IV. Monetary and Liquidity Conditions

The liquidity conditions, which transited from surplus to deficit in the wake of 3G/BWA auctions in May 2010, have generally remained in the deficit mode since then, reflecting the stance of monetary policy. Normalisation of policy rates, along with narrowing of the LAF corridor, and the shift from surplus to deficit liquidity conditions have resulted in an effective increase in the policy rate by 275 basis points since March 2010. Even as reserve money has grown at a fairly rapid pace, broad money (M3) growth continues to remain relatively subdued, reflecting the decelerated growth in aggregate deposits. With persistent deficit liquidity conditions, banks have started to scale up their deposit mobilisation efforts, as reflected in the higher deposit interest rates being offered since July 2010.

IV.1 The non-disruptive normalisation of the monetary policy has significantly altered the liquidity and interest rate conditions over a few months. With repo emerging as the normal mode under the liquidity adjustment facility (LAF), and the consequent effective increase in the policy rate by 275 basis points, the transmission of monetary policy has also witnessed signs of strengthening. Since March 2010, the Reserve Bank has raised repo and reverse repo rates by 125 basis points and 175 basis points, respectively, which narrowed the LAF corridor from 150 basis points to 100 basis points. With continued build-up of government cash balances and increase in currency with the public, the LAF operations have remained mostly in deficit (injection) mode since June 2010.

IV.2 During the first quarter of the year, non-food credit growth of scheduled commercial banks (SCBs) exceeded the indicative trajectory set out in the Monetary Policy Statement for 2010-11. Notwithstanding the one-off increase in credit demand associated with payment for telecom spectrums, the growth of non-food credit during the second quarter remained close to the Reserve Bank's indicative projection. Money supply (M_3) growth, which had started picking up from July 2010 registered deceleration towards the end of the quarter and showed acceleration for the latest fortnight for which data are available. The subdued growth in M_3 has been largely conditioned by the decelerated growth in deposits, which account for over 85 per cent of money supply. On the sources side, there has been a considerable dip in the rate of growth of banking system's credit to the government (Table IV.1).

Liquidity Management

IV.3 During 2010-11 so far, the centre's surplus balance with the Reserve Bank has been a key driver of autonomous liquidity. Currency with the public, which registered high growth during the year so far, has been another key determinant of autonomous liquidity. The LAF window of the Reserve Bank, which remained in surplus mode for nearly 18 months, switched into deficit mode towards end-May 2010 and largely maintained the trend subsequently (Chart IV.1).

Table IV.1: Monetary Indicators

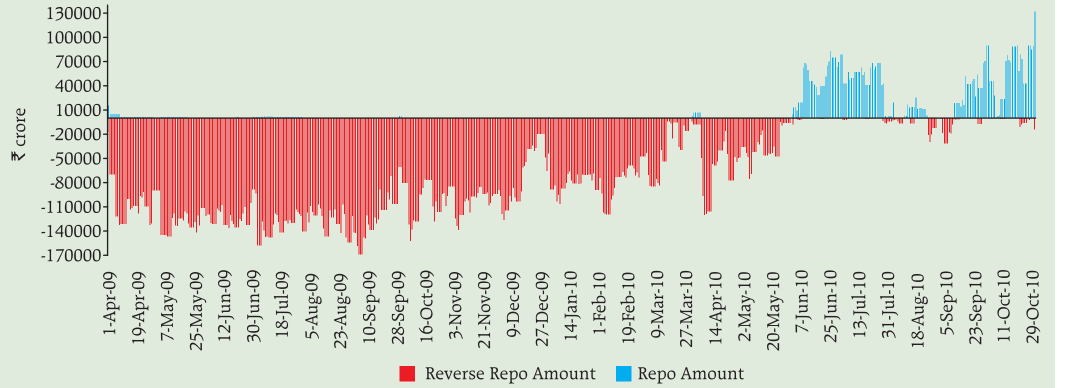
(Amount in ₹ crore)

Item	Outstanding as on October 8, 2010	Variation (year-on-year)			
		October 9, 2009		October 8, 2010	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
I. Reserve Money*	11,73,195	1,02,793	11.8	2,02,615	20.9
(Reserve Money adjusted for CRR changes)			(19.5)		(15.4)
II. Broad Money (M_3)	59,62,123	8,45,490	19.5	7,88,278	15.2
III. Components of M_3 (a + b + c)					
a) Currency with the Public	8,33,513	97,734	16.2	1,32,208	18.9
b) Aggregate Deposits	51,24,022	7,48,202	20.1	6,55,915	14.7
i) Demand Deposits	6,83,117	55,664	10.4	91,885	15.5
ii) Time Deposits	44,40,905	6,92,538	21.7	5,64,029	14.5
c) Other Deposits with RBI	4,588	-446	-9.1	155	3.5
IV. Sources of M_3 (a + b + c + d - e)					
a) Net Bank Credit to the Government (i+ii)	17,41,985	4,43,256	44.7	3,08,028	21.5
i) Net Reserve Bank Credit to the Government	1,94,702	36,641	–	1,89,336	–
of which: to the Centre	1,93,452	37,037	–	1,88,046	–
ii) Other Banks' Credit to the Government	15,47,284	4,06,615	39.8	1,18,692	8.3
b) Bank Credit to the Commercial Sector	37,20,942	2,95,084	10.4	5,94,353	19.0
c) Net Foreign Assets of the Banking Sector	13,24,951	-18,657	-1.4	-6,412	-0.5
d) Government's Currency Liabilities to the Public	11,761	955	9.9	1,151	10.9
e) Net Non-Monetary Liabilities of the Banking Sector	8,37,517	-1,24,852	-14.6	1,08,843	14.9

*: Data pertain to October 22, 2010.

