

IV. MONETARY CONDITIONS

IV.1 Monetary and liquidity aggregates that expanded at a strong pace during the first half of 2008-09 showed some moderation during the third quarter reflecting the decline in capital flows and consequent foreign exchange intervention by the Reserve Bank. Decline in net foreign exchange assets with the Reserve Bank during 2008-09 so far has also resulted in the moderation of expansion of base money. Expansion in bank credit to the commercial sector during 2008-09 so far has remained high. In response to the unfolding global financial market turmoil and its knock-on effect on the domestic financial market, and downturn in headline inflation, the Reserve Bank has taken a number of measures of monetary easing since mid-September 2008. The aim of these measures was to augment domestic and foreign exchange liquidity and to enable banks to continue to lend for productive purposes while maintaining credit quality so as to sustain the growth momentum.

Monetary Survey

IV.2 Broad money (M_3) growth, on a year-on-year (y-o-y) basis, was placed at 19.6 per cent as on January 2, 2009, which was lower than 22.6 per cent a year ago, reflecting moderation in expansion in time deposits. Expansion in the residency-based new monetary aggregate (NM_3) – which does not directly reckon non-resident foreign currency deposits such as FCNR(B) deposits – was lower at 19.4 per cent as on January 2, 2009 than

22.7 per cent a year ago. Similarly growth in liquidity aggregate, L_1 , at end-December 2008 was lower at 19.0 per cent than 22.5 per cent a year ago (Table 29 and Chart 10).

IV.3 Deterioration in global financial conditions since September 2008 resulted in drying up of capital inflows. In response to the consequent pressure on the domestic money and foreign exchange markets, the Reserve Bank augmented rupee and dollar liquidity and strengthened the credit delivery mechanisms for sustaining the growth momentum. Accordingly, *inter alia*, the cash reserve ratio (CRR) has been reduced by a cumulative 4.0 percentage points to 5.0 per cent of net demand and time liabilities (NDTL) since October 11, 2008. This measure released primary liquidity into the system of the order of Rs.1,60,000 crore. The statutory liquidity ratio (SLR) was reduced by one percentage point, from 25 per cent of NDTL to 24 per cent along with relaxation in the SLR maintenance for term repo facility by 1.5 per cent of NDTL. A special refinance facility was also introduced for SCBs (excluding regional rural banks) with the limit of 1.0 per cent of each bank's NDTL as on October 24, 2008 at the LAF repo rate up to a maximum period of 90 days (with flexibility to draw and repay during this period). This facility would be available till June 30, 2009. In addition, since October 2008, the Reserve Bank has reduced the repo rate from 9.0 per cent to 5.5 per cent and the reverse repo rate from 6.0 per cent to 4.0 per cent.

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Table 29: Monetary Indicators

(Amount in Rupees crore)

Item	Outstanding as on January 2, 2009	Variation (year-on-year)								
		January 4, 2008		March 31, 2008		January 2, 2009				
		Absolute	Per cent	Absolute	Per cent	Absolute	Per cent			
I	2	3	4	5	6	7	8			
I. Reserve Money* (Adjusted Reserve Money Growth#*)	8,93,565	1,96,524	30.6	2,19,427	30.9	55,361	6.6	(21.6)	(25.3)	(18.0)
II. Narrow Money (M ₁)	11,35,057	1,32,896	15.1	1,84,864	19.1	1,23,307	12.2			
III. Broad Money (M ₃)	44,91,953	6,91,768	22.6	6,90,629	20.8	7,36,777	19.6			
a) Currency with the Public	6,21,997	70,242	15.1	84,571	17.5	86,809	16.2			
b) Aggregate Deposits	38,64,229	6,21,944	24.0	6,04,485	21.4	6,49,152	20.2			
i) Demand Deposits	5,07,333	63,072	15.4	98,721	20.8	35,682	7.6			
ii) Time Deposits	33,56,896	5,58,872	25.6	5,05,765	21.5	6,13,470	22.4			
<i>of which:</i>										
Non-Resident Foreign Currency Deposits	63,417	-8,090	-12.3	-10,525	-15.6	5,756	10.0			
IV. NM ₃	45,04,294	6,98,726	22.7	7,08,101	21.3	7,33,329	19.4			
<i>of which:</i> Call Term Funding from FIs	1,05,212	8994	10.7	20,668	24.1	12,356	13.3			
V. a) L ₁	45,70,251	7,04,333	22.5	707403	20.6	7,29,894	19.0			
<i>of which:</i> Postal Deposits	1,15,157	2,536	2.2	-698	-0.6	-1,744	-1.5			
b) L ₂	45,73,183	7,04,333	22.4	707403	20.5	7,29,894	19.0			
c) L ₃	45,97,830	7,04,380	22.3	708236	20.4	7,29,871	18.9			
VI. Major Sources of Broad Money										
a) Net Bank Credit to the Government (i+ii)	11,38,992	52,233	6.5	72,842	8.7	2,79,785	32.6			
i) Net Reserve Bank Credit to Government	-56,450	-1,49,280	-	-1,15,632	-	93,142	-			
<i>of which:</i> to the Centre	-56,468	-1,49,358	-	-1,16,772	-	93,810	-			
ii) Other Banks' Credit to Government	11,95,442	2,01,513	25.0	1,88,474	22.7	1,86,643	18.5			
b) Bank Credit to the Commercial Sector	28,86,004	3,91,183	20.0	4,39,834	20.6	5,34,658	22.7			
c) Net Foreign Exchange Assets of the Banking Sector	12,62,039	2,70,786	32.1	3,81,952	41.8	1,47,297	13.2			
d) Government Currency Liability to Public	9,787	838	10.3	1,064	12.9	795	8.8			
e) Net Non-Monetary Liabilities of the Banking Sector	8,04,870	23,273	4.2	2,05,063	36.0	2,25,758	39.0			
<i>Memo:</i>										
Aggregate Deposits of SCBs	36,18,763	5,98,499	25.1	5,85,006	22.4	6,32,817	21.2			
Non-food Credit of SCBs	26,04,379	3,79,655	22.0	4,32,846	23.0	5,01,645	23.9			

*: Data pertain to January 16, 2009.

