

Reliance on Call/Notice Money Market: Prudential Norm

REF:No.MPD.217 /07.01.279/2001-02

June 27, 2002
Aashadha 6, 1924 (S)

To
All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Dear Sirs

Reliance on Call/Notice Money Market: Prudential Norm

Please refer to Paragraphs 85-88 of the Governor's Statement on Monetary and Credit Policy for the Year 2002-03 enclosed with letter No.MPD.BC.214/07.01.279/2001-02 dated April 29, 2002 (copy of the Paragraphs enclosed).

2. As per the policy announced earlier, and after further consultations with bankers, it has been decided to stipulate prudential limit on the exposure of commercial banks in call/notice money market in two stages as indicated below.

✍ In the first stage, with effect from the fortnight beginning October 5, 2002, lending of scheduled commercial banks in the call/notice money market, on a fortnightly average basis, should not exceed 50 per cent of their owned funds (paid-up capital plus reserves) as at the end of March of the previous financial year; however, banks are allowed to lend a maximum of 100 per cent of their owned funds on any day, during a fortnight. Borrowings by scheduled commercial banks in the call/notice money market, on a fortnightly average basis, should not exceed 150 per cent of their owned funds or 2 per cent of aggregate deposits as at the end of March of the previous financial year, whichever is higher; however, banks are allowed to borrow a maximum of 250 per cent of their owned funds on any day, during a fortnight.

✍ In the second stage, with effect from the fortnight beginning December 14, 2002, lending of scheduled commercial banks, on a fortnightly average basis, should not exceed 25 per cent of their owned funds; however, banks are allowed to lend a maximum of 50.0 per cent on any day, during a fortnight. Similarly, borrowings by scheduled commercial banks should not exceed 100 per cent of their owned funds or 2 per cent of aggregate deposits, whichever is higher; however, banks are allowed to borrow a maximum of 125 per cent of their owned funds on any day, during a fortnight.

3. In order to ensure a smooth adjustment to this stipulation without any disruption in asset-liability management (ALM), you are advised to unwind your position as borrower and/or lender in the call/notice money market in excess of the prudential limit, as specified for the first stage, by October 4, 2002.

4. In case you have, for a temporary period, some mismatches in your liquidity position, RBI, on request, may consider allowing you further access to call/notice

money market. Similarly, if you have put in place a fully functional ALM system to the satisfaction of RBI, an increased access over the stipulated norm may be permitted by RBI for a longer period.

5. You are advised to indicate your latest audited position on owned funds (paid-up capital plus reserves) and aggregate deposits as at the end of March of the previous financial year to the Adviser-in-Charge, Monetary Policy Department (MPD), RBI, Fort, Mumbai-400 001 not later than July 31, 2002.

6. To facilitate monitoring of your operations in call/notice money market on a daily basis, you are requested to submit the daily return in time to the Adviser-in-Charge, MPD, RBI as per the extant practice.

7. It is also proposed to convene a meeting of the representatives of selected banks in the second half of November 2002 to review money market developments.

Kindly acknowledge receipt.

Yours faithfully
(D.V.S. Sastry)
Adviser

Encls: As above.