

## IV. Monetary Conditions

*Reflecting the accommodative monetary policy stance of the Reserve Bank, monetary and liquidity conditions have remained supportive of growth during 2009-10. The key driver of growth in reserve money during Q3 of 2009-10 was the significant increment in net Reserve Bank credit to the Centre. Broad money growth, particularly since Q3 of 2009-10, has exhibited gradual moderation, primarily because of deceleration in growth of bank credit to both the private sector as well as the Government. There has, however, been a reversal in the decelerating trend of credit to the commercial sector since November 2009. The flow of financial resources from the non-banking sources to the commercial sector also exhibited significant increase during April-January 2009-10.*

IV.1 The Reserve Bank's accommodative monetary policy stance in 2009-10 to date, has conditioned the overall monetary and liquidity trends, consistent with the need to support revival of economic growth while ensuring successful completion of the Government's borrowing programme without exerting major pressures on the overall interest rate structure in the system. Broad money growth (year-on-year) witnessed some moderation during the third quarter of 2009-10 and remained close to the Reserve Bank's projected indicative trajectory of 17.0 per cent growth for 2009-10, as set out in the Second Quarter Review of Monetary Policy for 2009-10. As on January 15, 2010 growth in broad money (y-o-y) was at 16.5 per cent as against 19.1 per cent a year ago. The moderation in  $M_3$

growth since the third quarter has been driven by deceleration in bank credit to the commercial sector as well as to the Government on the sources side of money and by a slowdown in the growth of deposits on the components side. For the year as a whole, however, the banking system's credit to the Government has been the major driver of growth in broad money, a trend which has persisted since the third quarter of 2008-09 in response to the increase in Government's borrowing programme to finance the expansionary fiscal response to the economic slowdown.

IV.2 During the third quarter of 2009-10, the reserve money growth pattern changed, exhibiting a reversal in the decelerating trend that had set in since October 2008. On the sources side of reserve money, the increase has been driven by the significant expansion of net Reserve Bank credit to the Centre, on account of decline in reverse repo operations under the Liquidity Adjustment Facility (LAF), which was partially offset by increase in cash balances of the Government with the Reserve Bank. On the components side of reserve money, there was a significant increase in currency in circulation, consistent with the seasonal demand pattern for currency in Q3, as witnessed in previous years. During the year so far, unwinding of MSS balances has been the prime channel for expansion in net Reserve Bank credit to the Centre.

IV.3 There was a deceleration in the flow of credit to the commercial sector beginning in November 2008. With a rebound in economic growth in the second quarter of 2009-10, strong manufacturing sector growth and signs of pick-up in private

consumption demand, the decelerating trend in credit growth has shown a reversal since November 2009. The flow of financial resources from non-banking sources increased significantly during April-January 2009-10, partially offsetting the impact of deceleration in credit growth, and thereby helping in financing of economic activities as well as the robust recovery in industrial production since June 2009.

### Monetary Survey

IV.4 On a year-on-year (y-o-y) basis,  $M_3$  growth was 16.5 per cent on January 15, 2010 as compared with 19.1 per cent a year ago. The growth in  $M_3$  was primarily in line with the expansion in aggregate deposits during this period (Table 4.1 and Chart IV.1). Within aggregate deposits, time deposits registered a growth (y-o-y) of 16.0 per cent as on January 15, 2010, as compared with 23.1 per cent a year ago (Chart IV.2a). In 2009-10, there has been a gradual deceleration in the growth of time deposits, with softening of interest rates, in contrast to the shift from demand to time deposits during the second half of 2008-09. On the other hand, demand deposits expanded by 19.8 per cent (y-o-y) as on January 15, 2010, as compared with a decline of 0.8 per cent a year ago. There were net outflows from small savings schemes between December 2007 and July 2009; moderate inflows have, however, been recorded during August-November 2009 (the latest period for which the data are available) (Chart IV.2b). Growth in currency with the public at 17.3 per cent (y-o-y) as on January 15, 2010 remained almost same as a year ago.

IV.5 On a financial year basis, growth in  $M_3$  during 2009-10 (up to January 15, 2010)

Table 4.1: Monetary Indicators

Item	Outstanding as on January 15, 2010	Variation (year-on-year)			
		January 16, 2009		January 15, 2010	
		Absolute	Per cent	Absolute	Per cent
		2	3	4	5
I. Reserve Money* (Reserve Money Adjusted for CRR changes)	10,29,259	34,963	4.2 (18.0)	1,57,100	18.0 (17.5)
II. Narrow Money (M <sub>1</sub> )	13,51,349	90,219	8.6	2,08,294	18.2
III. Broad Money (M <sub>3</sub> )	52,79,684	7,25,819	19.1	7,49,504	16.5
a) Currency with the Public	7,48,417	93,642	17.2	1,10,466	17.3
b) Aggregate Deposits	45,27,403	6,31,702	19.4	6,40,409	16.5
i) Demand Deposits	5,99,068	-3,898	-0.8	99,199	19.8
ii) Time Deposits	39,28,334	6,35,600	23.1	5,41,210	16.0
IV. Major Sources of Broad Money					
a) Net Bank Credit to the Government (i+ii)	15,27,055	3,19,924	38.2	3,69,653	31.9
i) Net Reserve Bank Credit to Government <i>of which:</i> to the Centre	91,433	1,27,742	-	1,19,570	-
ii) Other Banks' Credit to Government	91,400	1,27,184	-	1,19,895	-
b) Bank Credit to the Commercial Sector	14,35,622	1,92,182	19.3	2,50,083	21.1
c) Bank Credit to the Commercial Sector	32,51,562	4,86,966	20.5	3,88,090	13.6
c) Net Foreign Assets of the Banking Sector	13,23,797	1,20,844	10.5	55,606	4.4
d) Government Currency Liability to Public	10,731	791	8.7	890	9.0
e) Net Non-Monetary Liabilities of the Banking Sector	8,33,461	2,02,706	35.8	64,735	8.4

