

Outlook

3.46 There was a sudden increase in broad money growth in November, 2000 on account of the unsterilised foreign exchange intervention by the Reserve Bank through the purchase of IMDs from the State Bank of India. Given the large borrowing requirements of the Central Government and the greater flow of credit to commercial sector, it was necessary to ensure adequate liquidity through such intervention. Generation of liquidity via IMDs enabled RBI to reduce monetised deficit by offloading Central Government's dated securities in its portfolio to the market. Thus, RBI could minimise the impact of IMDs on the growth in money supply. The year-on-year growth in broad money (15.8 per cent) as on January 12, 2001 was well below the long-run growth rate of around 17 per cent. Besides reducing the pressure on the rupee in the foreign exchange market, IMDs could avert upward pressure on interest rates. Lower transaction costs facilitated by lower interest rates for loans and advances from banks can be expected to contribute to higher output in the economy. In order to pave the way for a sustainable shift to a low interest rate regime, it is necessary for banks to achieve

significant reduction in the stock of non-performing assets. Recent initiatives in speedier recovery of NPAs need to be supplemented by measures designed to reduce transaction costs in the Indian economy. This, in turn, calls for reduction in both interest and non-interest expenditure by banks and financial institutions in India.

BOX 3.5

Trends in Money Supply and Credit

Item	Growth Rate (%)	
	1980-81 to 1991-92 (Period I)	1992-93 to 1999-2000 (Period II)
Money Supply		
Broad Money (M_3)	17.2	17.1
Reserve Money (M_0)	16.2	14.0
Credit		
Food Credit	23.1	28.5
Non-food credit	16.5	16.7

The broad money growth remained virtually unchanged at around 17 Per cent. As regards reserve money, there was a noticeable decline in growth.

The broad money multiplier increased from 2.95 in 1980-81 to 3.11 in 1991-92 and further to 4.02 in 1999-2000.