Note: Data are provisional.

Chart IV.1: LAF Volumes



IV.4 With the persistence of deficit liquidity conditions, the Reserve Bank extended the liquidity-easing measures introduced in May 2010, *i.e.*, allowing SCBs to avail additional liquidity support under the LAF to the extent of up to 0.5 per cent of their NDTL till mid-July and operation of second LAF (SLAF) on a daily basis till end-July 2010. The average daily liquidity injection under the LAF was around ₹47,000 crore during July 2010. In view of the evolving inflationary scenario, the repo and the reverse repo rates were raised by 50 basis points and 75 basis points, respectively, in two stages in July 2010 (Table IV.2).

IV.5 The liquidity conditions improved in August 2010, mainly on account of large pre-scheduled public debt redemptions towards end-July 2010, and the average daily net injection of liquidity declined to around ₹1,000 crore during the month. After a brief period of surplus liquidity (from end-August to early-September 2010), the liquidity conditions again switched to deficit mode as liquidity migrated to government

Table IV.2: Movements in Key Policy Rates in India

(Per cent)

Effective since	Reverse Repo Rate	Repo Rate	Cash Reserve Ratio
1	2	3	4
April 26, 2008	6.00	7.75	7.75 (+0.25)
May 10, 2008	6.00	7.75	8.00 (+0.25)
May 24, 2008	6.00	7.75	8.25 (+0.25)
June 12, 2008	6.00	8.00 (+0.25)	8.25
June 25, 2008	6.00	8.50 (+0.50)	8.25
July 5, 2008	6.00	8.50	8.50 (+0.25)
July 19, 2008	6.00	8.50	8.75 (+0.25)
July 30, 2008	6.00	9.00 (+0.50)	8.75
August 30, 2008	6.00	9.00	9.00 (+0.25)
October 11, 2008	6.00	9.00	6.50 (–2.50)
October 20, 2008	6.00	8.00 (–1.00)	6.50
October 25, 2008	6.00	8.00	6.00 (–0.50)
November 3, 2008	6.00	7.50 (–0.50)	6.00
November 8, 2008	6.00	7.50	5.50 (–0.50)
December 8, 2008	5.00 (-1.00)	6.50 (–1.00)	5.50
January 5, 2009	4.00 (-1.00)	5.50 (–1.00)	5.50
January 17, 2009	4.00	5.50	5.00 (–0.50)
March 4, 2009	3.50 (-0.50)	5.00 (-0.50)	5.00
April 21, 2009	3.25 (-0.25)	4.75 (-0.25)	5.00
February 13, 2010	3.25	4.75	5.50 (+0.50)
February 27, 2010	3.25	4.75	5.75 (+0.25)
March 19, 2010	3.50 (+0.25)	5.00 (+0.25)	5.75
April 20, 2010	3.75 (+0.25)	5.25 (+0.25)	5.75
April 24, 2010	3.75	5.25	6.00 (+0.25)
July 2, 2010	4.00 (+0.25)	5.50 (+0.25)	6.00
July 27, 2010	4.50 (+0.50)	5.75 (+0.25)	6.00
September 16, 2010	5.00 (+0.50)	6.00 (+0.25)	6.00

Note: 1. Reverse repo indicates absorption of liquidity and repo indicates injection of liquidity.
2. Figures in parentheses indicate change in policy rates in per cent.

balances with the Reserve Bank on account of quarterly advance tax payments.

IV.6 On the basis of the assessment of the macroeconomic situation, the Reserve Bank increased the repo rate and reverse repo rate by 25 basis points and 50 basis points, respectively, in the mid-quarter monetary policy review in September. The liquidity conditions remained in deficit mode in the second half of September 2010 as the cash balances of the centre started building-up, and the average daily net liquidity injection was around ₹24,000 crore during the month.The liquidity conditions tightened further in October 2010. In order to ease the frictional liquidity pressure, the Reserve Bank announced certain temporary measures, *viz.*, conduct of SLAF on October 29 and November 1, 2010, conduct of a special two-day repo auction under LAF on October 30, 2010 and waiver of penal interest on shortfall in maintainance of SLR on October 30-31, 2010, to the extent of 1 per cent of NDTL for availing additional liquidity support under LAF.

IV.7 Despite surplus government balance and currency with the public operating as the major drains on liquidity during the second quarter of 2010-11, when compared with the situation prevailing at the end of the first quarter, variations in both currency and government surplus had a positive contribution to autonomous liquidity in the system (Table IV.3). The liquidity situation was managed primarily through LAF (Table IV.4).