: Adjusted for changes in cash reserve ratio (CRR) of banks.

SCBs : Scheduled Commercial Banks. FIs: Financial Institutions. NBFCs: Non-Banking Financial Companies.

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).

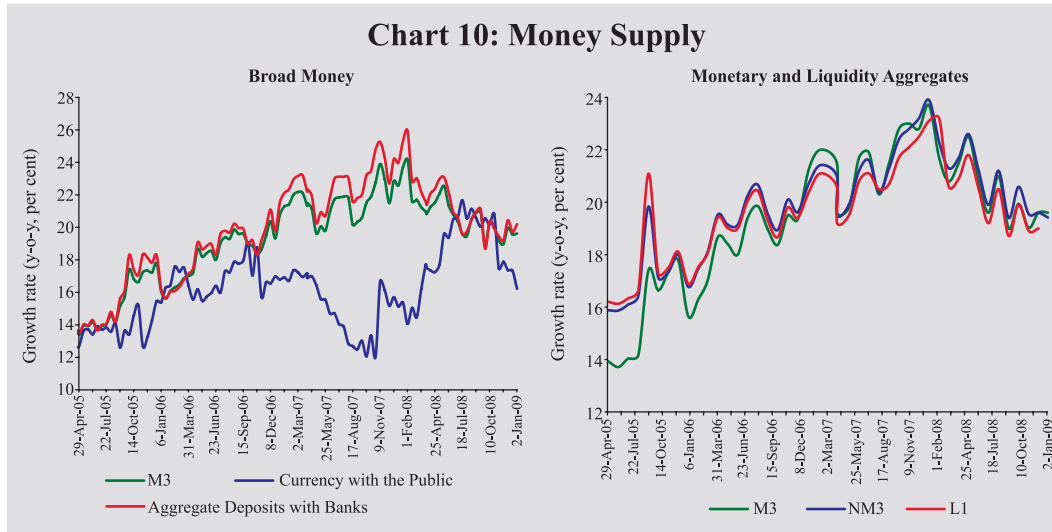
L₁ = NM₃ + Select deposits with the post office saving banks.

L₂ = L₁ + Term deposits with term lending institutions and refinancing institutions + Term borrowing by FIs + Certificates of deposit issued by FIs.

L₃ = L₂ + Public deposits of NBFCs.

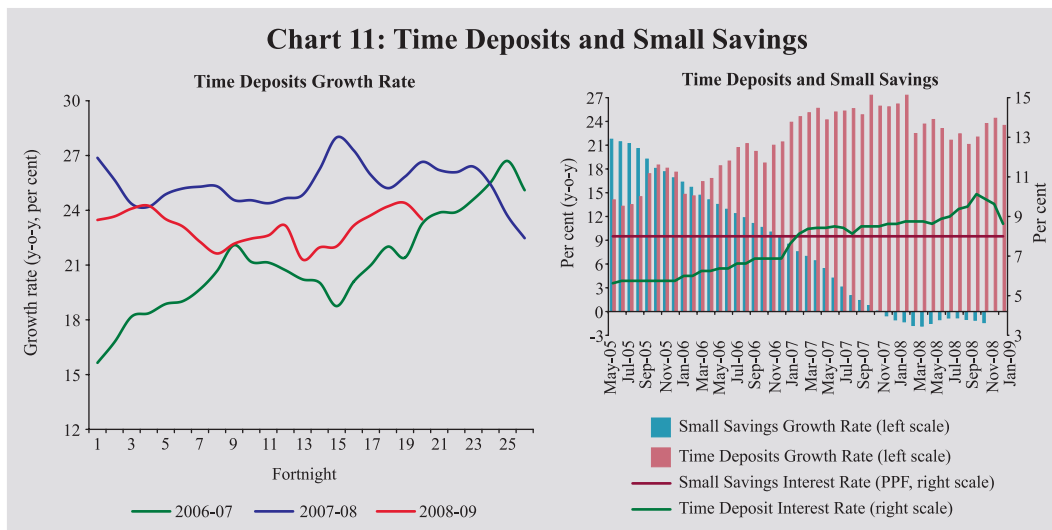
Note : 1. Data are provisional. Wherever data are not available, the data for last available month is repeated as estimates.

2. Data on postal deposits pertain to November 2008.



IV.4 The growth in broad money (M_3) mainly reflected a continued strong increase in time deposits during 2008-09 so far although with some moderations. Growth in time deposits (y-o-y) as on January 2, 2009 was 22.4 per cent as compared with 25.6 per cent a year ago. This could be attributed, *inter alia*, to higher interest rates on bank deposits relative to postal deposits

and extension of tax benefits under Section 80C for bank deposits. During 2007-08, accretion to postal deposits decelerated significantly up to November 2007 and beginning December 2007, there were net outflows from small savings schemes. This trend continued up to November 2008, the latest period for which data are available (Chart 11). Currency with the



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public that grew by 16.2 per cent (y-o-y) as on January 2, 2009 as compared with 15.1 per cent a year ago was the other major component in the expansion of broad money.

