

## **RBI Governor announces Mid-term Review of Monetary and Credit Policy for the year 2003-04**

### **Highlights**

Statement follows the pattern already set in the previous years – both in outline and substance.

#### **Domestic Developments**

- GDP growth in 2003-04 placed at 6.5-7.0 per cent, with an upward bias, compared to 6.0 per cent projected in April.
- Inflation projected for policy purposes at 4.0-4.5 per cent, with a possible downward bias, as compared with earlier projection of 5.0-5.5 per cent.
- Money Supply (M<sub>3</sub>) growth within the projected level as envisaged in April.
- Lower increase in reserve money despite sharp increase in forex inflows.
- Total resource flow to the commercial sector around the same level as last year.
- Government borrowing of over 60 per cent of the budgeted amount completed with longer maturities and at lower cost to Government.
- Fiscal deficit as at end-September higher compared to last year.
- Reduction in interest rates in financial markets and deposits observed.
- Noticeable reduction in banks' lending rates except for corporates and housing segment yet to take place.

#### **External Developments**

- Orderly conditions witnessed in the forex market.
- Rupee appreciated against US dollar but depreciated against Euro, Pound sterling and Japanese yen.
- Foreign Exchange reserves up by US \$ 17.2 billion since end-March to US \$ 92.6 billion by end-October 2003, and are at comfortable level.
- Exchange rate management, as in the past, based on flexibility, without a fixed or pre-announced target, but with ability to intervene.
- RIBs of US \$ 5.5 billion redeemed without any adverse impact on financial market and reserves.
- In the first half, in US dollar terms, exports are up by 10 per cent and import growth is high at 21.4 per cent reflecting a pick up in economic activity, as evident from higher capital goods imports.

#### **Overall Assessment**

- Improved macroeconomic environment with positive outlook on both the domestic and external fronts.
- Gains from lower inflationary expectations in the recent years need to be consolidated and reinforced.
- Improved investment climate to help in revival of investment demand.
- Financial market sentiments stronger, but there is need for monitoring and providing for unforeseen contingencies.

- **Health of the financial sector continues to improve despite concerns with regard to a segment of financial institutions.**
- **Signs of pick-up in non-food credit since August 2003.**
- **Need to nurture conducive credit culture among financial intermediaries, corporates and households.**
- **Credible actions required to address rigidity in lending rates and to improve quality of financial services.**
- **Virtual elimination of binding forex constraints imparts strength to the economic management and accords comfort to the conduct of public policy.**

#### **Stance of Monetary Policy**

- **Expectations of higher GDP growth, benign inflation outlook, subdued growth in money supply and stronger capital flows prompt continuation with the overall stance of monetary policy announced in April 2003.**
- **The stance of monetary policy continues to be provision of adequate liquidity to meet credit growth and support investment demand with a vigil on the price level with preference for soft and flexible interest rate environment.**
- **Continuance of measures with an accent on implementation with the objective of facilitating ease of transactions by the common persons.**
- **Support economic growth consistent with stability by strengthening of institutional capacity through a consultative process in the medium-term.**

#### **Measures**

- **Bank Rate kept unchanged at 6 per cent.**
- **Cash reserve ratio kept unchanged at 4.5 per cent in view of current liquidity situation.**
- **The Report of the Internal Group on liquidity adjustment facility (LAF) (which proposed a review of this facility) being placed on the RBI web-site for wider dissemination and comments.**
- **IBA to advise banks on benchmark PLR.**
- **Measures to improve credit delivery to agriculture and small scale sectors.**
- **Advisory Committee/Working Group proposed to make a comprehensive review and suggest ways to improve credit flow to agriculture and small scale sectors and better deployment of RIDF and priority sector resources with SIDBI.**
- **Simplification of procedures and complete flexibility in micro-finance structure proposed to boost credit flow.**
- **Further move towards pure inter-bank call/notice money market.**
- **Flexibility in sale of government securities contracted for purchase with adequate safeguards.**
- **Banks to ensure hedging of foreign currency loans to corporates above US \$ 10 million except for exporters and for forex expenditures.**
- **Flexibility to exporters in realisation of export proceeds and write off of overdues, up to 10 per cent of their export proceeds in a calendar year.**