IV.8 There has been a significant reduction in the holdings of government securities by SCBs not only because of the higher growth of non-food credit, but also because banks tapped the repo window

Table IV.3: Reserve Bank's Liquidity Management Operations

(₹ crore)

Item	2009-10				2010-11	
	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7
A. Drivers of Liquidity (1+2+3+4)	**-45,110**	**-44,514**	**-66,785**	**55,055**	**-1,05,124**	**26,981**
1. RBI's net Purchase from Authorised Dealers	-15,874	2,523	436	910	816	751
2. Currency with the Public	-18,690	-9,020	-43,224	-31,650	-58,420	241
3.a. Centre's surplus balances with RBI	3,382	-67,938	-22,663	85,257	-58,249	10,953
3.b. WMA and OD	0	0	0	0	0	0
4. Others (residual)	-13,928	29,921	-1,334	538	10,729	15,036
B. Management of Liquidity (5+6+7+8)	**-21,674**	**62,376**	**89,870**	**1,618**	**67,255**	**-41,456**
5. Liquidity impact of LAF	-1,30,020	25,390	86,330	18,795	75,785	-44,545
6. Liquidity impact of OMO* (net)	43,159	32,869	3,540	2,787	1,550	2,772
7. Liquidity impact of MSS	65,187	4,117	0	16,036	2,420	317
8. First round impact of CRR change	0	0	0	-36,000	-12,500	0
C. Bank Reserves # (A+B)	**-66,784**	**17,863**	**23,085**	**56,673**	**-37,869**	**-14,475**

(+) : Injection of liquidity into the banking system. (-): Absorption of liquidity from the banking system.
* : Includes oil bonds but excludes purchases of government securities on behalf of State Governments.
# : Includes vault cash with banks and adjusted for first round liquidity impact due to CRR change.
Note: Data pertain to March 31 for Q4 and last Friday for all other quarters.

Table IV.4: Liquidity Position

(₹ crore)

Outstanding as on Last Friday	LAF	MSS	Centre's Surplus@	Total
1	2	3	4	5 = (2+3+4)
2009				
April	1,08,430	70,216	-40,412	1,38,234
May	1,10,685	39,890	-6,114	1,44,461
June	1,31,505	22,890	12,837	1,67,232
July	1,39,690	21,063	26,440	1,87,193
August	1,53,795	18,773	45,127	2,17,695
September	1,06,115	18,773	80,775	2,05,663
October	84,450	18,773	69,391	1,72,614
November	94,070	18,773	58,460	1,71,303
December	19,785	18,773	1,03,438	1,41,996
2010				
January	88,290	7,737	54,111	1,50,138
February	47,430	7,737	33,834	89,001
March*	990	2,737	18,182	21,909
April	35,720	2,737	-28,868	9,589
May	6,215	317	-7,531	-999
June	-74,795	317	76,431	1,953
July	1,775	0	16,688	18,463
August	11,815	0	20,054	31,869
September	-30,250	0	65,477	35,227
October**	-36,800	0	75,562	38,762

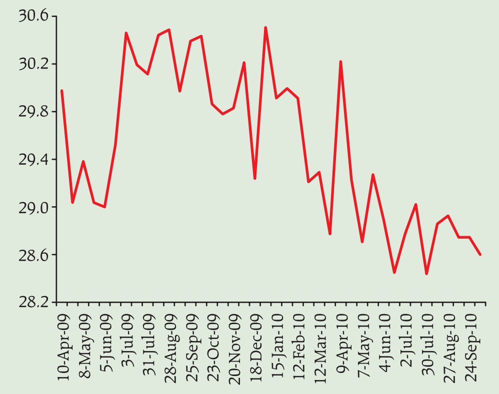
@ : Excludes minimum cash balances with the Reserve Bank in case of surplus.

* : Data pertain to March 31. **: Data pertain to October 22.

Note: 1. Negative sign in column 2 indicates injection of liquidity through LAF.

2. Negative sign in column 4 indicates WMA /OD availed by the central government.

Chart IV.2: SLR Maintenance by Banks (per cent)



under the LAF for their liquidity needs, leading to gradual decline in SLR maintenance (Chart IV.2). The excess SLR investments of SCBs amounted to ₹1,86,097 crore in early October 2010 compared with ₹2,80,645 crore a year ago. With moderation in excess SLR, banks are making efforts to increase their deposit base as well as modulating the excess reserves maintained by them with the Reserve Bank.

Reserve Money

IV.9 Unlike the first quarter when the main component of increase in reserve money was currency in circulation, the reserve money growth in the second quarter was led by increase in banks' deposits with Reserve Bank (Table IV.5). Banks' deposits with the Reserve Bank increased in line with the increase in their net demand and time liabilities. On average, banks maintained excess reserves of ₹5,200 crore with the Reserve Bank during the quarter. Even though currency has shown strong y-o-y growth so far, the contraction during the quarter under review is consonant with the trend of subdued currency demand during the second quarter of the year (Chart IV.3).

IV.10 On the sources side, the Reserve Bank's credit to the Centre declined during the quarter, due to the combined effect of decline in the quantum of repo operations under the LAF[1] as compared to the previous quarter and build up of government balances.

[1] The Reserve Bank's credit to the Centre is affected by LAF operations, OMO, MSS balances and government's cash surplus with the Reserve Bank. Increase in repo/OMO purchases and decline in reverse repo/MSS balances/Government's surplus balances with Reserve Bank lead to increase in net Reserve Bank credit to the Centre, and *vice versa*.