\*: Data pertain to January 22, 2010.

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

was 10.8 per cent as compared with 12.8 per cent during the corresponding period of the previous year (Table 4.2).

IV.6 A quarter-wise analysis of bank credit reveals that there was continuation of

expansion in bank credit to the commercial sector in the third quarter of 2009-10, as against the absolute decline in the first quarter, although the absolute increment in credit was much lower than in the second quarter and in the corresponding quarter of

Chart IV.1: Money Supply

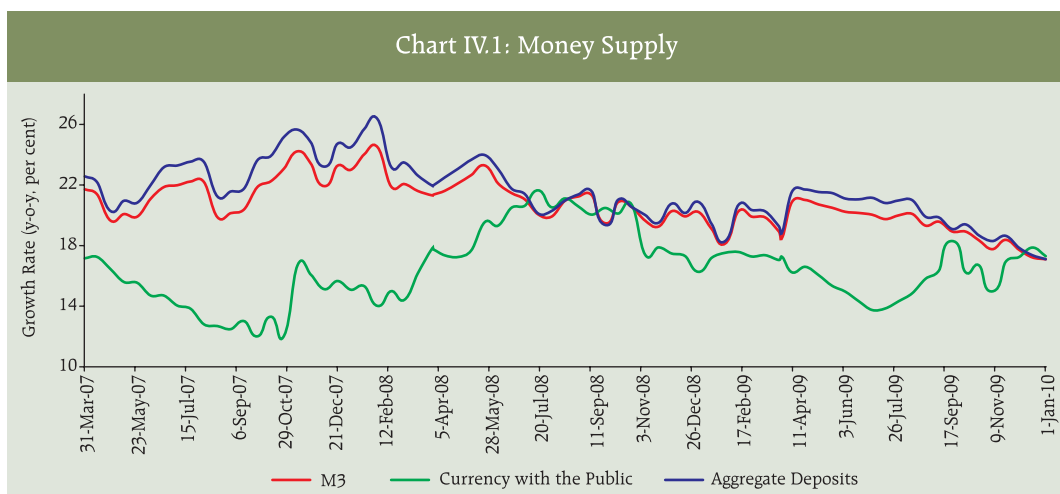


Table 4.2: Monetary Aggregates - Variations

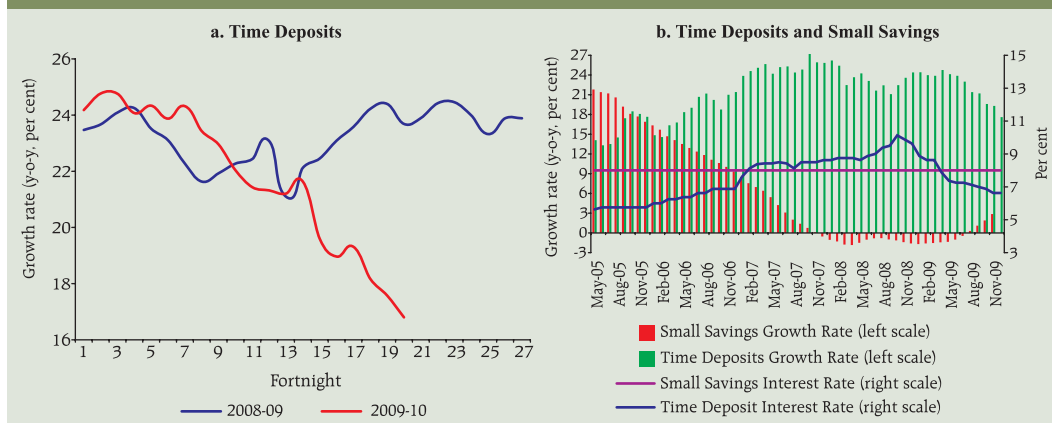
(Rupees crore)									
Item	2008-09 (up to January 16, 2009)	2009-10 (up to January 15, 2010)	2008-09				2009-10		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3
1	2	3	4	5	6	7	8	9	10
<b>M<sub>3</sub> (1+2+3 = 4+5+6+7-8)</b>	5,12,297 (12.8)	5,15,664 (10.8)	89,283	1,76,379	1,60,486	3,19,989	1,70,948	1,59,421	1,14,934
<b>Components</b>									
1. Currency with the Public	69,541 (12.2)	82,054 (12.3)	35,772	-18,037	40,405	39,813	24,402	2,651	45,118
2. Aggregates Deposits with Banks	4,46,576 (13.0)	4,35,320 (10.6)	57,621	1,93,902	1,13,039	2,87,103	1,42,506	1,62,314	68,835
2.1. Demand Deposits with Banks	-78,503 (-13.6)	17,821 (3.1)	-79,325	52,771	-62,157	91,586	-34,146	65,695	-29,579
2.2. Time Deposits with Banks	5,25,079 (18.3)	4,17,499 (11.9)	1,36,946	1,41,131	1,75,195	1,95,517	1,76,652	96,619	98,414
3. 'Other' Deposits with RBI	-3,819 (-42.2)	-1,706 (-30.7)	-4,110	514	7,042	-6,928	4,040	-5,544	980
<b>Sources</b>									
4. Net Bank Credit to Government	2,57,884 (28.7)	2,49,856 (19.6)	36,124	31,654	1,29,335	1,80,568	1,19,062	70,292	18,615
4.1. RBI's Net Credit to Government	85,072	29,853	-13	51,360	30,230	93,212	-11,145	-14,953	51,428
4.1.1. RBI's Net Credit to the Centre	86,141	29,638	1,430	51,379	29,932	93,657	-11,497	-14,968	51,597
4.2. Other Banks' Credit to Government	1,72,812	2,20,003	36,137	-19,706	99,106	87,356	1,30,207	85,244	-32,813
5. Bank Credit to the Commercial Sector	2,84,482 (11.0)	2,38,225 (7.9)	30,811	1,63,138	90,616	1,49,783	-7,762	1,09,283	68,436
6. NFA of Banking Sector	-26,941	-28,387	66,858	7,271	-1,32,461	1,15,385	-37,923	47,908	-15,108
