

Recommendations of Narasimham Committee

[English]

1670. SHRI TARA CHAND
KHANDLWAL:
SHRI CHITTA BASU:
SHRI G. MADEGOWDA:
SHRI MOHAN RAWALE:
DR. Y.S. RAJASEKHAR
REDDY:
SHRI R. SURENDER REDDY:
SHRI GIRDHARI LAL
BHARGAVA:
SHRI SURYANARAIN YADAV:
SHRI JEEWAN SHARMA:
SHRI M.V.V.S. MURTHI:
SHRI RAM NARAIN BERWA:
SHRI BHAGEY GOBARDHAN:

Will the Minister of FINANCE be pleased to state:

(a) the details of the main recommendations of the Narasimham Committee;

(b) whether the Government propose to implement the recommendations made by the Committee;

(c) if so, the details thereof and the time by which these are likely to be implemented; and

(d) if not, the reasons therefor?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI DALBIR SINGH): (a) to (d). The Committee on the Financial System under the Chairmanship of Shri M. Narasimham, in its report has, *inter-alia*, recommended (a) establishment of a four tier hierarchy for the banking structure with 3 or 4 large banks including State Bank of India at the top (which could be international in character) and rural banks (including RRBs) at the bottom (confined to

rural areas and mainly engaged in financing agriculture and related activities), (b) hiving off supervisory functions over banks and financial institutions to a separate quasi-autonomous body under aegis of the RBI; (c) larger role for the private sector; (d) a phased achievement of 8 percent capital adequacy ratio as recommended by the Basle Committee; (e) abolition of branch licensing policy; (f) phased reduction in SLR starting from 1991-92; (g) deregulation of interest rates which are to be related to the Bank Rate on the basis of guidelines given by the Chakravarty Committee; (h) competition among financial institutions which will adopt a syndicating or participating (instead of consortium) approach; (i) retention by IDBI of only its refinancing role and delegation of its direct lending activity to a separate corporate body; (j) prudential guidelines governing the functioning of banks and financial institutions and (k) proper classification of assets and full disclosure and transparency of accounts of banks and financial institutions.

The Committee also make recommendations regarding directed investments and credit programmes, establishment of Special Tribunals to expedite the recovery process and setting up of a separate institution by the Government of India to be known as the Asset Reconstruction Fund with the express purpose of taking over a portion of the loan portfolio of banks which has become bad and doubtful and whose recovery is being hampered by the slow legal process. Thus the recommendations seek to address issues of declining profitability and efficiency and seek to restore the autonomy and flexibility of operations within an overall framework of reasonable monetary stability.

Some recommendations of the Committee need further consideration and implementation is proposed to be done in a phased manner.