Table IV.5: Reserve Money - Variations

(₹ crore)

Item	2009-10				2010-11	
	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7
Reserve Money	-38,926	16,216	51,816	1,38,583	15,125	3,370
Components (1+2+3)						
1. Currency in Circulation	29,692	1,081	45,442	32,181	64,902	-4,005
2. Bankers' Deposits with RBI	-72,664	20,680	5,456	1,07,552	-49,042	6,481
3. 'Other' Deposits with the RBI	4,046	-5,545	918	-1,150	-735	894
Sources (1+2+3+4-5)						
1. RBI's Net Credit to Government	-11,145	-14,953	51,428	1,24,676	15,796	-20,621
of which: to Centre	-11,497	-14,968	51,597	1,24,688	15,807	-20,586
2. RBI's Credit to Banks and Commercial Sector	-9,623	-3,747	-5,926	-2,384	851	323
3. Net Foreign Assets of RBI	-16,750	50,120	-15,108	-66,428	14,613	53,422
4. Governments' Currency Liabilities to the Public	254	302	309	351	355	137
5. Net Non-monetary Liabilities of RBI	1,662	15,506	-21,113	-82,369	16,491	29,890
Memo:						
LAF - Repo (+) / Reverse Repo (-)	-1,32,800	28,170	67,765	37,360	39,375	-8,135
Net Open Market Sales *	-42,001	-31,591	-1,894	17	-8	20
Centre's Surplus	-13,156	77,713	17,519	-80,112	37,405	9,890
MSS Balances	-65,187	-4,117	0	-16,036	-2,420	-317

*: Excludes Treasury Bills.

Note: 1. The sum of the memo items will not add up to the net Reserve Bank credit to the Centre as LAF and OMO transactions are at face value and also due to margin adjustment for LAF operations.
2. Data based on March 31 for Q4 and last reporting Friday for all other quarters.
3. Data are provisional.
4. Centre's surplus includes government's investment balance and cash balance with the Reserve Bank.

IV.11 The adjusted reserve money (base money adjusted for the first round impact of monetary policy actions of the Reserve Bank in the form of CRR changes) increased by 15.9 per cent (y-o-y) as on October 22, 2010 reflecting the impact of increase in currency

Chart IV.3: Monthly Change in Currency in Circulation (₹ crore)

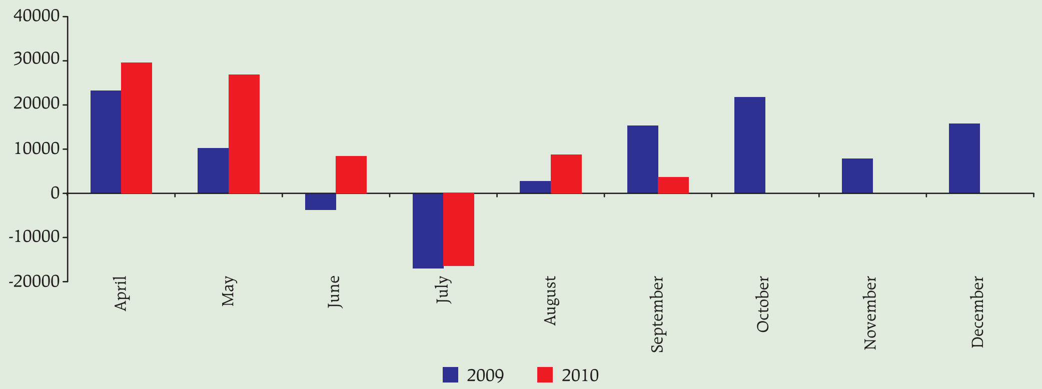
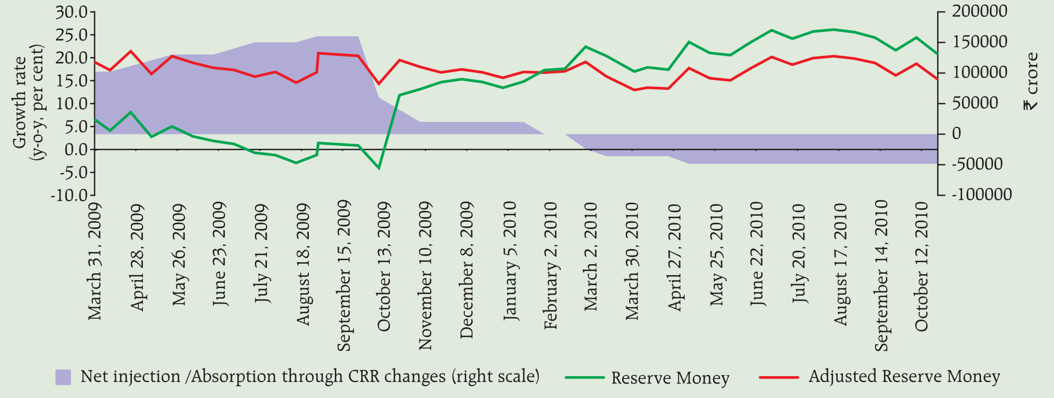


Chart IV.4: Reserve Money and Adjusted Reserve Money



in circulation (on the components side) and Reserve Bank credit to the government (on the sources side) (Chart IV.4).

Money Supply

IV.12 The deceleration in the growth of broad money (M_3), that started in 2009-10, continued in the first quarter of 2010-11. Even though there was some revival in the growth rate of M_3 during the second quarter, it still remained below the trajectory of 17 per cent indicated in the Monetary Policy Statement 2010-11 (Chart IV.5 a). The pattern of growth in M_3 mainly tracked the behaviour of the major component of money stock, *i.e.*, aggregate deposits (Chart IV.5 b).