6.1. NFA of the RBI	-10,670	-5,002	1,03,932	10,336	-1,56,330	86,048	-16,750	50,120	-15,108
7. Government's Currency Liabilities to the Public	618	677	225	206	186	213	254	302	121
8. Net Non-Monetary Liabilities of the Banking Sector	3,747	-55,293	44,735	25,890	-72,809	1,25,959	-97,318	68,363	-42,870
NFA: Net Foreign Assets.									
<b>Note</b> : 1. Data are provisional. Wherever data are not available, the data for the last available month are repeated as estimates.									
2. Figures in parentheses are percentage variations.									

the previous year (Chart IV.3). Banks' credit to the Government decreased in absolute terms during the third quarter due to the decline in the securities held by them under the LAF operations. The deceleration in commercial banks' credit to the Government since Q3 of 2009-10 has to be seen in the context of the high base in the second half of 2008-09 when the

Government borrowing programme increased significantly to deliver the fiscal stimulus as well as completion of a greater part of the borrowing programme for 2009-10 in the first half.

IV.7 Non-food credit growth (y-o-y) of scheduled commercial banks (SCBs) decelerated over twelve months following

Chart IV.2: Time Deposits and Small Savings



the peak reached in October 2008, which could be partly explained by the availability of alternate non-banking sources of funding, including internal resources of corporates, besides the impact of the economic slowdown on credit from the demand side. Non-food credit growth has shown a reversal in trend since November 2009 increasing from 10.3 per cent (y-o-y) as on November 6, 2009 to 14.4 per cent as on January 15, 2010; the Reserve Bank's current indicative projection is 18.0 per cent for 2009-10. With

the pick-up seen in credit growth in the last few fortnights, the persistent decline in the incremental credit-deposit ratio in 2009-10 has also reversed (Chart IV.4).

IV.8 While there has been deceleration in credit growth of the banking sector as a whole, credit flow from foreign banks registered a decline (Table 4.3). The expansion of credit from the public sector banks, which had held up till the first quarter of 2009-10, witnessed deceleration in the following two quarters.

Chart IV.3: Scheduled Commercial Banks' Credit (Quarterly Variation)

