

## Monetary Trends and Developments

### Money Supply

3.7 The year-on-year growth in broad money (M3) at 16.6 percent as on January 14, 2000 was well above the projected M3 growth range. In fact, it moved in the range of 18 to 20 percent during the major part of the first half of the current financial year before moving down to 17.0 percent by end-August, 1999. The sudden drop in the year-on-year M3 growth by end- August, 1999 reflected mainly a statistical correction for the inclusion of RIB proceeds in the base since August 28, 1998.

3.8 The growth rate in narrow money (M1) in the current financial year till January 14, 2000 exceeded that in the corresponding period of the previous financial year. This reflected the marginal increase in demand deposits (0.2%) in contrast to a decline (-2.4 %) last year. However, reserve money growth during this period was negative (-0.1%) as against an increase of 10.7 per cent in the corresponding period of the previous financial year (Table 3.1).

3.9 Table 3.2 presents the trends in the components as well as the sources of growth of broad money. On the side of components, the lower growth rate of M3 till January 14, 2000 in the current financial year reflected mainly the lower growth in time deposits with banks, which in turn reflected the higher base of time deposits in the previous year on account of proceeds from RIBs. According to the residency concept recommended by the Working Group on "Money

Supply: Analytics and Methodology of Compilation", non-resident repatriable foreign currency fixed liabilities with the banking system in India (proceeds under the RIBs and balances under FCNR(B) Scheme) do not directly constitute a part of the domestic demand for money and hence should be excluded from monetary aggregates (Box 3.1). Time deposits registered a lower growth rate of 14.0 percent in the current financial year till January 14, 2000 as against 17.0 percent in the corresponding period of 1998-99. However, the growth rate in time deposits till January 14, 2000 was higher than the growth rate of 13.7 percent in time deposits excluding RIB proceeds during the corresponding period of the previous financial year. An analysis of variations in the sources of broad money growth indicated that the growth in net bank credit to Government till January 14, 2000 was lower than that in the corresponding period of the previous financial year whereas bank credit to commercial sector during this period was significantly higher than that in the previous financial year.

3.10 Table 3.3 shows the trends in the components as well as sources of reserve money. On the side of components, the decline in reserve money reflected the impact of CRR reduction effected in May 1999 and November 1999 whereas on the side of sources of reserve money growth this is explained by the decline in RBI credit to banks and commercial sector, which outweighed the relatively lower growth in net RBI credit to Government. The reduction in cash reserve ratio (CRR) to 10 percent with effect from May, 1999 and further to 9 percent with effect from November, 1999 implies higher value of money multiplier on account of the inverse relationship between CRR and the money multiplier. However, seasonal factors tend to raise the currency-deposit ratio in the second half of the financial year. The expansionary effect of the increase in the money multiplier due to CRR reductions on M3 growth is likely to be moderated by higher currency deposit ratio in the latter part of 1999-2000.

### Credit

3.11 The growth in non-food credit remained negative/negligible during most of the first quarter of the current financial year. However, in response to increase in demand for non-food

**TABLE 3.1**  
**Growth of Monetary Aggregates**

Money	<i>(Per cent)</i>		
	1998-99 Mar. 31 to Mar. 31	1998-99 Mar. 31 to Jan. 15	1999-2000 Mar. 31 to Jan. 14
Broad Money(M3)	18.4	13.7 (20.5)	12.0 (16.6)
Narrow Money(M1)	15.1	7.0 (13.5)	7.6 (15.8)
Reserve Money	14.6	10.7 (20.4)	-0.1 (3.4)
M3 multiplier	3.75	3.73	4.20

**Note:—**

(i) All figures are provisional. Figures in brackets denote the year-on-year growth rates.

(ii) M3 multiplier is as at end-March for 1998-99 and as on January 15/14 for 1998-99 and 1999-2000.

credit arising from acceleration in industrial growth, it picked up in the second quarter, and as on January 14, 2000, non-food credit registered a growth rate of 10.6 percent as against 7.2 percent in the corresponding period of the previous year. During this period (upto December, 1999), investment by banks in equity/ debt instruments of the corporate sector comprising industrial units in both the public and private sectors registered a lower growth rate of 19.1 percent than that at 36.3 percent in the corresponding period of 1998-99. The total flow of funds comprising both non-food credit and investment till January 14, 2000 increased by 11.6 percent as against 10.0 percent in the

corresponding period of 1998-99. Net bank credit to Government comprising net RBI credit to Government and bank credit to Government (investment by commercial banks in Government securities) increased by 14.1 percent till January 14, 2000 in contrast to 15.9 percent in the corresponding period of the previous year. During this period, net RBI credit to Central Government (Centre's monetised deficit) registered a lower growth rate of 2.8 percent than that at 13.2 percent in the corresponding period of 1998-99. Net RBI credit to Government (Centre plus States) registered a still lower growth rate of 1.3 per cent during this period as against 13.4 per cent in the corresponding period of last year.