- **Banks advised to quickly build up investment fluctuation reserve (IFR) so that they are better positioned to meet interest rate risks.**
- **Road map for financial institutions to adopt 90 days norm for recognition of loan impairment.**
- **Standing Technical Advisory Committee on Financial Regulation for both banks and non-banks proposed.**
- **Identification and special monitoring system for Systemically Important Financial Intermediaries (SIFIs) proposed in coordination with RBI, SEBI and IRDA.**
- **Standing Committee to be set up on Procedures and Performance Audit on Public Services rendered by the Reserve Bank.**
- **Banks advised to constitute Ad-hoc Committees to improve customer services including review of RBI regulations impinging on customer services.**
- **Working Group proposed to address regulatory and supervisory issues pertaining to Development Finance Institutions (DFIs).**
- **Extension of good corporate governance practices to PDs, NBFCs and FIs.**
- **RTGS system scheduled for introduction in January 2004.**
- **Economic and financial data base with RBI to be placed in public domain for convenience of researchers and other users.**
- **Select private banks authorised to conduct government business for public convenience.**
- **Payment of tax refunds through electronic clearing services (ECS) to be introduced.**
- **Measures for provision of clean currency notes and availability of coins for the convenience of common persons.**

### **RBI Governor announces Mid-term Review of Monetary and Credit Policy for the year 2003-04**

Dr. Y. Venugopal Reddy, Governor, in a meeting with Chief Executives of major commercial banks today presented the Mid-term Review of Monetary and Credit Policy for 2003-04. At the outset, Governor mentioned that the Statement follows the pattern already set in the previous years - both in outline and substance. Governor's Statement covered a review of macroeconomic and monetary developments with several analytical and operational issues concerning monetary policy. Governor announced continuance of the stance of monetary policy for the remaining part of the year on the basis of developments since April 2003, and announced certain measures. Governor emphasized on continuance of measures already taken with an accent on implementation to facilitate ease of transactions by the common person. Governor proposed measures to further broaden the consultative process and stressed on institutional capacity building to support growth consistent with stability in a medium-term perspective.

## **Domestic Developments**

### **GDP Growth in 2003-04**

Taking into account the performance and spatial distribution of the South West monsoon and assuming the continuance of good performance in industry and some acceleration in exports reflecting the anticipated global economic recovery, Governor said that it is reasonable to expect an overall GDP growth of 6.5 to 7.0 per cent for the year 2003-04 with an upward bias, as compared with the earlier projection of around 6.0 per cent.

### **Non-food Credit**

Governor observed a moderate increase in non-food credit by 5.7 per cent up to October 17, 2003 as compared with an increase of 7.4 per cent in the corresponding period of the previous year. At Rs.55,045 crore, the total flow of resources to the commercial sector so far is comparable with an increase of Rs.55,697 crore in the previous year. However, a significant growth of retail credit was observed, particularly to the housing sector. He expected that the recent removal of the restriction, of the prime lending rate (PLR) being the floor rate for loans to the retail and personal segment, should provide further impetus to retail lending.

### **Monetary indicators**

Referring to monetary indicators, Governor said that money supply during the current financial year up to October 17, 2003 increased by 7.4 per cent compared with 8.1 per cent in the previous year. He said that on an annual basis, the growth in  $M_3$  at 11.9 per cent was within the projected level, but lower than that of 14.0 per cent in the previous year. RBI's net foreign current assets increased by Rs.63,873 crore up to October 24, 2003 compared to the increase of Rs.38,452 crore last year. Despite such large foreign exchange inflows, Governor said, the reserve money increased by only 3.5 per cent, as against an increase of 0.4 per cent in the corresponding period of the previous year mainly due to substantial open market operations (OMO) by the Reserve Bank.

### **Inflation rate to decline**

Governor recalled that the annual policy Statement had projected inflation rate to be in the range of 5.0-5.5 per cent for 2003-04. The annual rate of inflation as measured by variations in the wholesale price index (WPI), on a point-to-point basis, which remained in the range of 6.3-6.9 per cent during the first two months of this year declined to 5.0 per cent by October 18, 2003. Governor indicated that, the point-to-point annual rate of inflation, for policy purposes, is likely to be in the range of 4.0-4.5 per cent, with a possible downward bias.