IV.5 On a financial year basis, growth in M_3 during 2008-09 (up to January 2, 2009) was 12.1 per cent as compared with 13.2 per cent during the corresponding period of the previous year (Table 30).

Table 30: Monetary Aggregates – Variations

Item			(Rupees crore)						
	2007-08 (up to Jan 4)	2008-09 (up to Jan 2)	2007-08				2008-09		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3
1	2	3	4	5	6	7	8	9	10
M_3 (1+2+3 = 4+5+6+7-8)	4,39,083 (13.2)	4,85,231 (12.1)	73,824	1,99,008	1,16,440	3,01,356	87,696	1,72,939	1,62,910
1. Currency with the Public	52,283 (10.8)	54,521 (9.6)	18,237	-14,856	47,723	33,466	36,300	-17,570	40,349
2. Aggregates Deposits with Banks	3,89,387 (13.8)	4,34,053 (12.7)	56,023	2,15,344	69,536	2,63,583	55,521	1,89,993	1,15,464
2.1 Demand Deposits with Banks	-4,036 (-0.8)	-67,075 (-11.7)	-44,030	58,180	-7,275	91,847	-79,771	52,275	-59,531
2.2 Time Deposits with Banks	3,93,422 (16.7)	5,01,127 (17.5)	1,00,053	1,57,164	76,811	1,71,736	1,35,292	1,37,718	1,74,994
3. 'Other' Deposits with Banks	-2,586 (-34.5)	-3,343 (-36.9)	-436	-1,479	-819	4,307	-4,125	516	7,097
4. Net Bank Credit to Government	24,973 (3.0)	2,31,915 (25.6)	28,117	15,618	-36,493	65,601	35,676	29,511	1,27,500
4.1 RBI's Net Credit to Government	-1,52,015	56,759	-22,154	-54,695	-65,787	27,004	-13	51,360	30,230
4.1.1 RBI's Net credit to the Centre	-1,52,413	58,169	-21,825	-55,588	-65,078	25,719	1,430	51,379	29,932
4.2 Other Banks' Credit to Government	1,76,987	1,75,156	50,270	70,313	29,294	38,597	35,689	-21,850	97,270
5. Bank Credit to the Commercial Sector	2,21,269 (10.4)	3,16,092 (12.3)	-30,547	1,45,442	86,877	2,38,062	36,541	1,61,505	1,00,668
6. NFEA of Banking Sector	2,01,563	-33,092	-17,945	1,18,249	94,204	1,87,444	66,858	7,271	-1,56,330
6.1 NFEA of the RBI	2,18,422	7047	-2,745	1,19,430	94,681	1,58,610	1,03,932	10,336	-1,56,330
7. Government's Currency Liabilities to the Public	732	463	166	254	312	332	125	206	132
8. Net Non-Monetary Liabilities of the Banking Sector	9,452	30,147	-94,033	80,553	28,461	1,90,082	51,503	25,554	-90,940
<i>Memo:</i>									
1. Non-resident Foreign Currency Deposits with SCBs	-9,800	6,482	-4,202	-1,181	-3,490	-1,653	2,048	3,898	-2,536
2. SCB' Call-term Borrowing from Financial Institutions	7,021	-1,292	-2,984	5,756	7,441	10,455	-1,116	7,015	-591
3. Overseas Borrowing by SCBs	1,940	5,801	-6,928	7,830	1,734	9,909	9,494	4,600	-5,185
SCBs: Scheduled Commercial Banks.		NFEA: Net Foreign Exchange Assets.							
Note : 1. Data are provisional.									
2. Figures in parentheses are percentage variations.									

IV.6 On the sources side, bank credit to commercial sector remained the driver of broad money (M_3) while expansion in net foreign exchange assets of the banking sector moderated to a large extent. Bank credit to the commercial sector increased by 22.7 per cent (y-o-y) as on January 2, 2009 as compared with 20.0 per cent a year ago. Non-food credit growth (y-o-y) of scheduled commercial banks (SCBs) picked up during 2008-09, on the backdrop of sizeable rise in credit to petroleum sector due to the funding requirements of oil companies and substitution of funds raised by corporates from non-banking to banking sources. It peaked during October-November 2008 but moderated somewhat thereafter. Non-food credit by SCBs expanded by 23.9 per cent, y-o-y, as on January 2, 2009, which was higher than 22.0 per cent a year ago. The higher expansion in credit relative to the expansion in deposit resulted in an increase in the incremental credit-deposit ratio (y-o-y) of SCBs to

81.4 per cent as on January 2, 2009 from 63.1 per cent a year ago (Chart 12). Net foreign exchange assets of the banking sector expanded by 13.2 per cent (y-o-y) as on January 2, 2009 much lower than 32.1 per cent a year ago.

IV.7 Credit flow from scheduled commercial banks recorded a high growth of 24.0 per cent (y-o-y) as on January 2, 2009 as compared with 21.4 per cent a year ago. The expansion in credit during 2008-09 so far was mainly on account of public sector banks, while credit growth decelerated in respect of private and foreign banks (Table 31).