IV.13 Since time deposits are the major constituent of aggregate deposits (around 87 per cent), a deceleration in these deposits is reflected in the aggregate deposits as well. A disaggregated analysis of the bank group-wise data suggests that the behaviour of time deposits replicates the deposit pattern of public sector banks, as they account for a

Chart IV.5: Monetary Indicators (y-o-y growth in per cent)

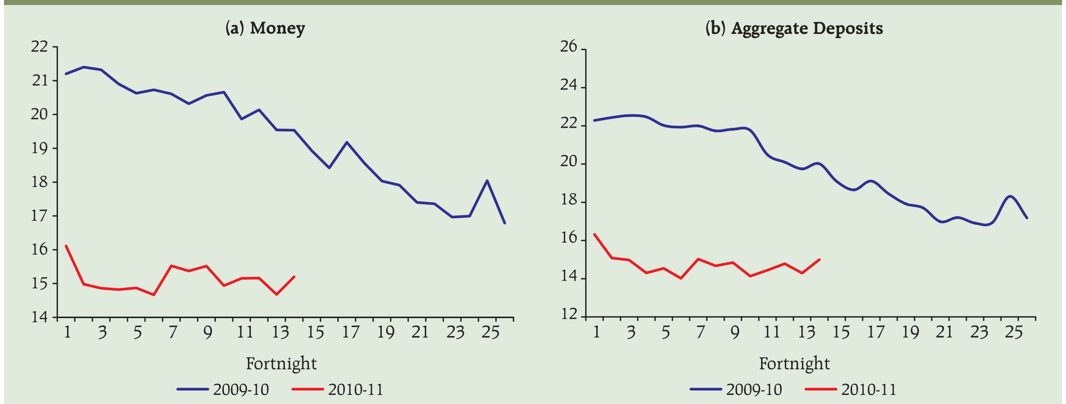
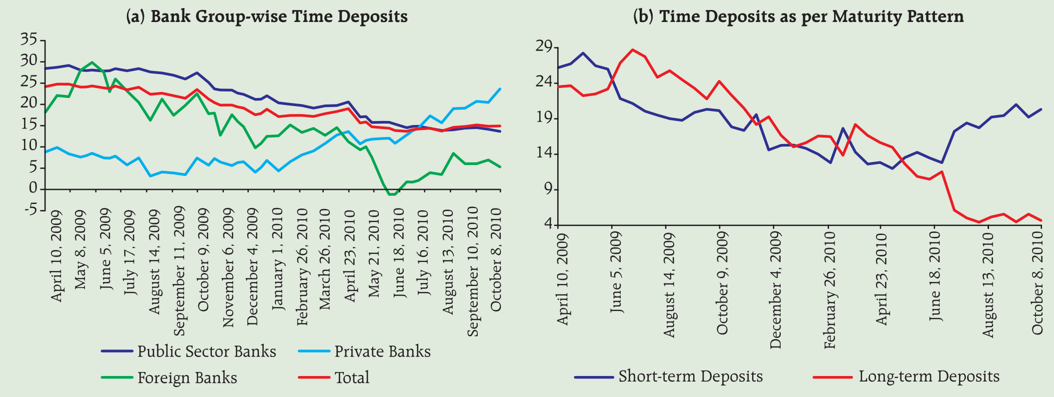


Chart IV.6: Trends in Time Deposits (y-o-y growth in per cent)



predominant share of time deposits. Foreign banks witnessed a sharp deceleration in time deposit growth rate in the recent period, while the private sector banks have bucked the overall trend, with a sharp acceleration in their time deposits (Chart IV.6 a). Further analysis suggests that long-term time deposits (maturity more than one year) witnessed a sharper deceleration (Chart IV.6 b).

IV.14 The growth rate of time deposits has, however, shown a moderate pick-up since July 2010 in the wake of efforts made by banks for mobilisation of deposits. Also, there has been an increased inflow into small savings schemes since August 2009 as small savings have yielded higher returns than time deposits with banks since the beginning of 2009-10 (Chart IV.7). Total incremental inflows into small savings are, however, only a small fraction of monthly increases in time deposits.

IV.15 Given the low opportunity cost of holding money in an environment of high inflation and depressed deposit interest

