MONETARY AND BANKING DEVELOPMENTS

The monetary and credit policy for April-September, 1998 indicated broad money (M3) growth in the range of 15.0 -15.5 per cent for 1998-99 on the basis of a projected real GDP growth rate of 6.5 to 7.0 per cent and an assumed inflation rate of 5 to 6 per cent. The year-on-year growth in broad money at 19.8 per cent as on January 15, 1999 exceeded the corresponding growth in 1997-98 by about 3 percentage points. This reflected the strong year-on-year growth of 22.7 per cent in time deposits with banks as on January 15, 1999 vis-a-vis the corresponding growth (19.6 per cent) in 1997-98. The growth in M3 in the current financial year till January 15,1999 was 13.2 per cent as against 11.2 per cent in the corresponding period of 1997-98. The reserve money growth during this period was much higher at 10.7 per cent than that at 4.1 per cent in the corresponding period of 1997-98. This reflected the significant growth in net Reserve Bank credit to Government by 13.4 per cent till January 15, 1999 as against only 2.5 per cent in the corresponding period of 1997-98. Substantial increase in Reserve Bank credit to banks in response to reduction in refinance rate for export credit from 9 per cent to 7 per cent in August, 1998 also contributed to reserve money growth in the current financial year. To some extent, the impact of these factors on M3 growth was offset by the relatively lower growth in the net foreign exchange assets of the Reserve Bank at 11.4 per cent till January 15,1999 than the 13.6 per cent growth in the corresponding period of 1997-98.

2. The growth in non-food credit remained negative during most of the first half of 1998-99. By January 15, 1999 it had, however, grown by 6.8 per cent as against 7.1 per cent in the corresponding period of 1997-98. In view of the increasing importance of the non-conventional flow of resources from banks to the commercial sector in the form of debt and equity instruments of the corporate sector like commercial papers, debentures and shares, a more reliable indicator of resource flow from commercial banks to commercial sector is the total flow of funds comprising both the non-food credit and investment by banks in equity/debt instruments. The total flow of funds from banks to the commercial sector increased at a lower rate by 9.7 per cent till January 15, 1999 than the 11.5 per cent registered in the corresponding period of 1997-98. The sanctions and disbursements by All India Financial Institutions (AIFIs) increased during April-December, 1998 by 36.9 per cent and 12.5 per cent respectively over the corresponding period in 1997-98.

3. With a view to strengthening banks so as to enable them to meet the credit requirements of productive sectors without impairing their financial health , the Reserve Bank has announced a number of decisions on prudential regulations in the current financial year. These are based on the recommendations of the Narasimham Committee (II) on Banking Sector Reforms, and relate to risk weight for Government /approved securities, general provision for standard assets, higher Capital to Risk-weighted Asset Ratio (CRAR), etc. Efforts have also been made to rationalise regulations governing Non-Banking Financial Companies (NBFCs). Based on the recommendations made by the Task Force on NBFCs, deposit acceptance norms have been modified by the Reserve Bank.