IV.8 Disaggregated data on sectoral deployment of gross bank credit available up to December 19, 2008 showed that about 48.2 per cent of incremental non-food credit (y-o-y) was absorbed by industry as compared with 44.0 per cent in the corresponding period of the previous year. The expansion of incremental non-food credit to industry

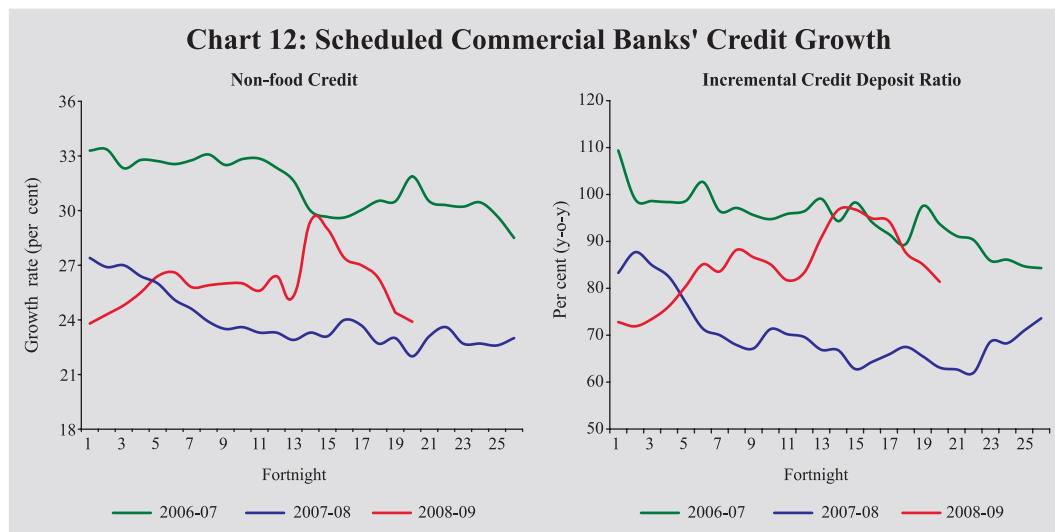


Table 31: Credit Flow from Scheduled Commercial Banks

(Amount in Rupees crore)					
Item	Outstanding as on January 2, 2009	Variation (year-on-year)			
		As on Jan. 4, 2008		As on Jan. 2, 2009	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
1. Public Sector Banks	19,23,953	2,47,633	19.8	4,28,302	28.6
2. Foreign Banks	1,73,451	34,834	30.7	25,016	16.9
3. Private Banks	4,98,107	86,731	24.2	52,375	11.8
4. All Scheduled Commercial Banks*	26,58,997	3,77,855	21.4	5,14,980	24.0

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

during this period was led by infrastructure, petroleum, iron & steel, chemicals & chemical products, textiles, engineering, construction and vehicles industries. The infrastructure sector alone accounted for 28.0 per cent of the incremental credit to industry as compared with 29.7 per cent in the corresponding period of the previous year. Credit to petroleum and fertiliser industries grew by 101.8 per cent (y-o-y) by December 2008 as compared with a growth of 11.8 per cent in the corresponding period of the previous year. Also, the share of incremental credit to petroleum and fertiliser industries increased to 19.9 per cent of the total incremental non-food credit in December 2008 from 3.1 per cent a year ago. The total non-food credit excluding credit to petroleum and fertiliser industries also recorded a high growth of 22.9 per cent as compared with 22.1 per cent in the previous year. The agricultural sector absorbed around 10.9 per cent of the incremental non-food bank credit expansion as compared with 10.7 per cent in the corresponding period of the previous year. Personal loans accounted

for nearly 14.7 per cent of incremental non-food credit; within personal loans, the share of incremental housing loans was at 30.4 per cent. The outstanding credit under credit card receivables witnessed a sharp increase. Growth in loans to commercial real estate remained high in recent months (Table 32). In order to facilitate bank lending, several counter-cyclical measures taken earlier were reviewed in view of the prevailing macroeconomic, monetary and credit conditions, and measures were announced on November 15, 2008 to strengthen credit delivery while maintaining credit quality. Accordingly, the provisioning requirements for all types of standard assets (except in case of direct advances to agricultural and SME sector which was retained at 0.25 per cent, as hitherto) and risk weights on banks' exposures to certain sectors were revised downwards.

IV.9 Apart from banks, commercial sector mobilises resources from a variety of other sources such as issuances through capital markets, commercial paper, non-banking financial companies (NBFCs), financial institutions, external commercial

