Unit-I

Lecture-13

Narasimham Committee report (1991)

- It was established to give reforms pertaining to the financial sector of India including the capital market and banking sector.
- Some of its major recommendations have been mentioned below:
    - It recommended reducing the cash reserve ratio (CRR) to 10% and the statutory liquidity ratio (SLR) to 25% over the period of time.
    - It suggested fixing at least 10% of the credit for priority sector lending to marginal farmers, small businesses, cottage industries, etc.
    - In order to provide required independence to the banks for setting the interest rates themselves for the customers, it recommended de-regulating the interest rates.

Financial Sector Reforms in India

Reforms in the Banking Sector

- Reduction in CRR and SLR has given banks more financial resources for lending to the agriculture, industry and other sectors of the economy.
- The system of administered interest rate structure has been done away with and RBI no longer decides interest rates on deposits paid by the banks.
- Allowing domestic and international private sector banks to open branches in India, for example, HDFC Bank, ICICI Bank, Bank of America, Citibank, American Express, etc.
- Issues pertaining to non-performing assets were resolved through Lokadalats, civil courts, Tribunals, The Securitisation And Reconstruction of Financial Assets and the Enforcement of Security Interest (SARFAESI) Act.
- The system of selective credit control that had increased the dominance of RBI was removed so that banks can provide greater freedom in giving credit to their customers.

Reforms in the Debt Market

- The 1997 policy of the government that included automatic monetization of the fiscal deficit was removed resulting in the government borrowing money from the market through the auction of government securities.
- Borrowing by the government occurs at market-determined interest rates which have made the government cautious about its fiscal deficits.
- Introduction of treasury bills by the government for 91 days for ensuring liquidity and meeting short-term financial needs and for benchmarking.
- To ensure transparency the government introduced a system of delivery versus payment settlement.