182	17.2	4,38,037	22.5
SCBs Non-food Credit	17,14,396	3,11,013	31.2	4,07,735	31.2
* : Data pertain to January 19, 2007.					
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.					
Note : 1. Data are provisional.					
2. Liquidity aggregates pertain to end-December 2006.					
3. Data reflect redemption of India Millennium Deposits (IMDs) on December 29, 2005.					

growth in currency with the public increased from 15.4 per cent as on January 6, 2006 to a peak of 19.4 per cent as on October 27, 2006 before moderating to 16.8 per cent as on January 5, 2007. Acceleration in growth in October 2006 could be partly attributed to the early onset of festival season currency demand during the current year (Table 18).

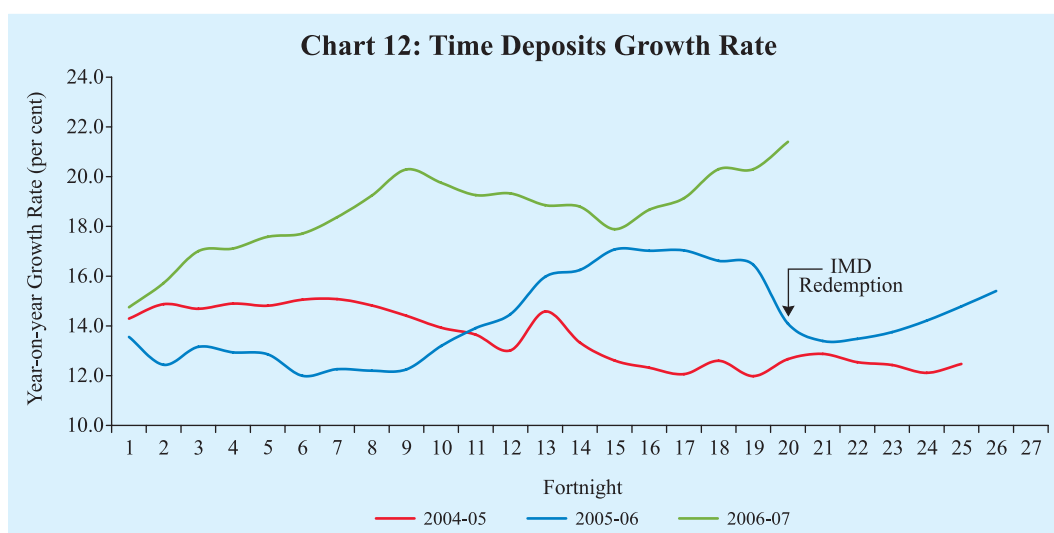
Growth in aggregate deposits accelerated to 21.1 per cent, y-o-y, as on January 5, 2007 from 16.2 per cent a year ago, on the back of higher accretion to time

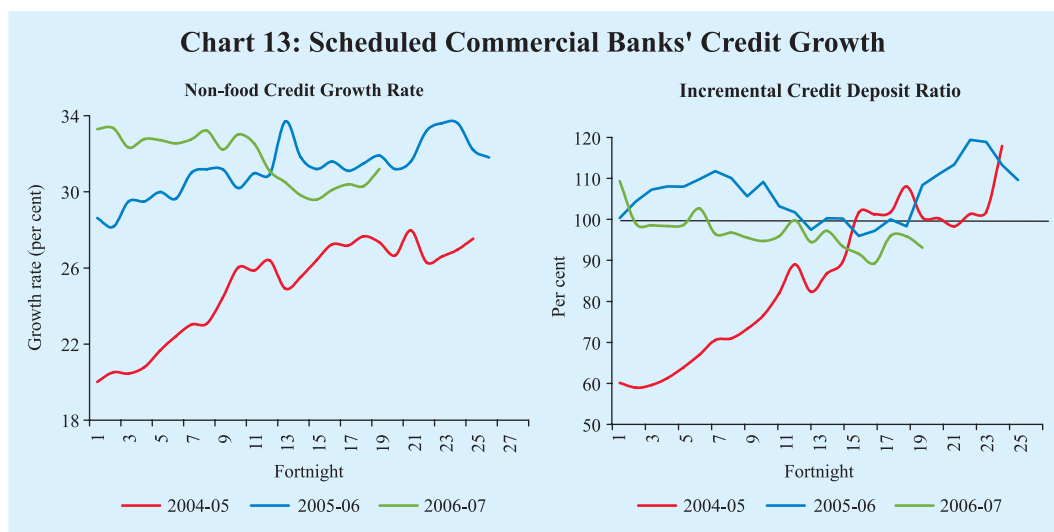
Table 18: Monetary Aggregates – Variations