### **Government borrowings**

The Central Government completed net market borrowings of 62.8 per cent and gross borrowings of 60.8 per cent of the budgeted amount by end-October 2003. The weighted average yield on government borrowings at 5.87 per cent this year, has been lower than 7.34 per cent last year. The gross fiscal deficit of Central

Government at Rs.81,014 crore up to September 2003 was higher by about 40.3 per cent over the corresponding period of last year. Revenue deficit of the Central Government at the Rs.65,427 crore was higher by about 37.4 per cent over the same period. Governor said that the persistence of large aggregate borrowing of the Central and state governments continues to be a matter of concern. Such concerns arise both out of a possible adverse impact on the desired acceleration in growth that is consistent with stability, and also from possible implications for efficient monetary and debt management. It was, therefore, essential to pursue, promptly and with resolve, fiscal consolidation from a medium-term perspective. There is need for efforts in the direction of widening the revenue base, rationalisation of expenditures, and above all enhancing productivity of public investments, already made or to be made, in both commercial and social sectors.

### **Banks' Investments**

Governor indicated that scheduled commercial banks' investment in government and other approved securities at Rs.87,754 crore this year (up to October 17, 2003) has been higher than Rs.72,110 crore of the previous year.

### **Interest Rates**

Governor observed that financial markets have remained generally stable and interest rates have softened further with liquidity in the system. The average call money rate moved down from 5.86 per cent to 4.64 per cent; the 91-day and the 364-day Treasury Bill rates have declined from 5.89 per cent each to 4.94 and 4.72 per cent, respectively, the yield on government securities with 10-year residual maturity declined from 6.21 per cent to 5.11 per cent; the public sector banks have reduced their deposit rates over one year from a range of 5.25-7.00 per cent in March 2003 to 5.0-6.0 per cent by October 2003. The median lending rates on demand and term loans levied by public sector banks, however, remained unchanged in a range of 11.5-14.0 per cent. Similarly, the range of prime lending rates (PLRs) of public sector banks remained unchanged at 9.0-12.25 per cent. On the other hand, the spread between AAA-rated corporate bonds of 5 years and the yield on government securities of similar maturity narrowed from 87 basis points in March 2003 to 65 basis points by October 2003. Governor observed that while lending rates for prime corporates and activities like housing have declined significantly, noticeable reduction is yet to take place in regard to other segments.

## **External Developments**

### **Global economic prospects improved**

Governor noted that the prospects for world economy have improved since April 2003 when the annual policy Statement was presented.

### **Forex market remains stable**

The Indian forex market generally witnessed orderly conditions during the current financial year (April-October 2003). The exchange rate of the rupee, which was Rs.47.50 per US dollar at end-March 2003 appreciated by 4.8 per cent to Rs.45.32 per US dollar by end-October 2003 but depreciated by 2.3 per cent against

Euro, 2.5 per cent against Pound Sterling and 4.2 per cent against Japanese yen during the period. Governor said that exchange rate management is based, as in the past, on flexibility without a fixed or pre-announced target, but with ability to intervene.

### **Reserves increase**

Foreign Exchange reserves increased by US \$ 17.2 billion from US \$ 75.4 billion in end-March 2003 to US \$ 92.6 billion by end-October 2003. Governor said that India's foreign exchange reserves are at present comfortable and consistent with the rate of growth, the share of the external sector in the economy and the size of risk-adjusted capital flows. He said that during this period, the payments obligation on account of redemption of Resurgent India Bonds (RIBs) of US \$ 5.5 billion was discharged without any adverse impact either on Indian financial market or on reserves.

### **Exports and imports**

India's exports during the first half of the current financial year increased by 10.0 per cent in US dollar terms as compared with 18.0 per cent in the corresponding period of the previous year. During the same period, imports rose faster by 21.4 per cent as against an increase of 9.2 per cent in the corresponding period of last year.