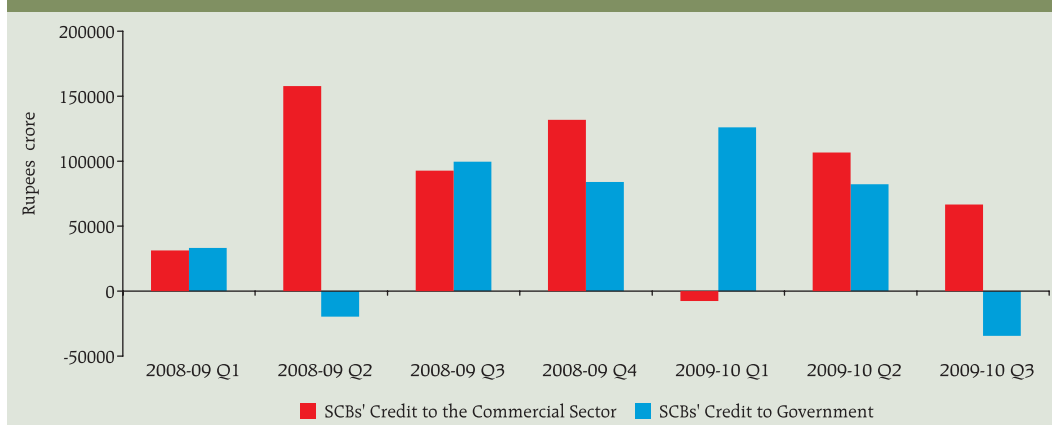
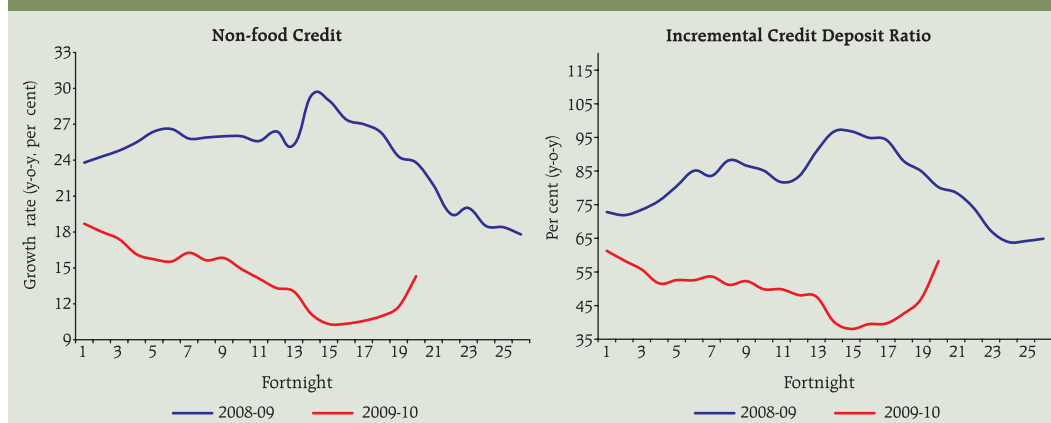


Chart IV.4: Scheduled Commercial Banks' Credit



IV.9 The high growth in deposits and weak demand for credit from the private sector led to an increase in SCBs' investment in SLR securities by 21.1 per cent (y-o-y) as on January 15, 2010 as compared with 19.5 per cent a year ago. Commercial banks' holdings of such securities as on January 15, 2010 at 29.9 per cent of their net demand and time liabilities (NDTL) were higher than 28.1 per cent at end-March 2009 and 28.8 per cent a year ago. Excess SLR investments of SCBs increased to Rs.2,26,720 crore as on January 15, 2010 from Rs. 1,69,846 crore at end-March 2009. Adjusted for LAF collateral

securities on an outstanding basis, SCB's holding of SLR securities amounted to 28.2 per cent of NDTL as on January 15, 2010. Simultaneously, SCBs have reduced their overseas foreign currency borrowings (Table 4.4).

IV.10 There has been a significant turnaround in economic growth, increase in inflation and moderation in interest rates, during 2009-10. With such high variability in growth, inflation and interest rates during the year, money growth would need to be assessed in conjunction with the

Table 4.3: Credit Flow from Scheduled Commercial Banks

(Amount in Rupees crore)					
Bank Group	Outstanding as on Jan. 15, 2010	Variation (year-on-year)			
		As on Jan. 16, 2009		As on Jan. 15, 2010	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
1. Public Sector Banks (excludes RRBs)	22,41,219	4,08,390	27.0	3,22,500	16.8
2. Foreign Banks	1,55,532	20,374	13.4	-16,720	-9.7
3. Private Banks	5,37,025	40,045	8.9	47,940	9.8
4. All Scheduled Commercial Banks*	30,08,909	4,76,514	22.0	3,66,832	13.9

\*: including Regional Rural Banks.

