Banking Policy and Trends

Policy Measures

3.17 During the current financial year, banks have been allowed by the Central Government to enter into forward trading in gold by adding gold to the list of commodities eligible for hedging under the Forward Contract (Regulation) Act, 1952. This measure seeks to activate the Gold Deposit Scheme (GDS) announced in the Union Budget for 1999-2000 for mobilising a portion of the privately held stock of gold in the country and utilising it for productive purposes. As per the guidelines issued by RBI, GDS is open for investment by resident Indians, and the authorised banks will issue passbook/certificate/bond to the investors, which will be transferable by endorsement and delivery. GDS is open-ended and is available on tap. It has a maturity of 3 to 7 years with an initial lock-in-period of 3 years. Banks are free to fix their own interest rates on GDS. They are, however, required to put in place risk management mechanisms to hedge the price risk arising from price fluctuations in conformity with RBI Guidelines. They are also required to put in place suitable accounting norms, internal controls, audit mechanisms and disclosure norms to cover all operations in respect of gold, including GDS.

Regulatory Reforms

3.18 In order to strengthen the financial system, attempt has been made to move towards full disclosure, transparency and effective supervision of banking operations in line with international best practices. With effect from the accounting year ending March 2000, banks have been advised to disclose in the "Notes to Accounts" additional information on (a) maturity pattern of (i) loans and advances, (ii) investment in securities, (iii) deposits, and (iv) borrowings, (b) foreign currency assets and liabilities, (c) movements in NPAs, and (d) lending to sensitive sectors like real estate, capital market and other sectors as defined by RBI from time to time. In view of the growing share of investments in the assets of banks, it has been decided to extend the risk weight of 2.5 percent for investment in approved securities to all investments, including non-SLR securities with effect from March 31, 2001. It has also been decided to lower the exposure ceiling in respect of an individual borrower from the present level of 25 percent to 20 percent of bank's capital funds with effect from April 1, 2000. Where the existing level of exposure as on October 31, 1999 is more than 20 percent, banks will be expected to reduce the exposure to 20 percent of the capital funds over a two year period (by end-October, 2001). The Reserve Bank Working Group under the Chairmanship of Shri Jagdish Capoor, Deputy Governor, reviewed the existing system of deposit insurance with regard to deposit coverage, institutions to be brought under insurance cover, etc. The Working Group suggested no change in the present deposit insurance coverage (Rs.100,000 per depositor) but recommended a limited coinsurance for deposits between Rs.90,000 and Rs.1 lakh.