(Rupees crore)										
1				Variation during						
	2005-06 (April- March)	2005-06 (up to Jan 6)	2006-07 (up to Jan 5)	2005-06				2006-07		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3
M3 (=1+2+3=4+5+6+7-8)	3,96,868 (17.0)	2,04,175 (8.8)	3,24,624 (11.9)	27,448	1,22,456	45,104	2,01,860	55,427	1,65,903	67,757
Components										
1. Currency with the Public	58,272 (16.4)	43,230 (12.2)	51,677 (12.5)	20,492	-10,835	30,124	18,491	23,773	-3,099	27,988
2. Aggregates Deposits with Banks	3,38,037 (17.1)	1,62,637 (8.2)	2,74,350 (11.9)	8,819	1,32,531	15,729	1,80,958	33,271	1,68,549	40,131
2.1 Demand Deposits with Banks	83,861 (26.1)	19,346 (6.0)	1,069 (0.3)	-21,953	41,566	-2,357	66,604	-41,235	41,558	-7,167
2.2 Time Deposits with Banks	2,54,176 (15.4)	1,43,291 (8.7)	2,73,282 (14.4)	30,772	90,965	18,086	1,14,354	74,506	1,26,991	47,298
3. 'Other' Deposits with Banks	560	-1,692	-1,403	-1,862	760	-750	2,411	-1,617	453	-363
Sources										
4 Net Bank Credit to Government	20,386 (2.7)	32,292 (4.3)	33,838 (4.4)	17,398	-5,017	-5,722	13,726	20,933	15,705	-16,375
4.1 RBI's net credit to Government	35,799	46,603	-8,448	18,963	-25,251	19,879	22,208	53	2,826	-12,754
4.1.1 RBI's net credit to Centre	33,374	47,140	-6,079	19,556	-25,251	19,812	19,256	3,071	2,584	-12,568
4.2 Other Banks' Credit to Government	-15,413 (-2.0)	-14,311 (-1.8)	42,286 (5.6)	-1,565	20,234	-25,601	-8,481	20,881	12,879	-3,621
5 Bank Credit to Commercial Sector	3,59,703 (27.0)	2,00,600 (15.1)	2,60,924 (15.4)	10,235	1,18,712	61,731	1,69,025	16,973	1,39,990	79,885
6 Net Foreign Exchange Assets of Banking Sector	78,291	11,397	1,01,852	-12,026	24,062	27,701	38,554	58,087	20,197	27,250
6.1 Net Foreign Exchange Assets of RBI	61,545	6,980	1,06,806	-13,243	24,823	23,741	26,224	71,845	11,392	27,250
7 Governments' Currency Liabilities to the Public	1,306	1,193	-700	384	910	-100	112	-920	155	66
8 Net Non-Monetary liabilities of Banking Sector	62,817	41,308	71,289	-11,456	16,210	38,507	19,557	39,646	10,144	23,069
<i>Memo:</i>										
1 Non-resident Foreign Currency Deposits with SCBs	-16,876	-20,741	5,793	804	187	1,856	-19,723	3,917	1,671	490
2 SCB' Call-term Borrowing from Financial Institutions	11,224	9,443	1,485	-1,002	7,359	1,836	3,031	3,118	-1,576	-4,883
3 Overseas Borrowing by SCBs	1,295	2,198	-3,691	-925	3,618	-622	-775	3,301	-3,685	-2,787
SCBs: Scheduled Commercial Banks.										
Note: 1. Variation during 2006-07 is worked out from March 31, 2006 whereas the 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.										

deposits. On a y-o-y basis, growth in demand deposits (19.2 per cent) as on January 5, 2007 was of a lower order than a year ago (28.7 per cent). Accretion to time deposits was, however, significantly higher than that in the previous year (Chart 12). Growth in time deposits of scheduled commercial banks accelerated to 22.9 per cent (y-o-y) as on January 5, 2007 from 15.0 per cent a year ago. This, apart from acceleration in economic activity, could be attributed to higher interest rates on deposits as well as tax benefits. Interest rates on time deposits of 1-3 years maturity offered by public sector banks increased from a range of 5.75-6.75 per cent in March 2006 to 6.75-8.25 per cent in January 2007. Rates offered by private sector banks on deposits of similar maturity increased from a range of 5.50-7.75 per cent to 6.75-9.25 per cent over the same period. Growth in time deposits also appears to have benefited from the recently introduced tax benefits under Section 80C for deposits with maturity of five years and above. Concomitantly, with unchanged interest rates, postal deposits have witnessed a significant decline since end-March 2006.

Commercial sector's demand for bank credit has continued to remain strong during 2006-07 so far. On a year-on-year basis, non-food credit of scheduled commercial banks (SCBs) registered a growth of 31.2 per cent as on January 5, 2007 – the same rate as a year ago. On a fiscal year basis, growth in non-food credit decelerated marginally to 16.9 per cent as on January 5, 2007 from 17.5 per cent a year ago. In view of the acceleration in deposits, the incremental credit-deposit ratio of SCBs, after remaining above/around 100 per cent for the most part since October 2004, has exhibited some moderation in recent months. As on January 5, 2007, the incremental credit-deposit ratio was around 93 per cent (y-o-y) as compared with 108 per cent a year ago (Chart 13). Scheduled commercial banks' food credit has recorded a modest rise (5.9 per cent) during 2006-07 (up to January 5, 2007), reflecting lower order of procurement of foodgrains.