**Note:** Data are provisional.

Table 4.4.: Scheduled Commercial Bank Survey

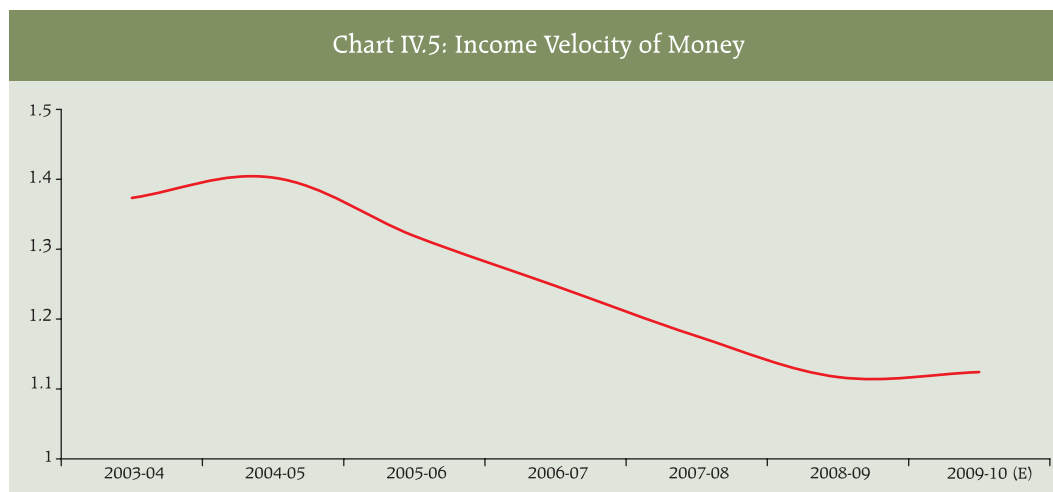
(Amount in Rupees crore)					
Item	Outstanding as on January 15, 2010	Variation (year-on-year)			
		As on January 16, 2009		As on January 15, 2010	
		Amount	Per cent	Amount	Per cent
1	2	3	4	5	6
<b>Sources of Funds</b>					
1. Aggregate Deposits	41,75,437	6,00,101	20.2	6,08,143	17.1
2. Call/Term Funding from Financial Institutions	1,00,037	20,863	21.8	-16,395	-14.1
3. Overseas Foreign Currency Borrowings	29,006	18,166	54.0	-22,830	-44.0
4. Capital	51,610	7,334	18.5	4,637	9.9
5. Reserves	3,29,052	58,085	25.9	46,817	16.6
<b>Uses of Funds</b>					
1. Bank Credit	30,08,909	4,76,514	22.0	3,66,832	13.9
<i>of which:</i> Non-food Credit	29,66,375	4,66,002	21.9	3,73,993	14.4
2. Investments in Government and Other Approved Securities	13,80,157	1,85,779	19.5	2,40,878	21.1
a) Investments in Government Securities	13,66,055	1,88,191	20.0	2,37,566	21.1
b) Investments in Other Approved Securities	14,102	-2,412	-18.3	3,312	30.7
3. Investments in non-SLR Securities	2,58,901	29,723	15.4	35,932	16.1
4. Foreign Currency Assets	38,530	-10,390	-19.0	-5,848	-13.2
5. Balances with the RBI	2,30,565	-39,512	-15.7	17,986	8.5

Note: Data are provisional.

recent trend of income velocity of money (Chart IV.5). With receding uncertainty, the velocity could be expected to have increased, explaining partly the modest deceleration in money supply, consistent

with the overall macroeconomic developments. The key factor behind moderation in money growth, though, has been the deceleration in credit growth to the private sector.

Chart IV.5: Income Velocity of Money





IV.11 Disaggregated data on sectoral deployment of gross bank credit available up to November 20, 2009 show that credit flow to agriculture remained strong despite deficient monsoon-related weak economic activity, while credit to other sectors significantly decelerated. In terms of flow of incremental credit, 56.1 per cent of incremental non-food credit (y-o-y) was absorbed by industry and 23.7 per cent by

the agricultural sector (as against 50.7 per cent and 9.3 per cent, respectively, in the corresponding period of the previous year). The expansion of incremental non-food credit to the industry during this period was led by infrastructure and iron and steel industries. Personal loans witnessed deceleration in flow of credit; within the category, housing loans also witnessed moderation (Table 4.5).

Table 4.5: Deployment of Gross Bank Credit by Major Sectors

(Amount in Rupees crore)					
Sector	Outstanding as on Nov. 20, 2009	Variation (year-on-year)			
		Nov. 21, 2008		Nov. 20, 2009	
		Absolute	Per cent	Absolute	Per cent
1	2	3	4	5	6
<b>Non-food Gross Bank Credit (1 to 4)</b>	<b>27,16,217</b>	<b>5,38,144</b>	<b>28.0</b>	<b>2,55,736</b>	<b>10.4</b>
1. Agriculture and Allied Activities	3,43,070	49,994	21.5	60,505	21.4
2. Industry	11,53,722	2,72,698	37.0	1,43,547	14.2
3. Personal Loans	5,67,744	65,902	13.2	3,958	0.7
Housing	2,91,760	22,713	9.1	19,820	7.3
Advances against Fixed Deposits	44,820	11,026	27.7	-6,008	-11.8
Credit Card Outstanding	22,635	6,147	25.7	-7,412	-24.7
Education	34,419	7,276	38.3	8,154	31.0
Consumer Durables	8,028	-990	-9.8	-1,069	-11.8
4. Services	6,51,681	1,49,550	32.9	47,726	7.9
Transport Operators	40,455	7,174	24.4	3,862	10.6
Professional Services	45,963	19,100	80.1	3,025	7.0
Trade	1,56,082	23,180	20.5	19,632	14.4
Real Estate Loans	88,581	25,276	49.0	11,734	15.3
Non Banking Financial Companies	1,02,750	30,147	54.0	16,735	19.5
<i>Memo</i>					
<b>Priority Sector</b>	<b>9,49,428</b>	<b>1,51,556</b>	<b>22.6</b>	<b>1,26,674</b>	<b>15.4</b>
Micro and Small Enterprises *	3,35,654	46,949	20.0	54,313	19.3
<b>Industry</b>	<b>11,53,722</b>	<b>2,72,698</b>	<b>37.0</b>	<b>1,43,547</b>	<b>14.2</b>
Food Processing	53,642	9,540	23.2	2,996	5.9
Textiles	1,07,948	17,556	21.2	7,430	7.4
Paper and Paper Products	17,284	3,564	29.7	1,709	11.0
Petroleum, Coal Products and Nuclear Fuels	68,021	52,233	149.2	-19,228	-22.0
Chemicals and Chemical Products	76,641	21,383	39.2	739	1.0
Rubber, Plastic and their Products	13,845	3,257	33.4	850	6.5
Iron and Steel	1,15,475	18,219	23.7	20,356	21.4
Other Metal and Metal Products	31,829	8,278	39.2	2,427	8.3
Engineering	65,472	13,091	26.5	2,963	4.7
Vehicles, Vehicle Parts and Transport Equipment	35,973	11,051	42.5	-1,079	-2.9
Gems and Jewellery	30,482	3,494	14.5	2,810	10.2
Construction	37,376	12,858	59.9	3,067	8.9
Infrastructure	3,34,293	63,178	38.6	1,07,255	47.2