**TABLE 3.2**  
**Sources of Change in Money Stock (M3)**  
Variations during

	Financial Year			Annual		Financial Year			Annual	
	1998-99	1998-99	1999-2000	1998-99	1999-2000	1998-99	1998-99	1999-2000	1998-99	99-2000
	Mar.31	Mar.31	Mar. 31	Jan. 16	Jan. 15	Mar. 31	Mar. 31	Mar. 31	Jan. 16	Jan. 15
	to	to	to	to	to	to	to	to	to	to
	Mar.31	Jan. 15	Jan. 14	Jan. 15	Jan. 14	Mar. 31	Jan. 15	Jan. 14	Jan. 15	Jan. 14
	<i>(Rs. crore)</i>					<i>(Per cent)</i>				
I. M1 (Narrow Money)	40471	18714	23490	34143	45247	15.1	7.0	7.6	13.5	15.8
II. M3 (Broad Money) (1+2+3+4)	150873	112640	116476	158994	154709	18.4	13.7	12.0	20.5	16.6
1. Currency with the public	23804	21807	24106	22141	26103	16.4	15.0	14.2	15.9	15.6
2. Demand deposits with banks	16386	-2876	213	12570	19476	13.8	-2.4	0.2	12.2	16.8
3. Time deposits with banks	110402	93926	92986	124851	109462	19.9	17.0	14.0	23.4	16.9
4. Other deposits with RBI	281	-217	-830	-568	-332	7.9	-6.1	-21.7	-14.6	-10.0
III. Sources of change in money stock (M3) (1+2+3+4-5)										
1. Net bank credit to Government (A+B)	56554	52468	54657	63949	58743	17.1	15.9	14.1	20.0	15.3
(A) RBI's net credit to Government (i+ii)	17379	18080	2029	25895	1329	12.9	13.4	1.3	20.3	0.9
(i) Central Government	11800	17693	4096	25241	-1797	8.8	13.2	2.8	20.0	-1.2
(ii) State Governments	5579	387	-2067	654	3126	361.5	25.1	-29.0	51.3	162.0
(B) Other banks' credit to Government	39175	34388	52627	38055	57415	20.0	17.6	22.4	19.8	25.0
2. Bank credit to commercial sector (A+B)	57054	36373	53809	63567	74490	13.2	8.4	11.0	15.7	15.9
(A) RBI's credit to commercial sector	4040	4400	-3983	4764	-4342	49.4	53.7	-32.6	60.9	-34.5
(B) Other banks' credit to commercial sector	53013	31973	57792	58804	78833	12.5	7.5	12.1	14.8	17.2
3. Net foreign exchange assets of the banking sector	38683	30415	14771	42471	23038	28.0	22.0	8.4	34.0	13.7
4. Government's currency liabilities to the public	494	352	233	476	375	14.7	10.5	6.1	14.7	10.1
5. Banking Sector's net non-monetary liabilities other than time deposits	1912	6968	6994	11719	1938	2.3	8.3	8.1	14.8	2.1

**Note : 1.** All figures are provisional. Data for RBI relate to March 31 after closure of Government Accounts. Variations in respect of scheduled commercial banks are based on data for last reporting Friday of March. Scheduled commercial banks' time deposits include Rs. 17,944.9 crore on account of proceeds from RIBs (Resurgent India Bonds), since August 28, 1998.

**2.** Monetary Data have been revised in line with the new accounting standard and consistent with the methodology suggested by the Working Group on Money Supply : Analytics and Methodology of Compilation (June 1998). The revision is in respect of pension and provident funds with commercial banks which are classified as other demand and time liabilities and includes those banks which have reported such changes so far.

