Participation of Non-bank Entities in Call/Notice Money Market

REF: No. MPD. BC.234/07.01.279/ 2002-03

April 29, 2003
Vaishakha 9, 1925(S)

To
All-India Financial Institutions, Insurance Companies
and select Mutual Funds

Dear Sirs,

Participation of Non-bank Entities in Call/Notice Money Market

Please refer to Paragraphs 93 through 95 of the Governor's statement on Monetary and Credit Policy for the year 2003-04 enclosed with his letter No. MPD. BC.230 /07.01.279/2002-03 dated April 29, 2003 (copy of the paragraphs enclosed).

2. It may be recalled that in the annual policy Statement of April 2001, the intention to move towards a pure inter-bank call/notice money market by gradually phasing out non-bank participation was highlighted. Accordingly, in stage I, non-bank participants are allowed to lend, on average in a reporting fortnight, up to 85 per cent of their average daily lending during 2000-01. Subsequently, in the annual policy Statement of April 2002, it was stated that RBI would announce the date of effectiveness of stage II, wherein non-bank participants would be allowed to lend, on average in a reporting fortnight, up to 75 per cent of their average daily lending in call/notice market during 2000-01, depending on the date when NDS/CCIL becomes fully operational.

3. In view of the encouraging developments in the functioning of NDS/CCIL, it is desirable to accelerate the progress of moving towards a pure inter-bank call/notice money market and facilitate further deepening of repo/term money market. Accordingly, it has been decided that effective from the fortnight beginning June 14, 2003, under stage II, non-bank participants would be allowed to lend, on average in a reporting fortnight, up to 75 per cent of their average daily lending in call/notice money market during 2000-01.

4. However, in case a particular non-bank institution has genuine difficulty in deploying its excess liquidity, RBI may consider providing temporary permission to lend a higher amount in call/notice money market for a specific period on a case by case basis.

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

Kindly acknowledge receipt.

Yours faithfully,

(D. Anjaneyulu)
Principal Monetary Policy Adviser

Encl.: as above

Extract from Governor's Statement on Monetary and Credit Policy for the year 2003-04

(a) Moving towards Pure Inter-bank Call/Notice Money Market

93. It may be recalled that the annual policy Statement of April 2001 highlighted the intention to move towards a pure inter-bank call/notice money market in four stages by gradually phasing out non-bank participation. In stage I, non-bank participants were allowed to lend, on average in a reporting fortnight, up to 85 per cent of their average daily lending during 2000-01. The implementation of stage I has not caused any strain on the market or created undue volatility in call/notice money rate. Except for the Life Insurance Corporation of India, which has large liquid funds and is also subject to certain prudential constraints in investing its large surpluses in other non-bank institutions, by and large, most non-bank institutions have not faced any difficulty in adhering to the stage I guidelines.

94. Subsequently, in the annual policy Statement of April 2002, it was stated that RBI would announce the date of effectiveness of stage II, wherein non-bank participants would be allowed to lend, on average in a reporting fortnight, up to 75 per cent of their average daily lending in call money market during 2000-01, depending on the date when NDS/CCIL becomes fully operational. In view of the encouraging developments in NDS/CCIL, it would be desirable to accelerate the process of moving towards a pure inter-bank call/notice money market and facilitate further deepening of repo market. Accordingly, it is proposed that:

- Stage II of the transition to a pure inter-bank call/notice money market will be effective from the fortnight beginning June 14, 2003, wherein non-bank participants would be allowed to lend, on average in a reporting fortnight, up to 75 per cent of their average daily lending in call/notice money market during 2000-01.

95. However, in case a particular non-bank institution has genuine difficulty in developing proper alternative avenues for investment of excess liquidity because of its size, RBI may consider providing temporary permission to lend a higher amount in call/notice money market for a specific period on a case by case basis.