Disaggregated data available up to October 2006 show that credit growth has been largely broad-based (Table 19). About 34 per cent of incremental non-food credit was absorbed by industry, 12 per cent by agriculture, 15 per cent by loans to the housing sector and another 11 per cent by 'other retail loans'. Loans to commercial real estate, which increased by 84 per cent, y-o-y, absorbed 5 per cent of incremental non-food credit.

Apart from bank credit, the corporate sector continued to rely on non-bank sources of funds for financing their requirements. Resources raised through domestic equity issuances during the first nine months of 2006-07 (Rs 23,843 crore) were more than double of that in the corresponding period of 2005-06. After remaining subdued during the second quarter, amounts raised from the primary market picked up during the third quarter of 2006-07. Mobilisation of resources through equity issuances abroad (ADRs/GDRs) during April-December 2006 (Rs.8,019 crore) were 55 per cent higher than that in the same period of 2005. Recourse to external commercial borrowings (ECBs) during the first half of 2006-07 was almost double of that in the corresponding period of 2005-06, with net disbursements under ECBs increasing from Rs.17,551 crore during April-September 2005 to Rs.34,031 crore during April-September 2006. Mobilisation through issuances of commercial papers during April-December 2006 was more than three times of that a year ago, notwithstanding some sluggishness in the third quarter. Finally, internal sources of funds continued to provide large financing support to the domestic corporate sector during the first half of 2006-07. Profits after tax of select non-financial non-government companies during April-September 2006 were almost 40 per cent higher than those in the first half of 2005-06. Profits after tax during the second quarter of 2006-07 were higher than those in each of the five preceding quarters (Table 20).

Monetary and Liquidity Conditions

Table 19: Deployment of Non-food Bank Credit					
(Amount in Rupees crore)					
Sector/Industry	Outstanding as on October 27, 2006	Year-on-year Variations			
		2005-06 (October 28, 2005 over October 29, 2004)		2006-07 (October 27, 2006 over October 28, 2005)	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
Non-food Gross Bank Credit (1 to 4)	15,37,978	2,66,092	32.4	3,51,904	29.7
1. Agriculture and Allied Activities	1,86,533	37,867	37.2	43,919	30.8
2. Industry (Small, Medium and Large)	5,95,310	81,666	24.0	1,18,481	24.8
Small Scale Industries	94,518	10,641	15.8	15,976	20.3
3. Personal Loans	3,98,055	n.a.	n.a.	1,01,631	34.3
Housing	2,09,468	n.a.	n.a.	51,191	32.3
Advances against Fixed Deposits	33,744	4,957	19.3	3,005	9.8
Credit Cards	11,870	n.a.	n.a.	4,016	51.1
Education	12,692	n.a.	n.a.	4,435	53.7
Consumer Durables	9,291	195	2.7	804	9.5
4. Others	3,58,080	n.a.	n.a.	87,873	32.5
Transport Operators	20,671	n.a.	n.a.	9,673	88.0
Professional and Others	18,286	n.a.	n.a.	5,978	48.6
Trade	90,855	n.a.	n.a.	25,593	39.2
Real Estate Loans	37,838	n.a.	n.a.	17,260	83.9
Non-Banking Financial Companies	33,317	5,791	33.3	7,453	28.8
<i>Memo:</i>					
Priority Sector	5,41,017	1,30,751	45.1	1,08,056	25.0
Industry (Small, Medium and Large)	5,95,310	81,666	24.0	1,18,481	24.8
Food Processing	32,399	3,301	16.2	6,181	23.6
Textiles	65,203	9,647	28.3	16,631	34.2
Paper and Paper Products	10,179	787	12.8	2,139	26.6
Petroleum, Coal Products and Nuclear Fuels	29,423	3,566	22.6	8,708	42.0
Chemical and Chemical Products	51,476	3,584	12.0	10,916	26.9
Rubber, Plastic and their Products	7,757	2,302	81.0	2,260	41.1
Iron and Steel	56,693	9,529	36.2	14,554	34.5
Other Metal and Metal Products	18,638	3,001	32.7	4,817	34.9
Engineering	37,803	4,562	18.0	5,008	15.3
Vehicles, Vehicle Parts and Transport Equipments	19,154	5,335	95.9	3,302	20.8
Gems and Jewellery	22,474	3,802	33.1	4,014	21.7
Construction	16,079	2,366	30.8	5,321	49.5
Infrastructure	1,18,840	23,814	36.4	22,353	23.2
n.a. : Not available.					
Note: 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.					