Table 32: Non-food Bank Credit - Sectoral Deployment

(Amount in Rupees crore)					
Sector/Industry	Outstanding as on December 19, 19, 2008	Year-on-Year Variations			
		December 21, 2007		December 19, 2008	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
Non-food Gross Bank Credit (1 to 4)	24,70,164	3,54,802	21.8	4,90,199	24.8
1. Agriculture and Allied Activities	2,89,501	38,139	19.3	53,612	22.7
2. Industry (Small, Medium and Large)	10,18,564	1,56,192	24.9	2,36,064	30.2
Small Enterprises	1,46,833	35,916	35.6	10,156	7.4
3. Personal Loans	5,68,474	68,079	15.9	72,245	14.6
Housing	2,71,683	31,780	14.6	21,989	8.8
Advances against Fixed Deposits	50,055	4,605	12.8	9,563	23.6
Credit Cards	29,359	5,393	45.3	12,053	69.6
Education	26,760	6,123	45.7	7,233	37.0
Consumer Durables	9,122	508	5.9	50	0.6
4. Services	5,93,625	92,389	24.8	1,28,278	27.6
Transport Operators	38,145	6,725	29.9	8,941	30.6
Professional & Other Services	40,653	6,682	34.3	14,518	55.6
Trade	1,40,142	17,713	17.8	23,057	19.7
Real Estate Loans	76,463	13,621	35.8	24,827	48.1
Non-Banking Financial Companies	86,120	22,953	59.6	24,668	40.1
<i>Memo:</i>					
Priority Sector	7,64,060	1,10,768	19.6	87,910	13.0
Industry (Small, Medium and Large)	10,18,564	1,56,192	24.9	2,36,064	30.2
Food Processing	52,661	10,399	30.2	7,880	17.6
Textiles	1,02,009	16,644	24.0	15,888	18.4
Paper & Paper Products	15,752	2,419	23.9	3,191	25.4
Petroleum, Coal Products & Nuclear Fuels	79,681	5,821	18.6	42,542	114.5
Chemicals and Chemical Products	74,694	7,039	13.7	16,346	28.0
Rubber, Plastic & their Products	12,767	1,508	18.8	3,241	34.0
Iron and Steel	96,832	18,723	31.8	19,179	24.7
Other Metal & Metal Products	29,070	1,826	9.3	7,507	34.8
Engineering	63,705	11,161	29.0	14,052	28.3
Vehicles, Vehicle Parts and Transport Equipments	35,794	7,622	37.6	7,897	28.3
Gems & Jewellery	28,131	3,101	14.2	3,234	13.0
Construction	34,901	6,037	37.3	12,671	57.0
Infrastructure	2,37,236	46,345	37.1	65,987	38.5
Note: 1. Data are provisional and relate to select scheduled commercial banks.					
2. Data also include the figures of Bharat Overseas Bank which was merged with Indian Overseas Bank, American Express Bank with Standard Chartered Bank and State Bank of Saurashtra with State Bank of India.					

borrowings, issuances of American Depository Receipts (ADRs)/ Global Depository Receipts (GDRs) and foreign direct investment. During 2008-09, so far, flow of resources from other sources to the commercial sector declined reflecting subdued conditions in the domestic capital markets and deceleration of funds flow from external sources. On the other hand, increase in bank credit during 2008-09, so far, has been significantly higher, partly reflecting increased credit demand of corporates emanating from deceleration in credit flow from other sources. Overall, total flow of resources to the commercial

sector during 2008-09, so far, has been somewhat lower than that in the comparable period of 2007-08 (Table 33).

IV.10 Scheduled commercial banks' investment in SLR securities expanded by 19.2 per cent (y-o-y) on January 2, 2009 as compared with 25.8 per cent a year ago (Table 34). Commercial banks' holdings of such securities as on January 2, 2009 at 28.9 per cent of their net demand and time liabilities (NDTL) were higher than 27.8 per cent at end-March 2008 but lower than 29.3 per cent a year ago (Chart 13). Excess SLR investments of SCBs

Table 33: Flow of Resources to the Commercial Sector

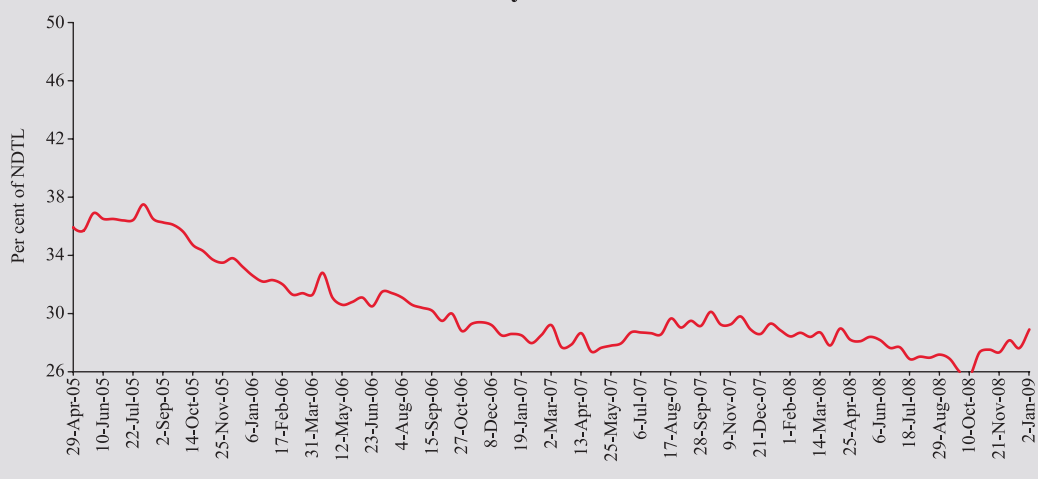
(Rupees crore)		
	2007-08 (Comparable period)	2008-09 (So far)
1	2	3
A. Adjusted non-food Bank Credit by Commercial Banks (1+2) @	2,24,921	2,93,243
1. Non-Food Credit	2,18,065	2,86,864
2. Non-SLR Investment by SCBs	6,856	6,379
B. Flow from Other Major Sources (B1+B2)	2,74,563	1,91,470
B1. Domestic Sources	1,25,893	93,348
1. Public issues by non-financial entities #	34,413	13,559
2. Gross private placements by non-financial entities *	32,306	39,113
3. Net Issuance of CPs subscribed to by non-banks #	31,351	20,004
4. Net Credit by housing finance companies *	8,693	16,438
5. Total gross accommodation by all-India Financial Institutions - NABARD, NHB, SIDBI & EXIM Bank *	-1,174	7,246
6. Systemically Important non-deposit taking NBFCs net of bank credit *	20,304	-3,012
B2. Foreign Sources	1,48,670	98,122
1. External Commercial Borrowings / FCCB **	63,008	27,588
2. ADR/GDR Issues (excluding by banks and financial institutions) #	24,972	4,687
3. Short-term Credit from abroad **	41,565	12,252
4. Foreign Direct Investment to India **	19,125	53,595
C. Total Credit (A+B)	4,99,484	4,84,713
@ : Up to early January. # : Up to December. * : Up to September. ** : Up to November.		
Note: Data are shown for latest information available for various items during 2008-09, so far, and for the corresponding period of 2007-08.		