The current account of the balance of payments, which had remained in surplus consecutively in the previous six quarters, showed a deficit of US \$ 1.2 billion during April-June 2003. The net accretion to foreign exchange reserves, including valuation change, amounted to US \$ 6.7 billion during the first quarter of 2003-04. While for well-known reasons, it is difficult to anticipate the behaviour of capital flows, Governor said, the positive sentiment on India should augur well for continued buoyancy, but some moderation should not be ruled out if the stance of monetary policies in leading industrial economies were to transit from soft or neutral to a relatively tighter regime.

### **Overall Assessment**

Governor said that the macroeconomic environment has improved during the year with a positive outlook on both the domestic and external fronts. The point-to-point WPI inflation is expected to moderate by the end of the year. The gains obtained in recent years from the reining in of inflationary expectations need to be consolidated and reinforced as inflationary expectations can turn adverse in a relatively short time if noticeable adverse movements in prices take place. Hence, a continued emphasis on vigil on the price level is essential.

Governor added that the investment climate during the year has improved as reflected in the functioning of various segments of the financial market. As productivity gains have been significantly harnessed from large-scale corporate restructuring from investment made, there could be revival of investment demand at this juncture. He also observed that the financial market sentiments are stronger now compared to the beginning of the year and the health of the financial sector continued to improve. However, there is need for continuous and careful monitoring providing for unforeseen contingencies since in the upturn of the business cycle there could be overshooting of markets.

Governor indicated that though credit growth remained subdued till August 2003, there are since some signs of pick-up in non-food credit. He said that there is a need to further improve the institutional as well as incentive mechanisms in banks to strengthen credit delivery to small and medium enterprises (SMEs), infrastructure and agriculture. In this regard, it is important that conducive credit culture is nurtured among financial intermediaries, corporates and households. He added that apart from subdued credit growth, which will continue to cause concern, the overall rigidity in the downward movement of lending rates as well as inadequacy in quality of service to some sections coupled with reduction in deposit rates requires introspection and immediate action on the part of all financial intermediaries. In this regard, credible actions, particularly by the commercial banks, would be essential, to make adequate progress in credit delivery and appropriate transparency in the pricing of credit.

Governor said that the positive developments in the external sector which have virtually eliminated the binding forex constraints impart substantial strength to the economic management of our country and accords comfort to the conduct of public policy.

### **Stance of Monetary Policy for the second half of 2003-04**

Governor said that since announcement of the annual policy Statement in April 2003, the world economic outlook has improved; GDP growth is placed higher; the outlook for inflation is more benign; expansion in money supply is within the trajectory; and financial markets, especially forex markets, are stable, though they displayed more than usual activity. He said that the flow of credit has been less than anticipated so far although recent indications point towards improvement in the remaining part of the year. While capital flows are stronger, current account is possibly turning to deficit. Consistent with these developments, he proposed to continue with the overall stance of monetary policy announced in the annual policy Statement for the remaining half of the current year.

The stance of monetary policy would continue to be provision of adequate liquidity to meet credit growth and support investment demand with a vigil on price level with preference for soft and flexible interest rate environment.

### **Financial Sector Reforms and Monetary Policy Measures**

Governor said that the emphasis at this stage is on continuance of measures already taken with an accent on implementation, facilitating ease of transactions by the common person, further broadening of the consultative process and continued emphasis on institutional capacity to support growth consistent with stability in a medium-term perspective. He said that it is proposed to consider strengthening of the credit delivery system within the existing institutional framework so that financing gaps do not seriously constrain the desired acceleration in growth.

(a) **Bank Rate** – Kept unchanged at 6.0 per cent.

(b) **Cash Reserve Ratio** – Kept unchanged at 4.5 per cent in view of current liquidity situation.

(c) **Liquidity Adjustment Facility (LAF)**

The report of an Internal Group on the operations of LAF in a cross-country perspective, which was revised based on the recent discussions in the Technical Advisory Committee on Money and Government Securities Markets (TAC), is being placed on the RBI website *www.rbi.org.in* for wider dissemination and comments. The guidelines on LAF will be finalised taking into account the suggestions received on the Report.