Chart IV.7: Time Deposits and Small Savings

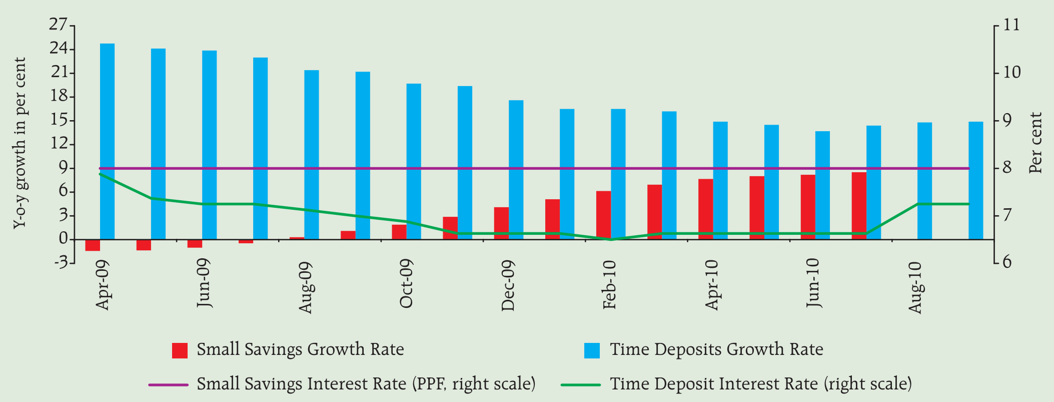
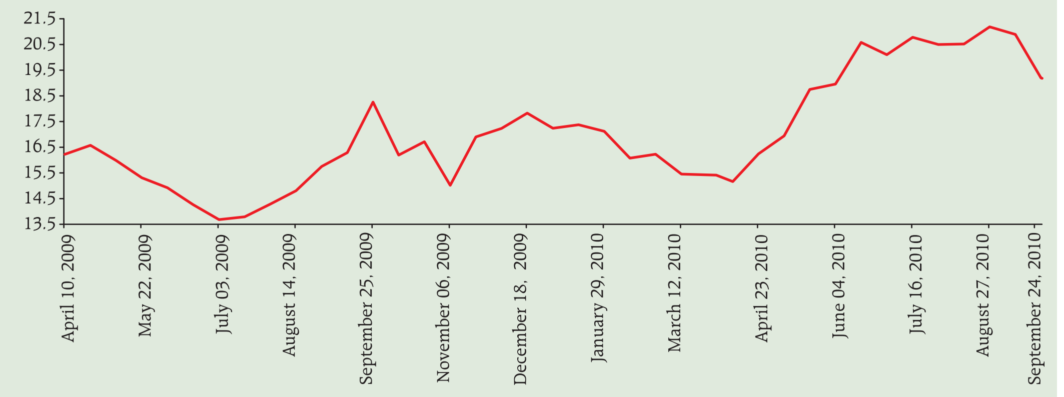


Chart IV.8: Currency with the Public (y-o-y growth in per cent))



rates, the demand for currency exhibited acceleration in growth during recent period (Chart IV.8). The increase in currency with the public is also reflective of increased asset prices and payment under schemes such as the MGNREGA. The increase in the cash component of economic transactions indicates the need for furthering financial inclusion. The increased currency demand and hence the currency deposit ratio as well as the 100 basis points increase in the CRR since February 2010, led to some decline in the money multiplier during the first half of the year. Money growth, thus, remains subdued relative to the higher rate of increase seen in reserve money.

IV.16 On a quarterly basis, the bulk of the increase in money stock during the second quarter of 2010-11 was owing to an increase in time deposits. (Table IV.6). Given the excess liquidity that prevailed in the system till end-May 2010, banks were not actively mobilising deposits. The transmission of the monetary tightening measures initiated by the Reserve Bank since February 2010 to the deposit interest rates has started to become visible only since July 2010 (Chapter V, Table V.7).

IV.17 As regards sources of M_3, the increase in money supply during the second quarter came mainly from banking system's credit to the commercial sector. There was a major pick-up in the growth of non-food credit extended by SCBs during the first quarter of 2010-11 as telecom companies raised credit to pay for the 3G and wireless access spectrums (Chart IV.9 a). Credit flow during the second quarter has shown a slight moderation but largely remained above or close to the indicative trajectory of 20 per cent growth set out in the First Quarter Review of Monetary Policy (July 2010). Reflecting this moderation, as well as the improved deposit mobilisation since July 2010, the incremental non-food credit deposit ratio of SCBs fell below the peak of over 100 per cent attained towards the end of the first quarter and the beginning of the second quarter (Chart IV.9 b).

IV.18 The momentum in credit growth was seen across all bank groups, with private banks showing the highest growth

Table IV.6: Monetary Aggregates - Variations

(₹ crore)

Item	2009-10				2010-11	
	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7
M_3 (1+2+3 = 4+5+6+7-8)	1,63,787	1,61,970	1,24,777	3,54,416	86,103	1,86,330
Components						
1. Currency with the Public	24,913	2,797	45,086	29,787	64,416	-6,237
2. Aggregate Deposits with Banks	1,34,829	1,64,717	78,773	3,22,778	22,421	1,91,672
2.1 Demand Deposits with Banks	-40,911	66,320	-26,343	1,34,985	-86,410	44,635
2.2 Time Deposits with Banks	1,75,739	98,397	1,05,116	1,90,793	1,08,831	1,47,037
3. 'Other' Deposits with RBI	4,046	-5,545	918	-1,150	-735	894
Sources						
4. Net Bank Credit to Government	1,20,816	71,703	35,598	1,61,646	47,024	36,930
4.1 RBI's Net Credit to Government	-11,145	-14,953	51,428	1,24,676	15,796	-20,621
4.2 Other Banks' Credit to Government	1,31,961	86,656	-15,830	36,970	31,228	57,551
5. Bank Credit to the Commercial Sector	-7,232	1,07,136	68,093	3,09,890	68,700	1,11,980
6. NFA of Banking Sector	-37,923	47,908	-20,701	-59,998	6,967	53,422
7. Government's Currency Liabilities to the Public	254	302	309	351	355	137
8. Net Non-monetary Liabilities of the Banking Sector	-87,872	65,079	-41,478	57,472	36,943	16,139

Note: Data are provisional.

rate at the beginning of the third quarter of 2010-11 (Table IV.7). Public sector banks accounted for 74 per cent of the incremental credit off take on a year-on-year basis as at the beginning of October 2010. Though the pace of deposit growth for SCBs as a whole remains lower than last year, banks have increased their borrowings from overseas as well as from financial institutions. These alternative