Table 34: Scheduled Commercial Bank Survey

Item	Outstanding as on January 2, 2009	(Amount in Rupees crore)			
		Variation (year-on-year)			
		As on Jan. 4, 2008		As on Jan. 2, 2009	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
Sources of Funds					
1. Aggregate Deposits	36,18,763	5,98,499	25.1	6,32,817	21.2
2. Call/Term Funding from Financial Institutions	1,05,212	8,994	10.7	12,356	13.3
3. Overseas Foreign Currency Borrowings	50251	8,098	31.5	16,407	48.5
4. Capital	46,303	6,513	20.1	7,324	18.8
5. Reserves	2,77,247	57,615	34.7	53,693	24.0
Uses of Funds					
1. Bank Credit	26,58,997	3,77,855	21.4	5,14,980	24.0
<i>of which:</i> Non-food Credit	26,04,379	3,79,655	22.0	5,01,645	23.9
2. Investments in Government and Other Approved Securities	11,48,244	1,97,511	25.8	1,85,192	19.2
a) Investments in Government Securities	11,30,517	1,99,750	26.6	1,80,713	19.0
b) Investments in Other Approved Securities*	17,726	-2,238	-14.5	4,479	33.8
3. Investments in non-SLR Securities	1,98,278	35,776	25.9	24,376	14.0
4. Foreign Currency Assets	37,280	-18,937	-36.8	4738	14.6
5. Balances with the RBI	1,97,861	99,241	76.1	-31,721	-13.8
* : Refer to investment in SLR securities as notified in the Reserve Bank notification DBOD No. Ref. BC. 61/12.02.001/2007-08 dated February 13, 2008.					
Note: Data are provisional.					

increased to Rs.1,95,112 crore as on January 2, 2009 from Rs. 98,033 crore at end-March 2008; excess investments in

SLR securities were placed at Rs.1,41,684 crore a year ago. Adjusted for LAF collateral securities on an outstanding

Chart 13: SLR Investments by Scheduled Commercial Banks


basis, SCB's holding of SLR securities amounted to Rs.10,74,924 crore or 27.1 per cent of NDTL on January 2, 2009 implying an excess of Rs.1,21,792 crore or 3.1 per cent of NDTL over the prescribed SLR of 24 per cent of NDTL.