### BOX 3.1

#### Difference between New and Old Series of Money Supply

The new series of broad money (NM3) differs from the old series (M3) by a magnitude comprising FCNR(B) deposits and RIBs, and banks' pension and provident funds. This may be seen in line with the recommendations made by the Working Group on Money Supply: Analytics and Methodology of Compilation (Chairman Dr. Y.V. Reddy). The first set of NM3 data have been released by the RBI through the article entitled "New Monetary Aggregates: An Introduction" in the October 1999 issue of the RBI Bulletin. The main points are listed below:—

- Compilation of monetary aggregates on residency basis in line with best international practices requires that repatriable foreign currency fixed non-resident deposits (RIBs and FCNR(B) deposits in the Indian context) are not to be directly reckoned in money supply because they are BOP-related and do not constitute a part of the domestic-demand for money.
- This does not imply that RIBs or FCNR(B) with the banking system in India do not affect money supply.
- If a bank sells foreign currency to the RBI, net foreign currency assets of the RBI go up, with an equivalent increase in rupee value of reserve money. Since an increase in reserve money raises money supply, in subsequent rounds of credit creation, FCNR(B) deposits/RIBs influence money supply.
- If the RBI sterilises the additional liquidity created by the purchase of foreign currency from the banks by selling Government securities from its portfolio, then this would not have any impact on reserve money and hence on money supply. The only effect is that FCNR(B) deposits/RIBs add to the RBI's NFCA with a corresponding reduction of Government securities in the RBI portfolio. In the bank balance sheet, foreign currency assets show a decline while holdings of Government securities go up.
- From the BOP point of view, FCNR(B) deposits and RIBs constitute liabilities under the banking capital account and commercial borrowing account respectively. If the bank holds the foreign currency, the corresponding foreign currency assets would be classified as a debit item in the assets sub-account of the banking capital account and other capital account in respect of FCNR(B) deposits and RIBs respectively.
- Pension and provident funds are essentially a portfolio of assets created to provide old age and retirement benefits. As they differ from deposits redeemable for cash at face value plus accrued interest, they need to be excluded from monetary aggregates in line with international practices. Wherever pension and PF accounts are not managed by separate entities, such funds need to be classified as part of banks' other demand and time liabilities, which form part of net non-monetary liabilities of other banks in the existing money supply compilation, and other items (net) of the banking system as per the new series.

**TABLE 3.3**

#### Sources of Change in Reserve Money Variations during<sup>1</sup>

	Financial Year			Annual		Financial Year			Annual		
	Outstanding as on March 31, 1998	1998-99	1998-99	1999-2000	1998-99	1999-2000	1998-99	1998-99	1999-2000	1998-99	1999-2000
		Mar.31 to Mar.31	Mar.31 to Jan.15	Mar.31 to Jan.14	Jan. 16 to Jan. 15	Jan. 15 to Jan. 14	Mar.31 to Mar.31	Mar.31 to Jan. 15	Mar.31 to Jan. 14	Jan. 16 to Jan. 15	Jan. 15 to Jan. 14
		<i>(Rs. crore)</i>			<i>(per cent)</i>						
1. Net RBI credit to Government <sup>2</sup>	135160	17379	18080	2029	25895	1329	12.9	13.4	1.3	20.3	0.9
2. RBI credit to banks <sup>3</sup>	7096	6165	6133	-4150	5660	-4118	86.9	86.4	-31.3	74.8	-31.1
3. RBI credit to commercial sector <sup>4</sup>	8186	4040	4400	-3983	4764	-4343	49.3	53.7	-32.6	60.9	-34.5
4. Net foreign exchange assets of RBI <sup>5</sup>	115890	22063	13209	14771	21389	23626	19.0	11.4	10.7	19.9	18.3
5. Government's currency liabilities to the public	3352	494	352	233	475	375	14.7	10.5	6.1	14.7	10.1
6. Net non-monetary liabilities of RBI	43282	17173	17915	9180	15674	8438	39.7	41.4	15.2	34.4	13.8
7. Reserve Money (1+2+3+4+5-6)	226402	32968	24259	-280	42510	8431	14.6	10.7	-0.1	20.4	3.4

1. Variations are worked out on the basis of March 31 data after closure of Governments accounts. Figures for 1998-99 and 1999-2000 are provisional.
2. Includes special securities.
3. Includes claims on NABARD.
4. Excludes, since the establishment of NABARD, its refinance to banks.
5. Variations are inclusive of appreciation in the value of gold following its revaluation close to the international market price since October 17, 1990. Such appreciation has a corresponding effect on RBI's net non-monetary liabilities.