Money Market Developments

30. Resource mobilisation by Mutual Funds during April-October, 1998 amounted to Rs. 14,288 crore as against Rs. 9797 crore in the corresponding period of 1997-98. The number of schemes under which Mutual Funds mobilised funds also increased from 20 to 26 during this period. The resource mobilisation by UTI during this period was Rs. 9187 crore, followed by private sector mutual funds with Rs. 4096 crore and public sector mutual funds with Rs. 1005 crore. During April-October, 1998, two more mutual funds were registered with SEBI, of which one has foreign equity participation in the asset management company.

31. Mutual Funds have been granted permission to invest abroad. As per RBI guidelines, SEBI registered Mutual Funds and Fund Managers would be permitted to invest in overseas markets, initially within an overall limit of US $ 500 million and a ceiling for individual fund at US $ 50 million. In order to facilitate foreign investment as per these guidelines, SEBI has set up a Working Group to frame modalities and guidelines to enable the domestic mutual funds to invest in overseas markets. Various issues connected with matters like appointment of overseas Advisors and global custodians, fee structure and restrictions on overseas investment are being considered by the Working Group. The policy developments pertaining to Mutual Funds during the current financial year include the recommendations of the P. K. Kaul Committee set up to review the manner of discharging responsibilities by Trustees.

UTI schemes

32. As per provisional figures for 1997-98, sales under UTI schemes amounted to Rs. 13,700 crore while repurchases and redemptions amounted to Rs. 9800 crore. The total investible funds of UTI amounted to Rs. 61023 crore in 1997-98. Gross income and gross expenditure amounted to Rs.8390 crore and Rs. 714 crore respectively while income distribution amounted to Rs. 6640 crore in the same year.

33. As on June 30,1998, the assets under the US 64 scheme stood at Rs.21,738 crore and had an investor base of about 21 million. The portfolio under US-64 consists of equity, Government securities, corporate debt instruments and real estate property of UTI. Equity, which accounted for around 64 per cent of the total portfolio of US-64 in June 1998, represents investment in blue chip companies of private and public sector banks and FIs. This scheme is run on the basis of a sale price and repurchase price announced every month, including a special sale price announced in July. The erosion in share prices caused by adverse market conditions resulted in a depreciation to the tune of Rs.3566 crore as on June 30, 1998, the balance sheet date for UTI. UTI therefore decided to charge the depreciation to the reserve account , which in turn showed a negative balance of Rs.1098 crore on June 30,1998. However, income distribution of 20 per cent amounting to Rs. 3125 crore announced on June 29,1998 was out of the net income of Rs. 3222 crore earned in 1997-98. Keeping in view the need to protect investors' interest without adverse effects on the commercial viability of the US-64 scheme, UTI has set up a six member Expert Committee headed by Shri Deepak Parekh, Chairman, IDFC to review the US 64-Scheme for further strengthening it in the context of the role of UTI in the mobilisation of domestic savings and investment in the capital market.

Open Market Operations (OMO)

34. The OMO including repo activities went a long way in neutralising excess liquidity in the banking system. Reflecting this, the net sales of Government securities during 1998-99 till February 5, 1999 remained at a very high level of Rs. 25031 crore against Rs. 3151 crore in the corresponding period of 1997-98.

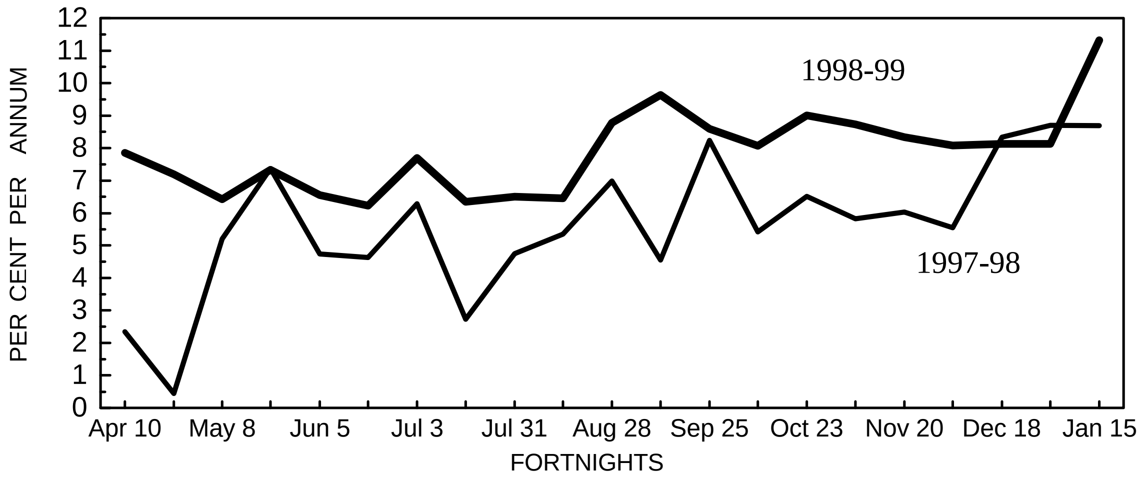
Repo Operations (RO)

35. During 1997-98, the daily average outstanding repos, including fixed rate repos, amounted to Rs. 1385 crore (face value) till February 6, 1998 with the repo rate ranging from 2.4 per cent to 5 per cent. During 1998-99, the daily average outstanding fixed rate repos amounted to Rs. 4066 crore till February 5, 1999, the repo rate being in the range of 5 per cent to 8 per cent.

Call Money Market (CMM)

36. The comfortable liquidity situation ensured fairly stable call money rates till the middle of August, 1998. During this period, the weighted average call money lending rates of the Discount and Finance House of India (DHFI) ranged from 6.23 per cent to 7.85 per cent (Fig. 4.4). As a sequel to the RBI measures announced on August 20, 1998, the call rates rose to 40 per cent on August 21, 1998 before declining to

Fig. 4.4 **Inter Bank Call Money Rates 1997-98 and 1998-99**



9.50-10.00 per cent level at the close of business on the same day. The hike in CRR from 10 per cent to 11 per cent and in repo rate from 5 per cent to 8 per cent facilitated the siphoning of excess liquidity from the banking system, thereby curbing arbitrage between different segments of the financial market. For moping up excess liquidity, RBI continued to use 3/4 Day fixed rate repos, which has served as a reference point around which call money rates have generally hovered in the subsequent period (Figure 4.4).