

Moving Towards Pure Inter-bank Call/Notice Money Market

REF: No. MPD. BC.242/07.01.279/ 2003-04

**November 5, 2003
Kartika 14, 1925(S)**

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

Dear Sirs,

Moving Towards Pure Inter-bank Call/Notice Money Market

Please refer to Paragraphs 59 and 60 of the Governor's statement on Mid-term Review of Monetary and Credit Policy for the year 2003-04 enclosed with his letter No. MPD. BC.241/07.01.279/2003-04 dated November 3, 2003 (copy of the paragraphs enclosed).

2. At present, non-bank participants are allowed to lend in call/notice money market upto 75 per cent of their average daily lending in call/notice money market during 2000-01. In view of further market developments as also to move towards a pure inter-bank call/notice money market, it has been decided that with effect from the fortnight beginning December 27, 2003, non-bank participants would be allowed to lend, on average in a reporting fortnight, up to 60 per cent of their average daily lending in call/notice money market during 2000-01.

3. 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.

4. 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,
(Deepak Mohanty)
Adviser

Encl.: as above

**Extract from Governor's Statement on Mid-term
Review of Monetary and Credit Policy for the year 2003-04**

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

59. Following the recommendations of Narasimham Committee II, 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 the non-bank participation was announced. In the annual policy Statement of April 2003, daily lending of non-bank participants in call/notice money market was reduced from 85 per cent to 75 per cent. In view of further market developments as also to move towards a pure inter-bank call/notice money market, it is proposed that:

- With effect from the fortnight beginning December 27, 2003, non-bank participants would be allowed to lend, on average in a reporting fortnight, up to 60 per cent of their average daily lending in call/notice money market during 2000-01. The time-table for further phasing out of non-bank participation will be announced in consultation with market participants.

60. In case a particular non-bank institution has genuine difficulty in developing proper alternative avenues for deployment 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.