Chart IV.9: Credit Indicators

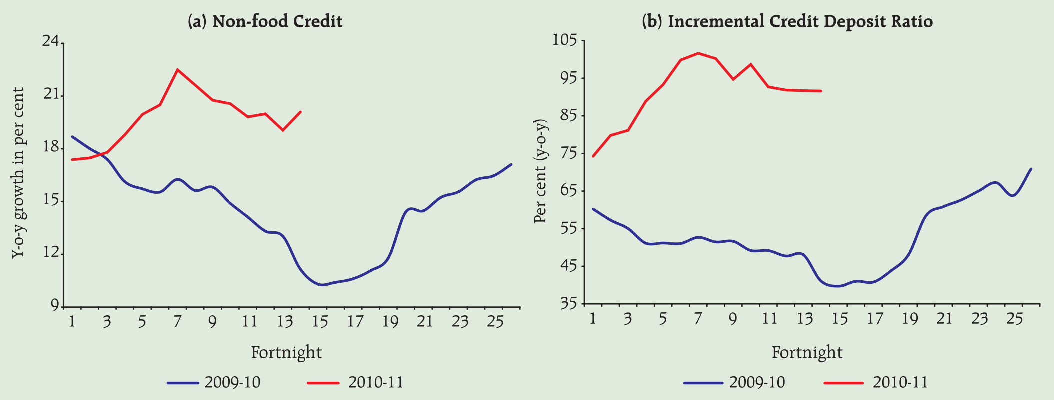


Table IV.7: Credit Flow from Scheduled Commercial Banks

(Amount in ₹ crore)

Item	Outstanding as on October 8, 2010	Variation (Y-o-Y)			
		As on October 9, 2009		As on October 8, 2010	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
1. Public Sector Banks	25,67,838	2,83,483	15.2	4,24,171	19.8
2. Foreign Banks	1,75,580	-29,770	-15.9	17,979	11.4
3. Private Banks	6,39,361	12,076	2.4	1,24,213	24.1
4. All Scheduled Commercial Banks*	34,68,999	2,79,305	10.7	5,80,005	20.1

*: including Regional Rural Banks.

Note: Data are provisional.

funds have supported a higher credit growth, as investment in government and other approved securities, non-SLR securities as well as foreign currency assets has exhibited deceleration or contraction in y-o-y growth (Table IV.8).

Table IV.8: Select Sources and Uses of Funds of SCBs

(Amount in ₹ crore)

Item	Outstanding as on October 8, 2010	Variation (Y-o-Y)			
		As on October 9, 2009		As on October 8, 2010	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
Sources of Funds					
1. Aggregate Deposits	47,88,309	6,94,231	20.0	6,25,710	15.0
2. Call/Term Funding from Financial Institutions	1,19,336	-18,121	-15.6	20,996	21.3
3. Overseas Foreign Currency Borrowings	41,342	-34,583	-55.5	13,637	49.2
4. Capital	65,965	13,809	30.3	6,649	11.2
5. Reserves	3,69,068	48,836	17.4	39,603	12.0
Uses of Funds					
1. Bank Credit	34,68,999	2,79,306	10.7	5,80,004	20.1
of which: Non-food Credit	34,19,245	2,85,480	11.1	5,72,971	20.1
2. Investments in Government and Other Approved Securities	14,75,697	3,87,549	39.6	1,10,264	8.1
a) Investments in Government Securities	14,70,231	3,92,145	40.6	1,12,680	8.3
b) Investments in Other Approved Securities	5,466	-4,595	-36.8	-2,417	-30.7
3. Investments in non-SLR Securities	2,65,729	1,37,765	91.4	-22,823	-7.9
4. Foreign Currency Assets	66,656	19,397	84.8	24,373	57.6
5. Balances with the RBI	2,75,559	-1,29,595	-40.7	86,832	46.0

Note: Data are provisional. The sources and uses of funds will not match as the list is not exhaustive and excludes the assets and liabilities within the banking system.

IV.19 Data on sectoral deployment of gross bank credit show significant improvement in credit flow to industry, services and personal loans during the current financial year, while credit to agriculture has declined further (Table IV.9). A look at the disaggregated data, however, suggests that the credit flow to industry is

Table IV.9: Deployment of Gross Bank Credit by Major Sectors

(Amount in ₹ crore)