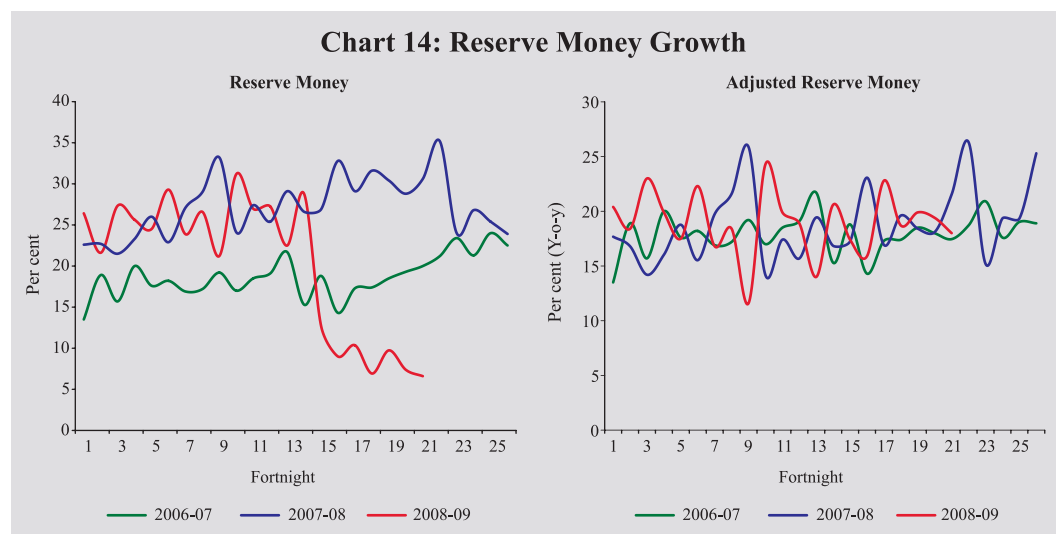
Reserve Money Survey

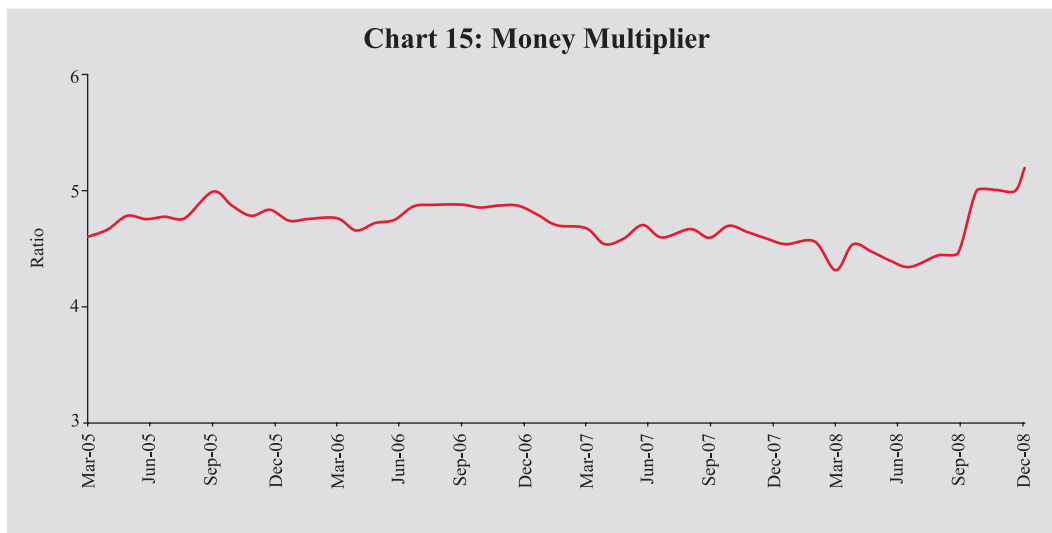
IV.11 Reserve money growth at 6.6 per cent, y-o-y, as on January 16, 2009 was lower than that of 30.6 per cent a year ago. Intra-year movements in reserve money largely reflected the Reserve Bank's market operations and movements in bankers' deposits with the Reserve Bank in the wake of changes in the CRR and large expansion in demand and time liabilities. In the wake of inflationary pressures during the first half of 2008-09, monetary policy was tightened, partly reflected in the hike of CRR by 150 basis points to 9.0 per cent during April-August 2008-09. Subsequently, intensification of global financial turmoil

and its knock-on impact on the domestic financial market, and downturn in headline inflation, necessitated the Reserve Bank to ease its monetary policy since mid-September 2008. The CRR was reduced by 400 basis points to 5.0 per cent since October 11, 2008. Adjusted for the first round effect of the changes in CRR, reserve money growth (y-o-y) as on January 16, 2009 was 18.0 per cent as compared with 21.6 per cent a year ago (Chart 14).

IV.12 The changes in CRR have also affected the money multiplier, *i.e.*, the ratio between broad money and reserve money. Accordingly, the money multiplier, which had declined from 4.7 at end-March 2007 to 4.3 at end-March 2008 in the wake of CRR hikes, increased to 5.2 as on January 2, 2009, reflecting subsequent lowering of CRR (Chart 15).

IV.13 During the financial year 2008-09 (up to January 16, 2009), reserve money decreased by 3.8 per cent as against an





increase of 18.2 per cent in the corresponding period of the previous year (Table 35). On the sources side, net Reserve Bank's credit to the Centre increased by Rs. 86,141 crore as against a decrease of Rs. 1,57,815 crore during the corresponding period of the previous year. The Reserve Bank's foreign currency assets (adjusted for revaluation) declined by Rs.99,701 crore as against an increase of Rs.3,11,941 crore during the corresponding period of the previous year (Chart 16). Adjusted for the first round impact of the changes in CRR (up to January 16, 2009), reserve money expanded by 5.6 per cent as compared with 12.1 per cent during the corresponding period of the previous year.

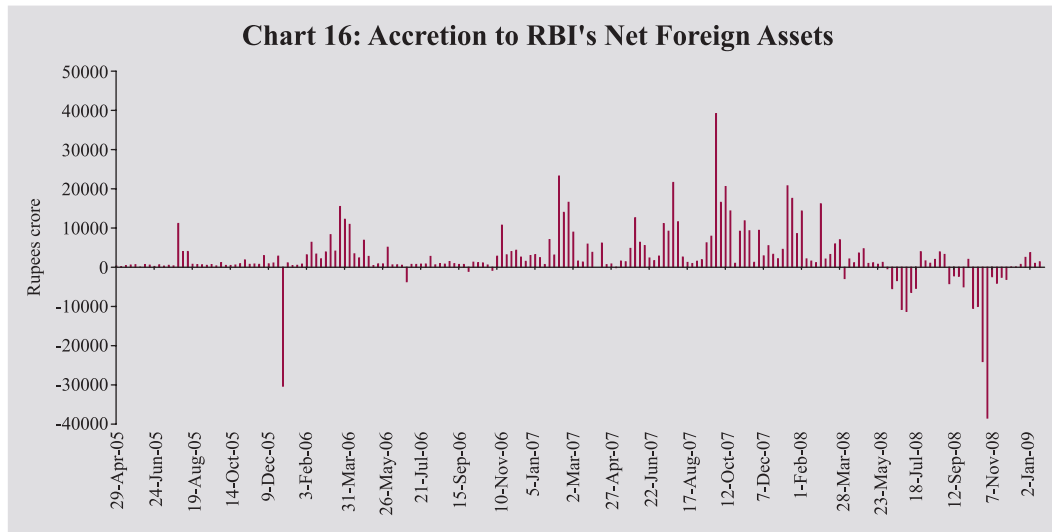
IV.14 Movements in the Reserve Bank's net credit to the Central Government during 2008-09, so far, (up to January 16, 2009) largely reflected the liquidity management operations by the Reserve Bank and changes in Central Government

deposits with the Reserve Bank. The Centre's surplus cash balances with the Reserve Bank declined (Rs.76,586 crore). Furthermore, the Centre resorted to WMA/OD facilities (Rs.9,263 crore). The unwinding of MSS securities led to a decline in Central Government deposits (Rs.54,742 crore) with the Reserve Bank and, therefore further increased net Reserve Bank credit to Centre. Net open market purchases under OMO/special market operations (SMO) led to higher holding of Central Government securities/bonds (Rs. 33,521 crore) by the Reserve Bank. In view of the global financial crisis and its possible impact on Indian financial market, the Reserve Bank has taken various measures to augment rupee and dollar liquidity. Consequently, liquidity condition that remained tight during the first half of 2008-09, eased from mid-November 2008 and LAF, on average, shifted to absorption mode. The Reserve Bank's holding of government securities