## **Interest Rate Policy**

### ***(a) Prime Lending Rate and Spreads***

The issues relating to the implementation of the system of benchmark PLR were discussed with select banks and the Indian Banks Association (IBA). As IBA has indicated broad agreement with the approach proposed for the benchmark PLR, IBA may advise its members suitably, keeping in view the operational requirements.

## **Credit Delivery Mechanism**

### ***(a) Priority Sector Lending***

#### ***(i) Credit Facilities for Small Scale Industries***

In order to further improve the flow of credit to small scale industries (SSIs), it is proposed that:

- Banks may, on the basis of good track record and the financial position of the SSI units, increase the loan limit from Rs.15 lakh up to Rs.25 lakh (with the approval of their Boards) for dispensation of collateral requirement, in respect of SSI units.

#### ***(ii) Deposits of Foreign Banks with SIDBI***

In order to increase the flow of credit to SSIs and to rationalise the interest rates, it is proposed that:

- The interest rate on the deposits of foreign banks placed with SIDBI towards their priority sector shortfall will be at the Bank Rate.
- SIDBI will take appropriate steps to ensure that priority sector funds are utilised expeditiously and benefits of reductions in interest rates passed on to the borrowers.

#### ***(iii) Lending by banks to NBFCs***

With a view to further enhancing the credit flow to SSI sector, it is proposed that:

- All new loans granted by banks to NBFCs for the purpose of on lending to SSI sector would also be reckoned under priority sector lending.



***(b) Advisory Committee on Flow of Credit to Agriculture and Related Activities***

Considering the importance of agriculture sector in the economy and in order to progress further in meeting the credit needs of this sector, Governor proposed to constitute an Advisory Committee to suggest short-term and medium-term measures to enhance credit flow to this sector. While assessing the progress made in the implementation of Vyas Committee, the Committee would, *inter alia*, look into the role of National Bank for Agriculture and Rural Development (NABARD) in the development of the sector; the present structure and deployment of rural infrastructure development fund (RIDF); role of RRBs; and incentive and attitudinal aspects of credit delivery.

***(c) Working Group on Flow of Credit to SSI Sector***

Governor proposed to constitute a Working Group keeping in view the credit needs of this sector, to assess the progress made in implementation of Kapur Committee and Gupta Committee recommendations and suggest ways to improve credit flow considering in particular the backward, forward linkages of this sector with large corporates. The Group will also look into methods of utilisation of priority sector short-fall deposits with SIDBI and suggest appropriate institutional arrangement for enhancing the credit delivery on a timely basis and in adequate measure to SSIs.

***(d) Micro-finance***

On the basis of the recommendations of the informal Groups on micro finance, it is proposed that: (i) banks should provide adequate incentives to their branches in financing the Self Help Groups (SHGs) and establish linkages with them; (ii) the group dynamics of working of the SHGs may be left to themselves; (iii) the approach to micro-financing of SHGs should be totally hassle-free; (iv) NABARD should continue to reinforce its commitment to maintaining and enhancing the flow to micro-finance while debureaucratising the process; and (v) NABARD should devise mechanisms to ensure sharing of experiences among the bank branches that are closely involved in extending micro-finance.

**Money Market**

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

In order to move further towards a pure inter-bank call/notice money market, Governor 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 participants will be announced in consultation with market participants.

***(b) Rationalisation of Standing Facilities***

In order to move further towards phasing out sector-specific standing facilities as also to rationalise the rates at which liquidity is injected into the system, Governor proposed that:

- The “normal” and “back-stop” standing facilities will be available in a ratio of one-third to two-thirds (33:67) from the fortnight beginning December 27, 2003.

***(c) Primary Dealers’ Access to Call/Notice Money Market***

With a view to develop further the repo market as also to ensure a balanced development of various segments of money market, Governor proposed that:

- With effect from February 7, 2004, PDs will be allowed to borrow, on average basis in a reporting fortnight, upto 200 per cent of their net owned funds (NOF) as at end-March of preceding financial year.

***(d) Reporting of Call/Notice Money Market Transactions on NDS Platform***

Though, there has been significant increase in the reporting of deals on NDS platform, Governor observed that complete dissemination of trade information relating to money, government securities and foreign exchange markets will improve transparency and strengthen efficiency of the market. In this direction, all NDS members should report their deals as soon as the deals are concluded.