\*: Micro and small enterprises include services sector enterprises also.

**Note:** Data are provisional and relate to select banks and cover about 95 per cent of the total non-food credit extended by all SCBs. Data also include the effects of mergers of Bharat Overseas Bank with Indian Overseas Bank, American Express Bank with Standard Chartered Bank and State Bank of Saurashtra with State Bank of India.



IV.12 Apart from banks, the commercial sector mobilised resources from a variety of other sources, such as the capital market, commercial papers (CPs), American Depository Receipts (ADRs)/Global Depository Receipts (GDRs) and foreign direct investment (FDI). During the first ten months of 2009-10, flow of resources from external sources increased as compared with the corresponding period of the

previous year, mainly reflecting large FDI inflows. Resources mobilised through domestic non-bank sources also recorded an increase during this period. The increased flow from non-bank sources notwithstanding, the reduced flow of bank credit, has led to a decrease in the total flow of financial resources to the commercial sector during April 2009-January 2010, compared to a year ago (Table 4.6).

**Table 4.6: Flow of Financial Resources to Commercial Sector**

(Rupees crore)				
Item	Full Year		April-January	
	2007-08	2008-09	2008-09	2009-10
1	2	3	4	5
<b>A. Adjusted Non-food Bank Credit</b>	<b>4,44,807</b>	<b>4,21,091</b>	<b>2,83,855</b>	<b>2,31,024</b>
i) Non-food Credit	4,32,846	4,11,824	2,74,867	2,37,036 \$
<i>of which: petroleum and fertiliser credit</i>	5,057	31,632	50,436	-181 *
ii) Non-SLR Investment by SCBs	11,961	9,267	8,988	-6,012 \$
<b>B. Flow from Non-banks (B1 + B2)</b>	<b>5,61,511</b>	<b>5,01,014</b>	<b>3,10,888</b>	<b>3,58,392</b>
<b>B1. Domestic Sources</b>	<b>2,55,230</b>	<b>3,13,639</b>	<b>1,66,941</b>	<b>1,94,758</b>
1. Public issues by non-financial entities	51,478	14,205	13,559	19,791 ^
2. Gross private placements by non-financial entities	68,249	77,856	44,151	81,617 \$\$
3. Net issuance of CPs subscribed by non-banks	10,660	5,590	4,390	47,744 **
4. Net credit by housing finance companies	41,841	25,876	29,063	9,852 *
5. Total gross accommodation by 4 RBI regulated AIFIs - NABARD, NHB, SIDBI and EXIM Bank	22,267	31,423	9,839	-1,461 ^
6. Systemically important non-deposit taking NBFCs (net of bank credit)	36,460	76,828	15,661	1,889 *
7. LIC's net investment in corporate debt, infrastructure and social sector	24,275	81,861	50,278	35,326 ^
<b>B2. Foreign Sources</b>	<b>3,06,281</b>	<b>1,87,375</b>	<b>1,43,947</b>	<b>1,63,634</b>
1. External Commercial Borrowings/FCCBs	91,086	36,931	31,969	23,874 ^
2. ADR/GDR issues excluding banks and financial institutions	11,836	4,788	4,686	14,476 ^
3. Short-term credit from abroad	63,939	-12,972	6,799	4,447 *
4. FDI to India	1,39,420	1,58,628	1,00,493	1,20,837 *
<b>C. Total Flow of Resources (A+B)</b>	<b>10,06,318</b>	<b>9,22,105</b>	<b>5,94,743</b>	<b>5,89,416</b>
<i>Memo:</i>				
Investments in Debt (non-Gilt) Schemes of Mutual Funds	<b>88,457</b>	<b>-32,168</b>	<b>-28,793</b>	<b>1,50,085</b> ^
\$: Up to January 15, 2010. *: April-November. \$\$: April-September. **: Up to January 1, 2010. ^: April-December.				