Monetary Conditions

Table 35: Reserve Money - Variations

(Amount in Rupees crore)										
Item	2007-08	2007-08	2008-09	2007-08				2008-09		
	(April-March)	(Up to Jan 18)	(Up to Jan 16)	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1	2	3	4	5	6	7	8	9	10	11
Reserve Money	2,19,427	1,29,213	-34,852	11,630	60,587	26,593	1,20,617	3,301	25,220	-70,453
	(30.9)	(18.2)	(-3.8)							
Components (1+2+3)										
1. Currency in Circulation	86,702	62,190	71,952	16,866	-13,397	46,781	36,452	36,759	-14,516	38,223
	(17.2)	(12.3)	(12.2)							
2. Bankers' Deposits with RBI	1,31,152	69,760	-1,03,028	-4,800	75,464	-19,369	79,857	-29,333	39,219	-1,15,773
	(66.5)	(35.4)	(-31.4)							
3. 'Other' Deposits with the RBI	1,573	-2,736	-3,777	-436	-1,479	-819	4,307	-4,125	516	7,097
	(21.0)	(-36.5)	(-41.6)							
Sources (1+2+3+4-5)										
1. RBI's net credit to Government	-1,15,632	-1,58,302	85,072	-22,154	-54,695	-65,787	27,004	-13	51,360	30,230
of which: to Centre (i+ii+iii+iv-v)	-1,16,772	-1,57,815	86,141	-21,825	-55,588	-65,078	25,719	1,430	51,379	29,932
i. Loans and Advances	0	0	9,263	0	0	0	0	0	0	0
ii. Treasury Bills held by the RBI	0	0	0	0	0	0	0	0	0	0
iii. RBI's Holdings of Dated Securities	17,421	-52,149	-38,676	-34,284	4,019	20,874	26,812	-39,239	56,975	-44,206
iv. RBI's Holdings of Rupee Coins	121	94	-56	128	20	3	-31	-1	-26	27
v. Central Government Deposits	1,34,314	1,05,759	-1,15,611	-12,330	59,627	85,956	1,062	-40,670	5,570	-74,111
2. RBI's Credit to Banks and Commercial Sector	-2,794	-3,282	5,557	-6,450	-1,256	848	4,064	-3,358	4,963	5,032
3. NFEA of RBI	3,69,977	2,51,026	-10,670	-2,745	1,19,430	94,681	1,58,610	1,03,932	10,336	-1,56,330
	(42.7)	(29.0)	(-0.9)							
of which :										
FCA, adjusted for revaluation	3,70,550	3,11,941	-99,701	47,728	1,18,074	1,00,888	1,03,860	15,535	-31,641	-92,102
4. Governments' Currency Liabilities to the Public	1,064	790	463	166	254	312	332	125	206	132
5. Net Non-Monetary liabilities of RBI	33,187	-38,981	1,15,274	-42,812	3,145	3,461	69,393	97,384	41,646	-50,484
Memo:										
Net Domestic assets	-1,50,550	-1,21,813	-24,182	14,375	-58,843	-68,088	-37,994	-1,00,631	14,883	85,877
LAF- Repos (+) / Reverse Repos(-)	21,165	-41,120	-82,145	-32,182	9,067	16,300	27,980	-45,350	51,480	-62,170
Net Open Market Sales # *	-5,923	-1,793	-33,521	1,246	1,560	-3,919	-4,810	-8,696	-10,535	-7,669
Centre's Surplus	26,594	9,658	-76,586	-34,597	15,376	54,765	-8,950	-42,427	6,199	-32,830
Mobilisation under the MSS	1,05,419	98,084	-54,742	19,643	48,855	31,192	5,728	6,040	-628	-53,754
Net Purchases(+)/Sales(-) from										
Authorised Dealers	3,12,054	2,69,355	-1,56,460 [^]	38,873	1,01,814	87,596	83,771	3,956	-52,760	-1,07,656 [^]
NFEA/Reserve Money @	133.1	133.3	137.1	119.8	125.8	133.4	133.1	143.8	141.1	134.7
NFEA/Currency @	209.2	197.2	184.9	165.7	193.6	194.3	209.2	213.5	220.2	183.3
NFEA: Net Foreign Exchange Assets.	FCA: Foreign Currency Assets.	LAF: Liquidity Adjustment Facility.								
*: At face value.	# : Excludes Treasury Bills	@ : Per cent; end of period								[^] : up to November 28, 2008.
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.									
	3. Government Balances as on March 31, 2008 are after closure of accounts.									



(up to January 16, 2009) declined on account of an increase in absorption under LAF (Rs.82,145 crore). Reflecting these developments, the Reserve Bank's net

credit to the Centre increased during 2008-09 so far (up to January 16, 2009) as against a decline during the corresponding period of the previous year.