**Foreign Exchange Market**

***(a) Unhedged Forex Exposures of Corporates***

Governor explained possible implications of the un-hedged foreign currency borrowings by corporates for the quality of banks’ assets. In view of this, all foreign currency loans by banks above US \$ 10 million, can be extended only on the basis of a well laid out policy of the Board on hedging, except in following cases:

- Where forex loans are extended to finance exports, banks may not insist on hedging but assure themselves that such customers have uncovered receivables to cover the loan amount.
- Where the forex loans are extended for meeting forex expenditure.

***(b) Export Follow-up***

Governor proposed that beginning January 1, 2004, all exporters may write off outstanding export dues on their own and may also extend the normal period of realisation beyond 180 days on their own provided the aggregate value of such write off and delay in realisation does not exceed 10 per cent of their export proceeds in a calendar year.

## **Sale of Government Securities – Relaxation**

Governor observed that at present, no sale transaction in a government security is permitted without the seller actually holding the security in its portfolio. In order to facilitate deepening of the government securities market, it is proposed that sale of a government security, already contracted for purchase, would be permitted, provided, such purchase contract was either guaranteed by an approved central counterparty like CCIL or the counterparty thereof was RBI. To facilitate operationalisation of the proposal, the settlement of government securities transactions would be switched over to the DVP III mode. He proposed to review the working of the above arrangements every month to consider modifications and continuance, as appropriate.

## **Prudential Measures**

### ***(a) Investment Fluctuation Reserve (IFR)***

Governor reviewed the status of provisions made by banks for IFR, and said that although banks have time to achieve the stipulated 5.0 per cent, they should quickly build up IFR so that they are better positioned to meet interest rate risks.

### ***(b) Prudential Norms for FIs***

In order to bring in convergence between the asset classification norms of FIs and banks, in line with international norms, it is proposed:

- To adopt the 90 days norm for recognition of loan impairment for FIs with effect from the year ending March 31, 2006. However, in order to mitigate the burden of additional provisioning arising out of adoption of the revised norm, FIs are permitted to phase out the required provisioning over a period of three years beginning from the year ending March 31, 2006, with a minimum of one fourth of the additional provisioning being made each year.

### ***(c) Standing Technical Advisory Committee on Financial Regulation***

Governor said that the financial sector now faces increasing challenges and complexities in the context of globalisation and risk management. In order to strengthen the consultative process and to place such a process on a continuing basis, Governor proposed to constitute a Standing Technical Advisory Committee on Financial Regulation on similar lines as the RBI Technical Advisory Committee on Money and Government Securities Markets (TAC). The Committee would consist of experts drawn from academia, financial markets, banks, non-bank financial institutions and credit rating agencies. The Committee would examine the issues referred to it and advise RBI on regulations on an on-going basis covering banks and non-bank financial institutions and other market participants, in addition to the existing channels of consultations.

### ***(d) Monitoring of Systemically Important Financial Intermediaries (SIFIs)***

In consultation with the Chairman, SEBI and Chairman, IRDA, Governor proposed to establish a special monitoring system for Systemically Important Financial Intermediaries (SIFIs) that would encompass (i) a reporting system on

financial matters of common interest to RBI, SEBI and IRDA; (ii) the reporting of intra-group transactions; and (iii) the exchange of relevant information among RBI, SEBI and IRDA. It has been agreed that, after co-opting a member from IRDA, the present RBI-SEBI Technical Committee would propose a list of SIFIs and advise on a reporting system in a time-bound manner over the next three months.

***(e) Standing Committee on Procedures and Performance Audit on Public Services***

In order to review the current level of public service provided by the Reserve Bank, and to suggest appropriate incentives to facilitate change on an ongoing basis, Governor proposed to set up a Standing Committee: (i) to undertake procedure and performance audit on public services and regulatory clearances in RBI, (ii) advise and coordinate with the Ad hoc Committees on Customer Services to be set up by banks. The Standing Committee will submit an annual report to RBI on its work to be placed before the Board of RBI.