In the fiscal year 2006-07 (up to January 5, 2007), commercial banks' investments in gilts witnessed a large expansion of Rs.43,222 crore in contrast to a decline of Rs.15,580 crore a year ago, reflecting the need to meet statutory requirements. On a y-o-y basis, commercial banks' investments in gilts increased by 5.6 per cent as against a decline of 0.1 per cent a year ago (Table 21). Over the same period, growth in commercial banks' NDTL accelerated to 20.7 per cent from 18.3 per cent a year ago. With incremental investment in gilts not keeping pace with the high growth in NDTL, commercial banks' holdings of Government securities

Table 20: Select Sources of Funds to Industry

(Rupees crore)										
Item	2005-06	2005-06	2006-07	2005-06				2006-07		
	(April-March)	April-December @		Q1	Q2	Q3	Q4	Q1	Q2	Q3
1	2	3	4	5	6	7	8	9	10	11
A. Bank Credit to Industry #	1,22,165	39,209	46,566	11,148	28,061	24,484	58,472	-2,724	49,290	-
B. Flow from Non-banks to Corporates										
1. Capital Issues (i+ii)	13,871	9,571	24,334	1,264	2,758	5,549	4,210	10,627	1,882	11,825
i) Non-Government Public Ltd. Companies (a+b)	13,408	9,571	24,334	1,264	2,758	5,549	3,837	10,627	1,882	11,825
a) Bonds/Debentures	245	118	491	118	0	0	127	0	0	491
b) Shares	13,163	9,453	23,843	1,146	2,758	5,549	3,710	10,627	1,882	11,334
ii) PSUs and Government Companies	373	0	0	0	0	0	373	0	0	0
2. ADR/GDR Issues	7,263	5,171	8,019	789	739	3,643	2,092	4,965	2,130	924
3. External Commercial Borrowings (ECBs)	45,078	17,551	34,031	4,317	13,234	9,677	17,850	20,366	13,665	-
4. Issue of CPs	-1,517	2,999	10,618	3,562	1928	-2,491	-4,516	6,931	4,795	-1,108
C. Depreciation Provision +	28,883	13,625	15,710	7,137	7,617	7,748	8,340	8,449	8,892	-
D. Profit after Tax +	67,506	32,016	44,927	16,726	18,169	18,790	21,634	24,845	27,710	-

: Data pertain to select scheduled commercial banks. Figures for 2005-06 are not comparable with those of 2006-07 due to increase in number of banks selected in the sample.

+ : Data are based on audited/ unaudited abridged results of select non-Government non-financial listed public limited companies. Quarterly variations may not add up to annual or half-yearly variations due to difference in coverage of companies.

@ : Data for bank credit, ECBs, depreciation provision and profit after tax pertain to April-September.

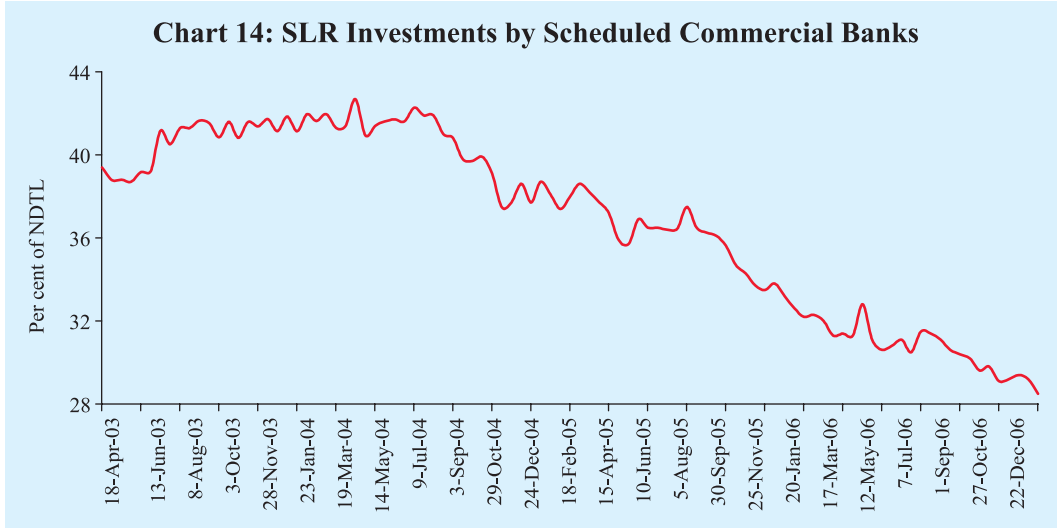
Note: 1. Data are provisional.
 2. Data on capital issues pertain to gross issuances excluding issues by banks and financial institutions. Figures are not adjusted for banks' investments in capital issues, which are not expected to be significant.
 3. Data on ADR/GDR issues exclude issuances by banks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

declined to 28.6 per cent of their NDTL as on January 5, 2007 from 31.3 per cent at end-March 2006 and 32.6 per cent a year ago (Chart 14). Excess SLR investments

