GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:6118
ANSWERED ON:27.04.2001
PHASING OUT OF NON BANKING INSTITUTIONS
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Will the Minister of FINANCE be pleased to state:

(a) whether the RBI panel has recommended a three stage phasing out of non-bankinginstitutions like mutual funds, insurance companies and other corporates from lending in the call money market;

(b) if so, the details thereof;

(c) the date from which this practice is likely to be withdrawn;

(d) the other suggestions made by the Panel in regard to mutual funds and call money lending by financial institutions;

(e) whether these recommendations are based on submissions made by the banking and non-banking representatives to the RBI;

(f) the total average outlay lending in the call money market by non-banking financial institutions; and

(g) the other steps suggested by panel and steps being taken in this regard?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL):

(a) to (e) and (g) Reserve Bank of India (RBI) has reported that the Technical Group onPhasing Out of Non-Banks from Call/Notice Money Market which comprised of tepresentatives from banks, non-banks and RBI officials, had recommended that access to call money market by such non-bank participants as financial institutions and mutual funds, may be reduced in three stages by placing cap in relation to their average daily lending during April,2000â€"March, 2001. The Group has further recommended that in the first stage, each such non-bank participant should be allowed to lend only upto 70 per cent of their average daily lendings in call money market during 2000-2001 for a period of three months which should come into effect at the earliest after March 31, 2001. In the second stage, access should be reduced further to 40 per cent of their average daily lending during 2000-2001. The final stage should commence with the setting up of Clearing Corporation or after a period of three months from the conclusioinof the second stage whichever is later. The final stage by which time the Clearing Corporation is expected to be established should last for a period of three months. The Group feels that, during phase, access to call money market should be permitted to these participants to the extent of 10% of Their average daily lending during 2000-2001. The Group has also madethe following suggestions/ecommendations:â€"

(i) Development of repo market;

(ii) Increase in the floating stock of Treasury Bills;

(iii) Introduction of uniform documentation and security standard for repo transactions by a self regulatory organisations for fixed income securities viz. Fixed Income Money Market and Derivative Association of India (FIMMDA);

(iv) Increase in the notified amount for Treasury Bills.

Based on the recommendations of the Group, RBI as as a part of the Monetary & Credit Policyfor the Tear 2001-2002, announced on 19th April, 2001, indicated jftat non-banks would be phased out of the call/notice money market in four stages. In the first stage, which NOuld commence from 5th May, 2001, non-banks would permitted to lend upto 85% of their average daily tendings in call/notice money market during the year 2000-2001.

(f) RBI has reported that the total average daily lending in call/notice money market bynon-banks during the financial year 2000-2001 was Rs. 9275 crore.