

CHALLENGES AND OUTLOOK

5.124 The monetary policy during 2008-09 has been responsive to the emergent situation as a consequence of global conditions. The measures initiated on the monetary front were in the nature of an accommodative policy to ensure that there were no liquidity constraints in the economy. Coupled with the expansionary fiscal policy, the initiatives have had a favourable impact on domestic monetary, real and financial sectors. As compared to developed countries which are presently facing recessionary trends, the Indian economy has merely had a moderation in growth during 2008-09. On a preliminary assessment, the economy evinces early signs of turnaround. The flexibility in the policy framework and initiatives taken provide the environment for the resumption to sustained high growth path in the near term. The growth in credit for meeting the critical needs of the productive sectors are high on the agenda.

5.125 It is also a matter of satisfaction that the performance of the capital market has lately shown signs of revival of investor interest and confidence – both domestic and foreign institutional investors. Net investment by FIIs in equity instruments amounted to US\$ 5.4 billion during April-May 2009.

5.126 A turnaround has also been noticed in the performance of mutual fund industry, which had remained subdued during 2008. Mutual fund investments (net) in equity markets turned positive in March 2009 and were Rs. 2,320 crore during April-May 2009, while they invested Rs. 36,791 crore in debt instruments during the same period. There is scope for expansion of mutual fund industry as only 7.7 per cent of total financial saving was allocated to mutual funds in 2007-08. The retail investor participation, which is presently estimated at 15 per cent, is expected to increase in the years to come as availability of products and investor education improve and the industry takes steps

towards transparency and sound corporate governance practices to generate investor confidence.

5.127 The insurance sector penetration, both in life and non-life segments, has improved since the time the sector has been opened for private participation. However, the penetration rates particularly in non-life business have remained lower than those in some of the emerging economies in Asia. The IRDA has been entrusted with the responsibility of development of the industry through monitoring of consumer-related aspects like market conduct, consumer education and creation of an integrated platform for redressal of customer grievances. An important initiative in this area is the announcement of draft corporate governance guidelines for insurance companies to ensure that appropriate governance practices are in place in the insurance companies for maintenance of solvency, sound long-term investment policy and assumption of underwriting risks on a prudential basis as the insurance companies are yet to be listed.

5.128 The development of corporate bond and securitisation markets in India has been an important area, which has received policy attention in the recent past. A reasonably well developed bond market is required to supplement the banking system in meeting the requirements of the corporate sector for long-term capital investment besides raising resources for infrastructure development in the country.

5.129 PFRDA faces the challenge of covering the unorganized sector under the NPS, empowering the subscribers to take appropriate investment decisions based on their risk and return profile, provide safety and optimum returns, and to improve financial literacy levels. The success of pension reforms will not only help in facilitating the flow of long-term savings for investments and funds for infrastructure development, but would also help the government to fund its pension liabilities.