Table 21: Scheduled Commercial Banks' Survey

(Amount in Rupees crore)						
Item	Outstanding as on January 5, 2007	Variation (year-on-year)				
		As on Jan 6, 2006		As on Jan 5, 2007		
		Amount	Per cent	Amount	Per cent	
1	2	3	4	5	6	
Sources of Funds						
1. Aggregate Deposits	23,81,242	2,85,182	17.2	4,38,037	22.5	
2. Call/Term Funding from Financial Institutions	84,629	16,070	24.6	3,265	4.0	
3. Overseas Foreign Currency Borrowings	26,143	5,644	22.5	-4,595	-14.9	
4. Capital and Reserves	1,96,070	39,528	30.3	26,034	15.3	
Uses of Funds						
1. Bank Credit	17,57,479	3,09,053	29.7	4,07,718	30.2	
of which: Non-food Credit	17,14,396	3,11,013	31.2	4,07,735	31.2	
2. Investments in Government Papers	7,43,964	-729	-0.1	39,288	5.6	
3. Investments in Other Approved Securities	21,821	-2,710	-13.1	3,793	21.0	
4. Investments in Non-SLR Securities	1,39,237	-11,957	-8.6	11,761	9.2	
5. Foreign Currency Assets	50,617	7,388	23.1	11,261	28.6	
6. Balances with the RBI	1,30,341	19,399	23.7	29,223	28.9	

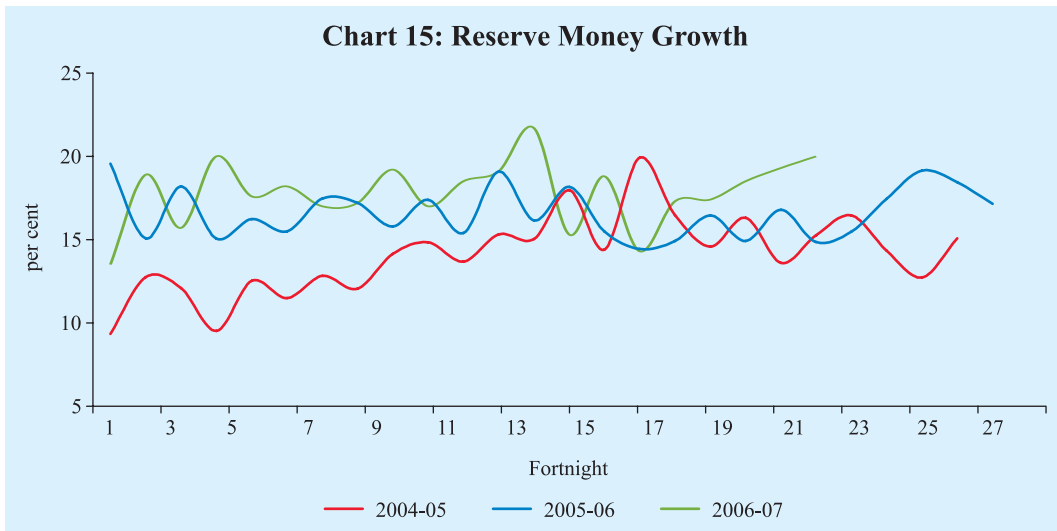
Note: Data are provisional.



of SCBs fell to Rs.96,407 crore as on January 5, 2007 from Rs.1,68,029 crore a year ago. Funds raised through equity issuances in the primary market as well as higher internal reserves also enabled banks to fund strong credit demand.

Reserve Money Survey

Reserve money expanded by 20.0 per cent, y-o-y, as on January 19, 2007 as compared with 14.9 per cent a year ago (Chart 15). Adjusted for the first round effect of the hike in the CRR, reserve money growth was 17.4 per cent as on January 19, 2007. Reserve money movements over the course of the year reflected the Reserve Bank’s market operations.

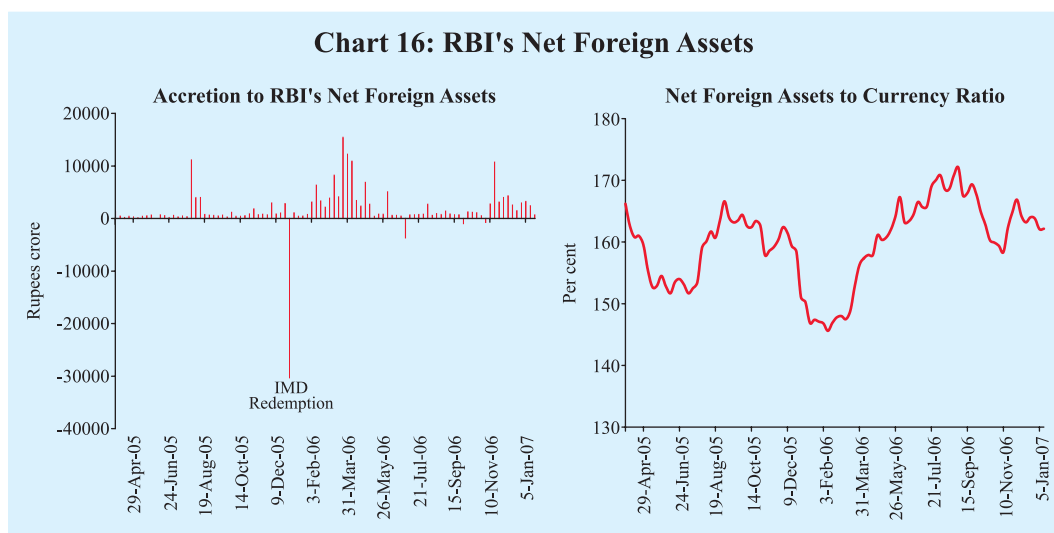


The Reserve Bank's foreign currency assets (net of revaluation) increased by Rs.80,166 crore during the fiscal year 2006-07 (up to January 19, 2007) as compared with an increase of Rs.11,185 crore during the corresponding period of the previous year (Table 22 and Chart 16).

