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MONETARY AND BANKING DEVELOPMENTS

In its Statement on Monetary and Credit Policy for 2000-2001, the Reserve Bank of India indicated a growth of about 15 per cent in broad money (M3) on the basis of a projected real GDP growth rate of 6.5-7.0 per cent and an assumed inflation rate of around 4.5 per cent. In the light of subsequent developments in the real economy, the Reserve Bank marginally lowered the projected real GDP growth to 6.0-6.5 per cent in its Mid-term Review. It, however, did not indicate any revision in M3 growth. As on January 12,2001, the year-on-year M3 growth was 15.8 per cent, which reflected the expansion in monetary base through the India Millennium Deposits (IMDs). The position arising from the sharp decline in RBI's net foreign exchange assets during May-October, 2000 changed with the inflows under IMDs in November, 2000. Reserve money registered a growth of 5.1 per cent till January 12, 2001 in the current financial year compared with negligible growth in the corresponding period of the previous financial year.

3.2 The flow of non-food credit from scheduled commercial banks (SCBs) to the commercial sector registered a growth of 11.9 per cent till January 12, 2001 in the current financial year compared with 10.5 per cent in the corresponding period last year. The decline in banks' investment in the debt and equity instruments of public and private sector units during this period was more than offset by the increase in non-food credit. The total flow of funds comprising both non-food credit and banks' investment till January 12, 2001 therefore registered a growth of 12.1 per cent compared with 11.8 per cent in the corresponding period of the previous financial year. During April-December 2000, sanctions by All-India Financial Institutions (AIFIs) increased by 17.5 per cent compared with 5.0 per cent in the corresponding period last year. Disbursements by AIFIs increased by 12.4 per cent during April-December 2000 compared with 19.0 per cent during the corresponding previous period.

3.3 The major policy measures/reforms designed to enhance the efficiency of the financial system included the following:—

- Transition to a full-fledged Liquidity Adjustment Facility (LAF) involving injection and absorption of liquidity via variable rate reverse Repo auctions and variable rate Repo auctions respectively.
- Legislative initiative to reduce the proportion of Government holding in the equity of nationalised banks.
- Formulation of transparent guidelines for banks' investment in shares and financing of equities.
- Renewed efforts aimed at speedier recovery of funds locked up in the non-performing assets of commercial banks.
- Permission for banks and non-banking financial companies (NBFCs) to enter insurance business with prior approval of RBI.
- Revised norms for entry of new banks in the private sector.