## Reserve Money Survey

IV.13 During the third quarter of 2009-10, growth in reserve money showed a reversal from the decelerating trend that was in place since October 2008. Reserve money registered a growth of 18.0 per cent, y-o-y, as on January 22, 2010 as compared with a growth of 4.2 per cent a year ago. On the components side, the increment in reserve money in the third quarter of 2009-10 was mainly driven by the expansion in currency in circulation, due to the seasonal demand arising from festive season. On the sources side, even though net foreign currency assets (adjusted for valuation) decreased during Q3 of 2009-10, liquidity management operations of the Reserve Bank led to increase in the Reserve Bank's credit to the Centre. Significant decline in reverse repo balances were offset to an extent by the increase in Centre's surplus with the Reserve Bank. Adjusted for the first round effect of the changes in CRR, reserve money growth (y-o-y) as on January

22, 2010 was 17.5 per cent which is comparable to 18.0 per cent a year ago. The CRR impact (in terms of injection of liquidity during policy-driven decline in CRR and absorption during increase in CRR) explains the difference between 'reserve money' and 'adjusted reserve money'. Since the last change in CRR was effected in January 2009, the difference between the growth rates of reserve money and adjusted reserve money has tapered after the end of the one year cycle during which the difference persisted (Chart IV.6).

IV.14 The money multiplier increased from 4.3 at end-March 2008 to 4.8 at end-March 2009, on account of the 400 basis points reduction in CRR between October 2008 and January 2009. The multiplier has remained higher in 2009-10 so far, though not in an uninterrupted fashion, reaching 5.1 at end-December 2009 (Chart IV.7).

IV.15 The financial year variations in reserve money during 2009-10 (up to

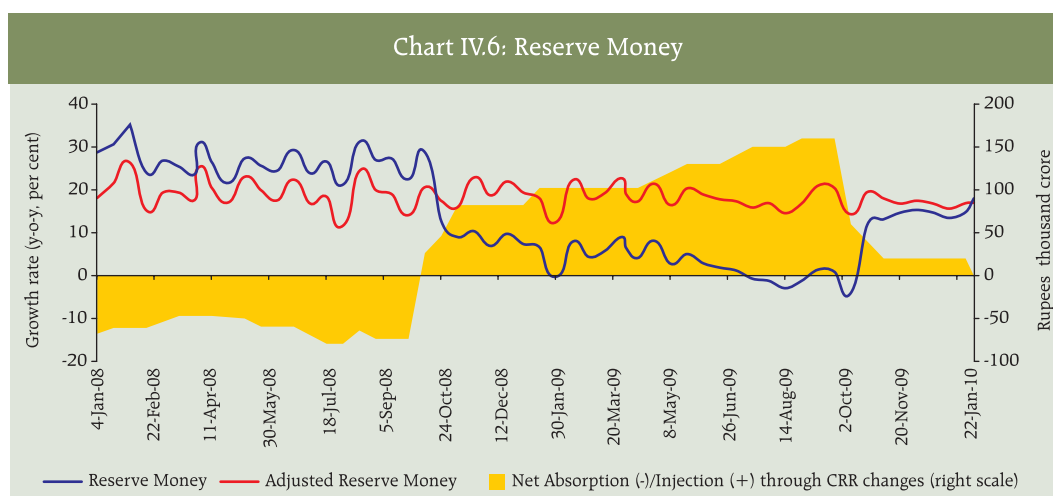
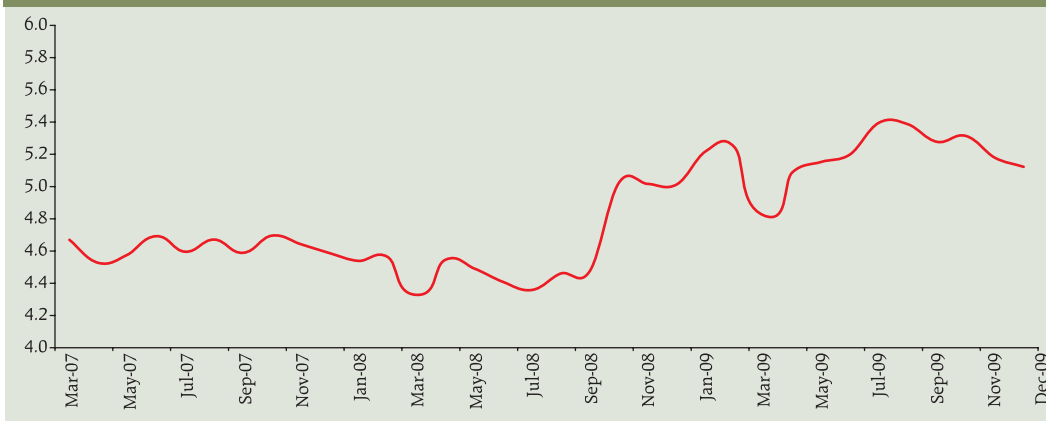


Chart IV.7: Money Multiplier



January 22, 2010) show that reserve money increased by 4.2 per cent as against a decrease of 6.0 per cent in the corresponding period of the previous year (Table 4.7 and Chart IV.8).