Mirroring the liquidity management operations through LAF, the Reserve Bank's holdings of Government securities increased by Rs.10,615 crore during 2006-07 (up to January 19, 2007) as against an increase of Rs.27,435 crore in the corresponding period of 2005-06. During 2006-07 so far, Central Government

Table 22: Variation in Reserve Money

(Rupees crore)												
Item	Outstanding as on Jan. 19, 2007	Variation during										
		2005-06		2006-07		2005-06				2006-07		
		(April-March)	(up to Jan.20)	(up to Jan.19)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
1	2	3	4	5	6	7	8	9	10	11	12	
Reserve Money	6,41,790	83,930 (17.2)	45,809 (9.4)	68,724 (12.0)	7,177	1,061	25,438	50,254	13,463	18,666	14,243	
Components (1+2+3)												
1. Currency in Circulation	4,88,251	62,015 (16.8)	48,574 (13.2)	57,575 (13.4)	19,877	-9,479	29,154	22,462	22,283	-2,011	26,771	
2. Bankers' Deposits with RBI	1,47,830	21,515	-870	12,319	-10,680	9,780	-2,967	25,382	-7,204	20,224	-12,165	
3. Other Deposits with the RBI	5,709	401	-1,896	-1,170	-2,021	760	-750	2,411	-1,617	453	-363	
Sources (1+2+3+4-5)												
1. RBI's net credit to Government	12,242	26,111	45,297	4,106	9,275	-25,251	19,879	22,208	53	2,826	-12,754	
of which: to Centre (i+ii+iii+iv-v)	12,123	28,417	50,622	6,963	14,600	-25,251	19,812	19,256	3,071	2,584	-12,568	
i. Loans and Advances	0	0	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	0	0	
iii. RBI's Holdings of Dated Securities	81,024	13,869	27,435	10,615	8,221	-17,243	19,378	3,513	-27,610	24,944	22,733	
iv. RBI's Holdings of Rupee coins	117	7	73	-37	-40	-33	157	-77	9	-107	97	
v. Central Government Deposits	69,018	-14,541	-23,113	3,615	-6,419	7,974	-277	-15,820	-30,672	22,253	35,398	
2. RBI's credit to banks and commercial sector	9,711	535	1,776	2,528	1,155	-1,869	101	1,148	-3,135	3,107	2,065	
3. NFEA of RBI	7,87,321	60,193 (9.8)	2,043 (0.3)	1,14,337 (17.0)	-14,595	24,823	23,741	26,224	71,845	11,392	27,250	
of which: FCA, adjusted for revaluation		68,834	11,185	80,166	5,034	23,665	11,998	28,137	28,107	10,948	31,634	
4. Governments' Currency Liabilities to the Public	8,054	1,306	1,216	-700	384	910	-100	112	-920	155	66	
5. Net Non-Monetary liabilities of RBI	1,75,537	4,215	4,524	51,547	-10,957	-2,449	18,183	-562	54,380	-1,186	2,384	
Memo:												
Net Domestic Assets	-1,45,531	23,737	43,766	-45,613	21,771	-23,761	1,697	24,030	-58,382	7,274	-13,007	
Reserve Bank's Primary Subscription to Dated Securities		10,000	0	0	0	0	0	10,000	0	0	0	
LAF Repos (+) / Reverse Repos (-)	11,810	12,080	33,100	19,060	9,660	-14,835	18,635	-1,380	-23,060	28,395	22,195	
Net Open Market Sales #		3,913	3,405	3,656	1,543	941	261	1,168	1,536	1,176	389	
Mobilisation under MSS	40,491	-35,149	-24,508	11,429	7,469	-4,353	-19,713	-18,552	4,062	8,940	-3,315	
Net Purchases(+)/Sales(-) from Authorised Dealers		32,884	-14,932	35,901@	0	17,027	0	15,857	21,545	0	14,356@	
NFEA/RM (per cent) (end-period)	122.7	117.4	114.9	122.7	120.5	125.3	123.7	117.4	127.0	125.0	126.5	
NFEA/Currency (per cent) (end-period)	161.3	156.3	147.4	161.3	154.0	164.4	158.4	156.3	164.4	167.7	164.0	
NFEA : Net Foreign Exchange Assets.		FCA : Foreign Currency Assets.		@ : up to end-November 2006.								
* : At face value.		# : Excludes Treasury Bills		\$: Adjusted for Centre's surplus investment.								
Note:	1. Data are based on March 31 for Q4 and last reporting Friday for all other quarters.											
	2. Figures in parentheses are percentage variations during the fiscal year.											



deposits with the Reserve Bank have increased by Rs.3,615 crore. The Reserve Bank's net credit to the Centre, thus, increased by Rs.6,963 crore during the fiscal year 2006-07 (up to January 19, 2007) as against an increase of Rs.50,622 crore during the corresponding period of 2005-06 (see Table 22).

