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MONETARY AND BANKING DEVELOPMENTS

In the context of its monetary and credit policy for the current financial year, the Reserve Bank of India (RBI) indicated broad money (M3) growth for 1999-2000 in the range of 15.5 to 16.0 percent. As on January 14,2000, the year-on-year M3 growth was 16.6 percent as against 20.5 percent as on the corresponding date of the previous financial year. The relatively higher M3 growth in the last financial year reflected the inclusion of the proceeds from the Resurgent India Bonds (RIBs), which became part of the broad money stock with effect from end-August 1998. The growth in M3 at 12.0 percent till January 14, 2000 in the current financial year was also well below that at 13.7 percent in the corresponding period of the previous financial year. The relatively lower M3 growth in the current financial year till January 14, 2000 reflected the decline in reserve money by 0.1 percent as against an increase by 10.7 percent in the corresponding period of 1998-99. The decline in monetary base, in turn, resulted from the relatively negligible growth in Government's monetised deficit and the decline in RBI's claims on banks and commercial sector during this period.

3.2 The growth in non-food credit from commercial banks to commercial sector till January 14, 2000 was higher at 10.6 percent than that at 7.2 percent in the corresponding period of the previous financial year. The total flow of funds from commercial banks to commercial sector consisting of both non-food credit and investment in debt/equity instruments of the corporate sector comprising both public and private sector units increased by 11.6 percent during this period as against 10.0 percent in the corresponding period of 1998-99.

3.3 During April-December,1999 sanctions by All-India Financial Institutions (AIFIs) increased by 15.5 percent as against 26.0 percent in the corresponding period of 1998. Disbursements by AIFIs increased by 17.2 percent during the same period as against 13.6 percent during the corresponding period of the previous financial year.

3.4 As part of the efforts to further strengthen prudential norms, the risk weight of 2.5 percent for investments in government and other approved securities has been extended to cover all investments, including securities outside the SLR, with effect from the year ending March 31,2001. With a view to facilitating speedier recovery of debt, the Recovery of Debts Due to Banks and Financial Institutions (Amendment) Ordinance, 2000 was promulgated on January 17, 2000. The process of interest rate deregulation has been carried further by allowing banks (a) to operate different PLRs for different maturities, (b) to offer fixed rate for all terms loans subject to the Asset-Liability Management Guidelines, (c) to charge interest rates on loans to micro-credit organisations as per normal policy and (d) to charge interest rates without reference to PLR in respect of loans covered by refinancing schemes of term-lending institutions, lending to intermediary agencies, including housing finance intermediary agencies, discounting of bills and advances against domestic/NRE term deposits and FCNR(B) deposits.

3.5 The Reserve Bank introduced an Interim Liquidity Adjustment Facility (ILAF) in place of the General Refinance Facility with effect from April 21,1999, as an interim arrangement aimed at facilitating the transition to a full fledged Liquidity Adjustment Facility on the lines suggested by the Narasimham Committee (II). Some measures were also taken to further deepen the money market, namely, access to repo markets to select non-bank institutional participants, and extension of cheque writing facility to Money Market Mutual Funds (MMMFs), Gilt Funds, and Liquid Income Schemes of Mutual Funds with predominant investment in money market instruments. To enable the banks, AIFIs and Primary Dealers (PDs) to hedge interest rate risks, RBI allowed Interest Rate Swaps (IRS) and Forward Rate Agreements (FRAs).

3.6 In line with the monetary policy stance of facilitating adequate availability of credit to support industrial recovery, the Cash Reserve Ratio (CRR) was reduced by 0.50 percentage point to 10 percent with effect from the fortnight beginning May 8, 1999,and further down to 9 percent in two phases of half-a-percentage point each with effect from November 6,1999 and November 20, 1999 respectively. The incremental CRR of 10 percent on increase in liabilities under the FCNR(B) scheme was also withdrawn with effect from November 6,1999. In addition, the interest rate surcharge of 30 percent on import finance was withdrawn so as to reduce the financing costs of imports for industry. Keeping in view the urgent national need to speed up infrastructure development, operational guidelines on financing of infrastructure projects have been issued to enable banks and FIs to sanction term loans for technically feasible, financially viable and bankable projects taken up by both the private and public sector undertakings. In order to encourage the flow of finance for venture capital, it has been decided that the overall ceiling of investment by banks in ordinary shares, convertible debentures, units of mutual funds, etc. of 5 percent of their incremental deposits of the previous year would stand automatically enhanced to the extent of banks' investment in venture capital. With a view to encouraging credit flow from non-banking financial companies (NBFCs) the ceiling on bank credit linked to net owned fund (NOF) was removed in respect of NBFCs, which are statutorily registered with RBI and which are engaged in the principal business of equipment leasing, hire-purchase and loan and investment activities. As low level of capitalisation adversely affects the ability of NBFCs to withstand cyclical fluctuations in business, NBFCs with NOF below the prescribed minimum level of Rs. 25 lakh have been asked to achieve the stipulated level by January 8, 2000 for the purpose of registration.