## Money Market Developments

### Mutual Funds

42. Resource mobilisation by Mutual Funds improved during 1997-98. The number of offer documents of mutual funds filed with SEBI increased substantially from 32 in 1996-97 to 60 in 1997-98. The amount mobilised through new schemes and subscriptions to open ended schemes including Unit 64 of UTI also increased. Indeed the gross mobilisation of resources by all mutual fund schemes during the year was around Rs. 13,000 crores which was for the first time higher than the resources mobilised by the primary market. Even net of redemptions in open ended schemes the resources mobilised by the mutual funds during the year was higher than the resources raised through primary market. These improvements were partly in response to the regulatory changes brought about by SEBI following the publication of the Mutual Funds 2000 Report and the notification of new regulations. The emphasis of these new regulations is on empowerment of investors, greater compliance of regulations by mutual funds, obligations of trustees as frontline regulators, improved disclosure standards in offer documents through the introduction of standard offer document, standardisation of valuation norms for investments and computation of NVA. The regulations also sought to address the areas of misuse of funds by introducing prohibitions and restrictions on affiliate transactions and investment exposures to companies belonging to the group of sponsors of mutual funds.

### Repo Operations

43. Repo auctions were resumed from November 4, 1996 and were effectively used for money market interventions. In order to absorb liquidity from the system and to even out call money rates a system of announcing calendar of Repos auctions on a monthly basis was introduced with effect from January 13, 1997. The daily average outstanding of repos amounted to Rs.2139 crore, with cut-off repo rate ranging between 4.90 per cent to 5.25 per cent. The daily average outstanding repo rose to Rs.2436 crore with cut-off rate between 2.40 per cent to 5.00 per cent during the first quarter of 1997-98, but it declined slightly to Rs.2421 crore with cut-off rate in the range of 3.60 per cent to 4.50 per cent upto November 27, 1997.

### Fixed Rate Repos

44. The fixed rate repo was introduced with effect from November 29, 1997. The repo rate and the period of repo is announced by the Reserve Bank in the evening of the previous day. Initially, the repo rate was fixed at 4.5 per cent but was successively raised in steps so as to reach 7.00 per cent with effect from December 11, 1997 and further to 9.00 per cent with effect from January 17, 1998. However, subsequently the repo rate was brought down in stages to 6 per cent with effect from April 30, 1998.

### Open Market Operations

45. As a result of greater reliance of the Reserve Bank on open Market operations the net sales of Government Securities were much higher at Rs.10,435 crore in 1996-97 as against Rs. 583 crore during 1995-96 when tight monetary conditions prevailed in the economy. The volume of securities available for open market operations was enhanced by converting special securities of value aggregating Rs.20,000 crore at 4.6 per cent into marketable securities of different maturities & interest rates:- 10 year, 7 year, 8 year and 5 year maturities were compared at 13.05 per cent, 12.59 per cent, 11.19 per cent and 11.15 per cent on June 3, 1997, June 18, 1997, August 12, 1997 and September 1, 1997 respectively. Net sales of securities were lower at Rs. 3,154 crore during the current financial year (upto February 27, 1998) than that of Rs. 8,071 crore for the corresponding period of fiscal 1996-97.

### Call Money Market

46. The easy liquidity conditions in 1996-97 arising from phased reduction by four percentage points in CRR, dollar purchases by Reserve Bank and strong growth of deposits, coupled with sluggish growth in non food credit, continued in 1997-98 also. The fortnightly weighted average lending rates of DFHI reached a low of 0.44 per cent for the fortnight ended April 25, 1997. The corresponding weighted average call money rate increased to 7.37 per cent in May and 8.24 per cent in September, 1997 but remained most of the time below the psychological barrier (refinance rate set by RBI) till December, 1997. The package of measures announced by the Reserve Bank to protect Rupee from speculative pressures led to a temporary upward pressure on call rates which reached a high of 120 per cent during the fortnight ended January 30, 1998. The fortnightly weighted average call money rate for this fortnight was 15.38 per cent. During February 1998, liquidity pressures eased substantially and the weighted average call money rate for the month declined to 9.24 per cent.

### Contractual Savings

47. Financial Savings of households with provident Fund and Insurance constitute

contractual savings which are critical for the development of a long-term debt market in our country. The measures taken by SEBI to promote debt instruments were mentioned earlier as part of the capital market reforms. However, flow of contractual savings for infrastructure funding requires liberalisation of investment norms governing Insurance and Provident Funds.

**Life Insurance Corporation**

48. Life Insurance Corporation has been given greater autonomy in the utilisation of investible funds. The abolition of restriction regarding investment of 25 per cent of LIC's investible Funds in specified proportion has enabled LIC to invest the entire amount available under the ceiling of 25 per cent on the basis of their commercial judgement but subject to prudential norms. The investment pattern of the Group Schemes Fund has also been liberalised. The revised pattern provides for investment at not less than 40 per cent in Government (Centre and States) and Government guaranteed Securities, thereby leaving 60 per cent with LIC for market investment. In order to make available contractual savings for infrastructure projects, the scope of Socially Oriented Investment has been widened to include ports, roads, including highways, and railways. LIC has also been permitted to make such investment in private sector, subject to prudential norms fixed by the LIC Investment Committee/LIC Board from time to time.

**Non Government Provident Funds**

49. The pattern of investment to be followed by non-government provident has been revised with effect from April 1, 1997. The revised investment pattern is as indicated below:

| *Item* | *percentage of Incremental Accretion* |
|---|---|
| (i) Central Government Securities | 25 |
| (ii) (a) Government Securities as defined in Section 2 of the Public Debt Act,1944 (18 of 1944) created and issued by any State Government; and/or<br>(b) Any other negotiable securities the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any state Government except those covered under iii (a) below. | 15 |
| (iii) (a) Bonds/Securities of 'Public financial institutions' as specified under Section 4(a) of the Companies Act; "public sector companies" as defined in Section 2(36-A) of the Income Tax Act, 1961 including public sector banks; and/or<br>(b) Certificate of deposits issued by public sector banks. | 40 |
| (iv) To be invested in any of the above three categories as decided by the Trustees. | 20 |