Liquidity Management

The Reserve Bank continued to ensure that appropriate liquidity is maintained in the system so that all legitimate requirements of credit are met, particularly for productive purposes, consistent with the objective of price and financial stability. Towards this end, the Reserve Bank continued with its policy of active demand management of liquidity through OMO including MSS, LAF and CRR, and using all the policy instruments at its disposal flexibly. However, liquidity management emerged to be more complex during the past year, with greater variation in market liquidity, largely reflecting variations in cash balances of the Governments and capital flows.

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 ample liquidity into the banking system. This was mirrored in an increase in the LAF reverse repo balances. However, in view of some build-up of Centre's cash balances with the Reserve Bank during August 2006, the absorption under LAF reverse repos witnessed some decline during the second quarter.

Beginning mid-September 2006, liquidity conditions turned tight on account of advance tax outflows and festival season currency demand. The Reserve Bank injected liquidity through repos on eight occasions between mid-September 2006 and end-October 2006. However, net injection of liquidity was witnessed only on two occasions (October 20 and October 23, 2006). Liquidity pressures

Table 23: Reserve Bank's Liquidity Management Operations

(Rupees crore)									
Item	2005-06 (April- March)	2006-07 (April- Jan 19)	Variations during						
			2006-07						
			Q1	Q2	Q3	Oct.	Nov.	Dec.	
1	2	3	4	5	6	7	8	9	
A. Drivers of Liquidity (1+2+3+4)	-31,719	2,678	36,271	-16,675	-26,143	-8,006	8,552	-26,689	
1. RBI's Foreign Currency Assets (adjusted for revaluation)	68,834	80,166	28,517	10,538	34,821	4,031	17,066	13,724	
2. Currency with the Public	-57,280	-58,870	-19,624	-1,049	-27,435	-18,228	-170	-9,038	
3. Surplus Cash balances of the Centre with the Reserve Bank	-22,726	401	40,207	-26,199	-30,761	8,953	-5,437	-34,277	
4. Others (residual)	-20,547	-19,019	-12,828	36	-2,767	-2,762	-2,908	2,902	
B. Management of Liquidity (5+6+7+8)	57,969	-5,154	-39,003	32,026	31,625	-8,382	-1,541	41,548	
5. Liquidity impact of LAF Repos	12,080	19,060	-35,315	40,650	33,600	-10,355	-3,725	47,680	
6. Liquidity impact of OMOs (Net) *	10,740	715	545	145	25	0	10	15	
7. Liquidity impact of MSS	35,149	-11,429	-4,232	-8,769	4,750	1,973	2,174	603	
8. First round liquidity impact due to CRR change	0	-13,500	0	0	-6,750	0	0	-6,750	
C. Bank Reserves (A+B) #	26,250	-2,476	-2,732	15,351	5,482	-16,388	7,011	14,859	

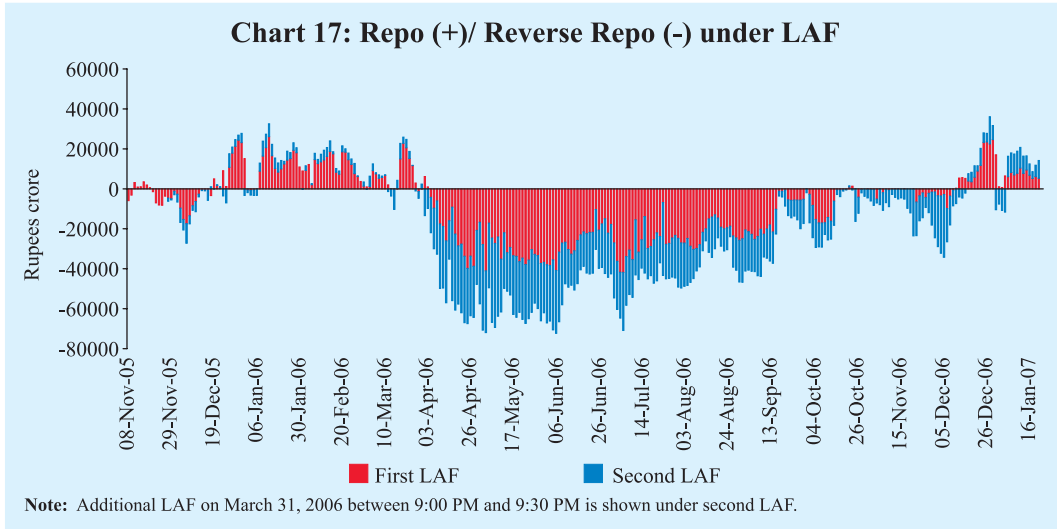
(+) : Indicates injection of liquidity into the banking system.
 (-) : Indicates absorption of liquidity from the banking system.
 # : Includes vault cash with banks and adjusted for first round liquidity impact due to CRR change.
 * : Adjusted for Consolidated Sinking Funds (CSF) and Other Investments and including private placement.
Note : Data pertain to March 31 and last Friday for all other months.

