

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3299
ANSWERED ON:13.08.2010
MEASURES TO CONTAIN SHORTAGE OF LIQUIDITY
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Will the Minister of FINANCE be pleased to state:

- (a) the status of liquidity in the economy of the country during each of the last three years and the current year;
- (b) whether there is liquidity crunch in the market;
- (c) if so, the details thereof and steps taken to address the same; and
- (d) the measures proposed to be taken in this regard for future?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S.PALANIMANICKAM)

(a): The outstanding position of liquidity adjustment facility (LAF) and market stabilisation scheme (MSS) for the last three years and the current position are given below:

Rs. crore

Year	Average daily net outstanding under LAF (Absorption(+)/Injection(-)	Average of Weekly outstanding balances under MSS
2007-2008	4,677	1,28,684
2008-2009	2,885	1,48,889
2009-2010	1,00,015	23,914
2010-2011 (till July 2010)	(-) 1,013	1,057

(b) to (d): Larger than expected proceeds in respect of spectrum auctions resulted in build-up of cash balances with the Government leading to tightness in liquidity conditions in end-May 2010, which continued in June 2010 and most of July 2010.

The Reserve Bank of India took several measures to ease the liquidity conditions which included additional liquidity support under the Reserve Bank's liquidity adjustment facility (LAF) to Scheduled Commercial Banks (SCBs) to the extent of up to 0.5 per cent of their net demand and time liabilities (NDTL). A second LAF (SLAF) was made available on a daily basis. Besides, in consultation with the Government, the notified amounts for the issuance of Treasury Bills were reduced by Rs. 22,000 crore during June 2010. The Government also bought back securities worth Rs. 9,614 crore during June 16-22, 2010 ahead of its schedule. These measures helped ease the liquidity pressures and the liquidity position has improved since end-July 2010.