Sector	Outstanding as on September 24, 2010	Variation (financial year so far)			
		September 25, 2009		September 24, 2010	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
Non-Food Gross Bank Credit (1 to 4)	**31,99,151**	**92,341**	**3.5**	**1,62,206**	**5.3**
1. Agriculture and Allied Activities	**4,01,933**	**- 1,760**	**-0.5**	**-13,481**	**-3.2**
2. Industry	**14,17,200**	**84,982**	**8.1**	**1,07,386**	**8.2**
3. Personal Loans	**6,15,195**	**3,836**	**0.7**	**29,170**	**5.0**
Housing	3,17,150	7,891	2.8	16,195	5.4
Advances against Fixed Deposits	51,379	- 3,473	-7.1	2,771	5.7
Credit Card Outstanding	18,509	- 3,754	-13.4	-1,478	-7.4
Education	40,944	4,557	15.9	4,060	11.0
Consumer Durables	9,083	- 112	-1.4	800	9.7
4. Services	**7,64,823**	**5,281**	**0.8**	**39,130**	**5.4**
Transport Operators	53,876	- 128	-0.3	1,229	2.3
Professional Services	53,370	658	1.5	4,859	10.0
Trade	1,70,606	9,884	6.8	8,279	5.1
Commercial Real Estate	1,01,662	1,766	1.9	9,604	10.4
Non-Banking Financial Companies	1,25,667	7,192	7.3	7,746	6.6
Memo					
Priority Sector	**11,20,343**	**8,320**	**0.9**	**11,150**	**1.0**
Micro and Small Enterprises	3,94,604	20,808	6.7	19,343	5.2
Industry					
Food Processing	68,153	327	0.6	2,896	4.4
Textiles	1,23,764	3,525	3.4	2,364	1.9
Paper and Paper Products	19,969	203	1.3	933	4.9
Petroleum, Coal Products and Nuclear Fuels	57,098	2,590	3.8	-11,049	-16.2
Chemicals and Chemical Products	88,348	1,093	1.4	3,431	4.0
Rubber, Plastic and their Products	18,417	536	3.9	2,741	17.5
Iron and Steel	1,37,588	14,375	14.5	9,956	7.8
Other Metal and Metal Products	38,719	2,214	7.5	3,047	8.5
Engineering	82,987	- 893	-1.4	9,090	12.3
Vehicles, Vehicle Parts and Transport Equipments	40,915	1,818	5.2	2,166	5.6
Gems and Jewellery	33,962	1,997	7.0	2,182	6.9
Construction	42,661	- 592	-1.5	-1,074	-2.5
Infrastructure	4,69,621	48,659	18.0	87,499	22.9

Note: 1. Data are provisional and relate to select banks, which account for 95 per cent of total non-food credit extended by all SCBs.

2. Data include the effects of mergers of Bank of Rajasthan with ICICI Bank and State Bank of Indore with State Bank of India.

not yet broad-based as the growth is mainly driven by flow of credit to the infrastructure sub-sector, iron and steel, chemicals and chemical products, other metal and metal products and engineering industries.

IV.20 Overall flow of resources from the financial sector to the commercial sector increased significantly in the first half of 2010-11 relative to the flows in the corresponding period of last year (Table IV.10). While domestic non-bank sources of funds declined compared to the corresponding period last year, funding from foreign sources increased on account of higher amounts raised in the form of short-term credit and through ECBs and ADRs/GDRs. Reflecting the pick-up in demand for credit, incremental non-food credit (adjusted) exceeded the flows from non-banking sources.

Table IV.10: Flow of Financial Resources to the Commercial Sector

(₹ crore)

Item	April-March		April-September	
	2008-09	2009-10	2009-10	2010-11
1	2	3	4	5
A. Adjusted Non-food Bank Credit (NFC)	**4,21,091**	**4,80,258**	**1,06,575**	**2,55,674**
i) Non-food Credit	4,11,824	4,66,960	1,16,935	2,22,946$
ii) Non-SLR Investment by SCBs	9,267	13,298	-10,360	32,728$
B. Flow from Non-banks (B1+B2)	**4,39,926**	**5,80,821**	**2,22,780**	**2,29,519**
B1. Domestic Sources	**2,58,132**	**3,64,989**	**1,45,829**	**1,30,141**
1. Public issues by non-financial entities	14,205	31,956	13,617	10,448
2. Gross private placements by non-financial entities	77,856	1,41,964	39,420	19,702 #
3. Net issuance of CPs subscribed to by non-banks	4,936	25,835	50,999	32,812 *
4. Net credit by housing finance companies	25,876	28,485	3,581	7,519 ^
5. Total gross accommodation by the four RBI regulated AIFIs - NABARD, NHB, SIDBI and EXIM Bank	31,408	33,871	-3,332	15,300
6. Systemically important non-deposit taking NBFCs (net of bank credit)	42,277	60,663	18,064	30,935 ^
7. LIC's gross investment in corporate debt, infrastructure and social sector	61,574	42,215	23,480	13,425 ^
B2. Foreign Sources	**1,81,794**	**2,15,832**	**76,950**	**99,379**
1. ECBs/FCCBs	31,350	14,356	3,991	25,525 ^
2. ADR/GDR issues excluding banks and financial institutions	4,788	15,124	4,881	6,660
3. Short-term credit from abroad	-12,972	35,170	-7,137	25,455#
4. FDI to India	1,58,628	1,51,182	75,215	41,739 ^
C. Total Flow of Resources (A+B)	**8,61,017**	**10,61,079**	**3,29,355**	**4,85,193**
Memo Item:				
Net resource mobilisation by Mutual Funds through Debt (non-Gilt) Schemes	-32,168	96,578	1,01,956	-3,266

$: Up to October 8, 2010. #: April-June. ^: April-August. *: Up to September 15, 2010.

IV.21 Overall, the liquidity conditions have changed consistent with the objective of calibrated normalisation of monetary policy. Net liquidity switched to deficit mode towards the end of May 2010 after eighteen months of surplus, and has largely remained so since then. Reflecting the strengthening demand for finance consistent with robust economic growth, credit growth has picked up. Even though broad money growth remains below the trajectory envisaged in the Monetary Policy Statement for 2010-11, there has been an improvement since July 2010. With banks expected to scale up their deposit mobilisation to meet the demand for credit, broad money growth could be expected to rise. With liquidity in deficit mode and as deposit and lending rates start to move up further with some lag, the transmission of monetary policy could further strengthen.