eased by end-October 2006 following some decline in Centre's surplus cash balances (Table 24). Liquidity conditions eased during November 2006, partly

Table 24: Liquidity Management

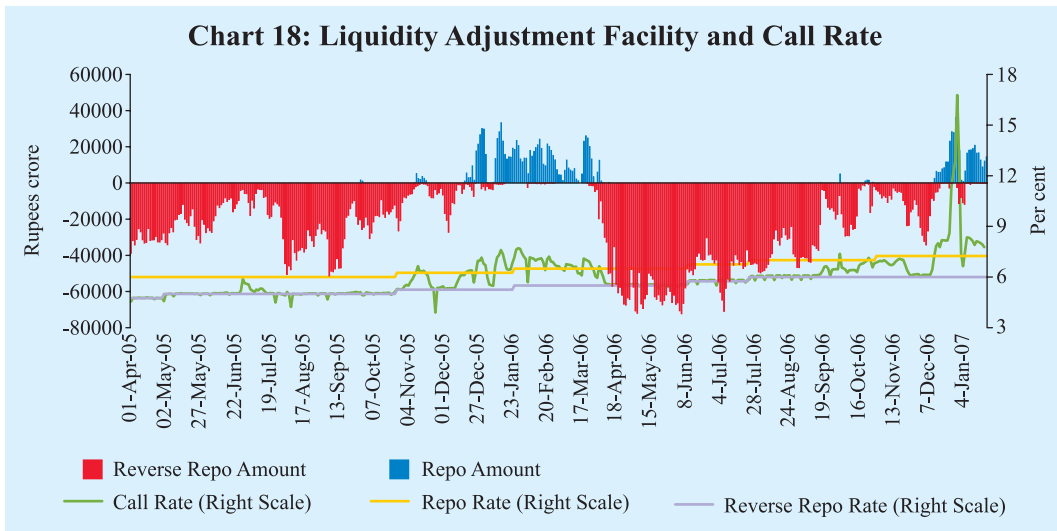
(Rupees crore)				
Outstanding as on last Friday of	LAF	MSS	Centre's Surplus with the RBI @	Total (2 to 4)
1	2	3	4	5
2005				
March*	19,330	64,211	26,102	1,09,643
April	27,650	67,087	6,449	1,01,186
May	33,120	69,016	7,974	1,10,110
June	9,670	71,681	21,745	1,03,096
July	18,895	68,765	16,093	1,03,753
August	25,435	76,936	23,562	1,25,933
September	24,505	67,328	34,073	1,25,906
October	20,840	69,752	21,498	1,12,090
November	3,685	64,332	33,302	1,01,319
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	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	12,270	40,091	25,868	78,229
November	15,995	37,917	31,305	85,217
December	-31,685	37,314	65,582	71,211
January (as on 19 th)	-11,810	40,491	48,428	77,109

@ : Excludes minimum cash balances with the Reserve Bank. * : Data pertain to March 31.
Note : Negative sign in column 2 indicates injection of liquidity through LAF repo.



reflecting market purchases of foreign exchange by the Reserve Bank. This was mirrored in balances under LAF reverse repos, which increased to Rs 34,255 crore as on December 6, 2006 (Chart 17).

Liquidity conditions, however, turned tight from the second week of December 2006 largely due to payments for auctioned Central Government securities, advance tax outflows (with concomitant increase in the Centre's surplus cash balances with the Reserve Bank from Rs.42,716 crore as on December 15, 2006 to Rs.73,634 crore as on December 22, 2006), and the increase in the CRR by 50 basis points in two phases. In view of the prevailing liquidity conditions, the Reserve Bank injected liquidity into the system through repo operations from December 12, 2006 (Chart 18). Average



daily net injection of liquidity by the Reserve Bank increased from Rs.5,615 crore during December 13-21, 2006 to Rs.25,585 crore during December 22-29, 2006, in contrast to the average daily absorption of Rs.12,262 crore and Rs.9,937 crore during October 2006 and November 2006, respectively. Average daily net injection of liquidity by the Reserve Bank moderated to Rs.10,814 crore during January 2007 (up to January 20, 2007), as liquidity pressures eased partly on account of reduction in the Centre's balance with the Reserve Bank from Rs.65,682 crore as on December 29, 2006 to Rs 48,528 crore as on January 19, 2007. Net outstanding balance under LAF repos was Rs.10,190 crore as on January 24, 2007.