***(f) Committees on Procedures and Performance Audit on Customer Services in Banks***

In order to support broad-based improvement in customer services in relation to various banking services, Governor advised each commercial bank to constitute an Ad hoc Committee to undertake procedures and performance audit on public services rendered by the bank. Each Ad hoc committee is expected to complete its work in six months from the date of constitution.

***(g) Working Group on Development Finance Institutions***

Governor observed that ICICI has completed the process of transition to a bank and IDBI is in the process of doing so. In order to address the regulatory and supervisory issues relating to remaining term lending institutions and refinancing institutions and for improving the flow of resources to them, Governor proposed to set up a Working Group on Development Finance Institutions. The Group would examine, within the broader framework of regulation of NBFCs, various regulatory and supervisory aspects, including access to short-term resources for the DFIs as a separate category, and submit its report in four months.

***(h) Corporate Governance***

Governor proposed, through a consultative process, to: (i) harmonise the approaches suggested by the Ganguly Committee and the SEBI Committee in regard to corporate governance of banks, and (ii) extend the above principles of good corporate governance practices to PDs, NBFCs and other financial institutions, as appropriate.

**Technology Upgradation**

Governor noted the pivotal role played by RBI in the upgradation of technology in the banking sector and indicated that the national settlement system (NSS) is expected to be operational by June 2004, which would integrate the segmented clearing and settlement infrastructure in the country and enable more effective funds management by banks.

### ***(a) Implementation of RTGS***

Governor said that RBI has commenced implementation of a RTGS system in a phased manner. A fully functional RTGS system is expected to be made operational by June 2004. This system would be fully integrated with the integrated accounting system of RBI. Governor urged banks and PDs to ensure complete readiness in terms of infrastructure, systems and procedures, and adequate trained manpower to effectively participate in the RTGS system. He added that banks should put in place necessary connectivity between their branches and the payment system gateway through which banks will interact with the RTGS system.

### ***(b) Intra-day Liquidity under RTGS***

With the commencement of RTGS, the likely increase in requirement of intra-day funds would necessitate provision of intra-day liquidity (IDL) to participants for a smooth and timely settlement process. The Reserve Bank would be providing collateralised repo based intra-day liquidity support to the participants. Governor advised the market participants to devise strategies for efficient cash flow management.

## **Central Database Management System**

The Reserve Bank has established a Central Database Management System (CDBMS) available for access and analysis to users in RBI since December 2002. Governor proposed to place the relevant data in the CDBMS in the public domain. Accordingly, an Expert Group is being constituted to guide this process, particularly through an assessment of user requirements. It is expected that these data would become available on-line to researchers and users by end-June 2004.

## **Conduct of Government Business**

### ***(a) Enhancement in Agency Arrangement***

Hitherto, public sector banks were authorised to undertake government business as agents of RBI. In order to provide a wider network for public convenience and timely conduct of government business, four private sector banks were authorised to handle government transactions such as revenue collection, pension payments and expenditure related functions of all Central Government Ministries/Departments with effect from October 1, 2003

### ***(b) On-line Tax Administration System***

At the request of the Central Board of Direct Taxes (CBDT), RBI has constituted a High Powered Committee for operationalising an On-line Tax Administration System (OLTAS). A decision has also been taken to pay tax refunds through the electronic clearing services (ECS) to assesseees in select cities where banks presently offer this facility. To begin with, as a pilot project, tax refunds upto Rs 25, 000 are proposed to be made through the ECS to the beneficiaries in these select cities.

## **Developments in Currency Management**

As indicated in the annual policy Statement of April 2003, the Clean Note Policy adopted by RBI was further facilitated by special measures and mechanisation of note processing activity in all the Issue Offices of RBI. In order to support the system for handling notes in a de-stapled condition, banks were advised to provide necessary infrastructure like note banding machines and note counting/sorting machines. In addition, RBI has also adopted an innovative procedure of using Post Offices for distribution of coins.

Reserve Bank accords a very high value to the convenience of common person. While the phenomenal progress made in the recent period by banks is appreciated, Governor urged further progress in this regard, as a collaborative effort between RBI and banks.

**Alpana Killawala**  
**General Manager**

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