IV.16 Movements in the Reserve Bank's net credit to the Central Government during the financial year (up to January 22, 2010) largely reflected the liquidity management operations of the Reserve Bank and changes in Central Government deposits with the Reserve Bank. With easy liquidity conditions prevailing since mid-November 2008, the Reserve Bank has been absorbing large amount of liquidity through reverse repo under the LAF. Accordingly, Reserve Bank's holding of government securities (up to January 22, 2010) declined on account of an increase in absorption under the LAF (by Rs.68,845 crore). The Centre's surplus cash balances with the Reserve Bank also increased (by Rs.51,220 crore). On the other hand, unwinding of MSS securities (by Rs.80,340 crore) led to a decline in Central Government deposits

with the Reserve Bank and, therefore increased net Reserve Bank credit to the Centre. Furthermore, net open market purchases under OMO/special market operations (SMO) led to higher holding of Central Government securities/bonds (by Rs.75,477 crore) by the Reserve Bank. Reflecting the combined effect of these developments, the Reserve Bank's net credit to the Centre increased during 2009-10 (up to January 22, 2010), which is lower than the increase during the corresponding period of the previous year.

IV.17 Overall, reflecting the accommodative monetary policy stance of the Reserve Bank, monetary and liquidity conditions have remained supportive of growth. Deposit growth on the components side and higher growth in banking system credit to the Government on the sources side have been the major drivers of growth in monetary aggregates during the year. Since the third quarter of 2009-10, there has been moderation in growth of credit to both the Government and the private sector, as a

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**Table 4.7 : Reserve Money - Variations**

(Amount in Rupees crore)

Item	2008-09 (April- March)	2008-09 (Up to Jan. 23)	2009-10 (Up to Jan. 22)	2008-09				2009-10		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3
1	2	3	4	5	6	7	8	9	10	11
<b>Reserve Money</b>	59,698	-56,144	41,258	3,416	25,218	-70,454	1,01,519	-38,932	16,217	51,691
<b>Components (1+2+3)</b>										
1. Currency in Circulation	1,00,352	69,286	84,242	36,859	-14,516	38,277	39,733	29,692	1,081	45,254
2. Bankers' Deposits with RBI	-37,172	-1,21,639	-41,097	-29,333	39,219	-1,15,773	68,714	-72,664	20,680	5,456
3. 'Other' Deposits with RBI	-3,482	-3,791	-1,888	-4,110	514	7,042	-6,928	4,040	-5,544	980
<b>Sources (1+2+3+4-5)</b>										
1. RBI's net credit to Government <i>of which: to Centre</i>	1,74,789 1,76,397	64,020 65,183	33,555 33,267	-13 1,430	51,360 51,379	30,230 29,932	93,212 93,657	-11,145 -11,497	-14,953 -14,968	51,428 51,597
2. RBI's Credit to Banks and Commercial Sector	17,799	4,247	-18,650	-3,358	4,963	5,032	11,163	-9,623	-3,747	-5,926
3. Net Foreign Assets of RBI <i>of which:</i> FCA, adjusted for valuation	43,986 -1,00,308	-22,813 -98,803	-2,036 9,283	1,03,932 15,535	10,336 -31,641	-1,56,330 -92,102	86,048 7,900	-16,750 -6,245	50,120 33,441	-15,108 -18,985
4. Governments' Currency Liabilities to the Public	831	618	677	225	206	186	213	254	302	121
5. Net Non-Monetary Liabilities of RBI	1,77,706	1,02,216	-27,712	97,369	41,648	-50,428	89,117	1,668	15,505	-21,176
<i>Memo:</i>										
Net Domestic Assets	15,712	-33,331	43,294	1,00,516	14,882	85,876	15,471	-22,182	-33,903	66,799
LAF- Repos (+) / Reverse Repos(-)	-51,835	-97,530	-68,845	-45,350	51,480	-62,170	4,205	-132,800	28,170	67,765
Net Open Market Sales # *	-94,548	-33,520	-75,477	-8,696	-10,535	-7,669	-67,649	-42,001	-31,591	-1,894
Centre's Surplus	-60,367	-76,586	51,220	-42,427	6,199	-32,830	8,691	-13,156	77,713	17,519
MSS Balances	-80,315	-58,698	-80,340	6,040	-628	-53,754	-31,973	-65,187	-4,117	0
Net Purchases(+)/Sales(-) from Authorised Dealers	-1,78,592	-1,60,127	-12,794	3,956	-52,761	-1,11,877	-17,910	-15,889	2,538	315
NFA/Reserve Money @	129.6	139.1	124.2	143.8	141.1	134.7	129.6	133.1	136.1	127.7
NFA/Currency @	185.2	183.8	164.8	213.5	220.2	183.3	185.2	175.3	181.9	169.2

NFA: Net Foreign Assets. FCA: Foreign Currency Assets.

\*: At face value. #: Excludes Treasury Bills. @: Per cent; end of period.

**Note:** Data are based on March 31 for Q4 and last reporting Friday for all other quarters.

result of which broad money growth exhibited some deceleration. Deposit growth has also decelerated since the third quarter of 2009-10. Going forward, higher

capital inflows and the revival in demand for credit from the private sector could influence the trajectory of growth in monetary conditions.

