Report on Trend and Progress of Banking in India for the year ended June 30, 1994 submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949

RESERVE BANK OF INDIA

REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 1993-94 (JULY-JUNE)

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GOVERNOR

RESERVE BANK OF INDIA
CENTRAL OFFICE
BOMBAY

LETTER OF TRANSMITTAL

May 25, 1995
Jyestha 4, 1917 (Saka)

The Secretary to the
Government of India,
Ministry of Finance,
Department of Economic Affairs,
New Delhi 110 001.

Dear Finance Secretary,

In pursuance of the provisions of Section 36(2) of the Banking Regulation Act, 1949, I transmit herewith two copies of the Report on Trend and Progress of Banking in India for the year ended June 30, 1994.

Yours faithfully,

(C. Rangarajan)

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CHAPTER I

BANKING DEVELOPMENTS AND POLICY PERSPECTIVES

Financial sector reforms, aimed at increasing the efficiency and competitiveness of the Indian financial system, continued during 1993-94. The reforms were made broad based with term lending financial institutions and non-banking financial companies being subjected to prudential norms. As regards the banking sector, the prudential accounting standards were tightened further to bring about greater transparency in their operations. The performance obligations entered into by the banks with the Reserve Bank as part of Government's recapitalisation programme, have started yielding results. The thrust of the performance obligations was multifaceted: recovery of loans, reduction of non-performing assets, fulfillment of targets in respect of different areas of bank's operation, overall improvement in the quality of management and improved use of technology. Commitment on the part of the banks to achieve the targets and continuous and close surveillance by the Reserve Bank were expected to get reflected in a significant improvement in profitability.

1.2 This Chapter[1] discusses banking policies and their rationale. It also provides some medium term policy perspectives. Detailed developments in regard to commercial banks and cooperative banks are covered in the subsequent Chapters.

Prudential Accounting Standards

1.3 With the objective of encouraging banks to be more risk-sensitive against both on- and off-balance sheet exposures and conform to international prudential accounting standards, Indian banks having branches abroad are required to achieve a 'risk weighted' capital adequacy ratio of 8 per cent by the end of March 1995 while all other banks are to comply with the stipulated 8 per cent by the end of March 1996. Out of the 27 public sector banks, 7 banks have achieved the 8 per cent norm and 9 banks the 4 per cent norm as at the end of March 1994.

1.4 The Union Budget 1994-95 had provided for Rs.5,600 crore for further recapitalisation of nationalised banks, the amount was to be simultaneously invested by the banks in Government securities. As per the Union Budget 1995-96, the revised requirement on this account turned out to Rs. 5,292.37 crore, of which Rs.4,362.54 crore was in the form of Tier I capital to be invested in the Government securities (Table I.1); Rs.924.58 crore is being passed on as Tier II capital to six nationalised banks against the World Bank assistance for the financial sector development loan negotiated recently. Besides, the State Bank of India successfully tapped the capital market with an equity-cum-bond issue of Rs.2,532 crore in December

1. The reference period of the Report is the year 1993-94 (July-June). However, this Chapter covers some important later developments also.

1993, followed by Oriental Bank of Commerce with an equity issue of Rs.360 crore in October 1994. In the Union Budget 1995-96, the Government has further provided Rs.852 crore towards the recapitalisation of four weak nationalised banks during 1995-96.

Table I.1 : Recapitalisation of Nationalised Banks

Sr. No	Name of the Bank	Allocation of Tier I Capital (Rs. crore)		
		December 1,1994	February 16,1995	Total
1.	Allahabad Bank	356.20	–	356.20
2.	Andhra Bank	108.60	75.72	184.32
3.	Bank of India	848.38	–	848.38
4.	Bank of Maharashtra	239.58	94.61	334.19
5.	Central Bank of India	632.46	–	632.46
6.	Dena Bank	6.11	–	6.11
7.	Indian Bank	230.96	–	230.96
8.	Indian Overseas Bank	258.60	–	258.60
9.	Punjab & Sind Bank	116.03	–	116.03
10.	Syndicate Bank	278.59	–	278.59
11.	UCO Bank	279.96	235.56	515.52
12.	United Bank of India	471.43	67.44	538.87
13.	Vijaya Bank	62.31	–	62.31
	Total	3,889.21	473.33	4,362.54

1.5 The financial sector reform process has been extended to term lending institutions and non-banking financial companies. The term lending institutions were required to achieve a capital adequacy norm of 4 per cent by the end of March 1994 and those having dealings with agencies abroad are required to achieve a capital adequacy norm of 8 per cent by March 31, 1995. The rest are to attain the 8 per cent norm by March 31, 1996. The registered non-banking finance companies with net owned funds of Rs.50 lakh and over are required to achieve a minimum capital adequacy norm of 6 per cent by March 31, 1995 and 8 per cent by March 31, 1996.

1.6 In order to bring about transparency in the accounting and reporting procedure of banks and to depict the true financial position of banks, a system of income recognition, asset classification and provisioning was introduced in a phased manner starting from the financial year 1992-93. In 1993-94, these norms have been further refined and made more stringent. The banks have to now make full required provision for sub-standard and doubtful assets with an outstanding balance of Rs.25,000 and above; for accounts with outstanding balance of less than Rs.25,000, the minimum provisioning has been enhanced from 2.5 per cent in 1992-93 to 5.0 per cent in 1993-94, 7.5 per cent in 1994-95 and further to 10.0 per cent in 1995-96.

Interest Rate Structure

1.7 The interest rate structure has been considerably rationalised in the past two years. In 1993-94, the rate structure on advances was a three-tier one. The minimum lending rate (MLR) since September 2, 1993 was prescribed at 15 per cent for advances over Rs.2 lakh. There was a fixed rate of 15 per cent for advances between Rs.25,000 and Rs.2 lakh, while a fixed rate of 12 per cent was stipulated for small loans upto Rs.25,000. The MLR was reduced from 17 per cent in April 1993 to 16 per cent in June 1993 and further to 15 per cent in September 1993. While these rates are applicable to working capital advances, with effect from March 1, 1994 the interest rate on term loans for a period of three years and above was reduced from 15 per cent to 14 per cent with a view to promoting investment.

1.8 A major policy announcement during the second half of 1994-95 was the abolition of the MLR. Effective October 18, 1994 the MLR for credit limits of over Rs.2 lakh was abolished and each bank is required to fix its own prime lending rate for such credit limits. Moreover, a uniform lending rate of 13.5 per cent has been stipulated for all advances including term loans with credit limits of over Rs.25,000 and upto Rs.2 lakh. The concessional rate of 12 per cent for loans upto Rs.25,000 has been kept unchanged. The stipulation of effective interest rate on bill discounting of over Rs.2 lakh being at one percentage point below the lending rate stands withdrawn from October 18, 1994. Lending and deposit rates of all cooperative banks, excluding Primary Cooperative Banks (PCBs), were deregulated in October 1994 subject to an MLR of 12 per cent. The rate structure of PCBs is similar to that of commercial banks.

1.9 In regard to deposit rates, banks have been allowed to fix the maturities and rates for term deposits which are subject to a ceiling. The maximum term deposit rate was raised from 10 per cent effective September 2, 1993 to 11 per cent effective February 10, 1995 and further to 12 per cent effective April 18, 1995. The savings deposit rate, including under NRE accounts, has been reduced to 4.5 per cent from 5 per cent with effect from November 1, 1994. Effective October 18, 1994 the term deposit rates for NRE accounts for maturity of 6 months to 3 years and above are lowered from 'not exceeding 10 per cent' to 'not exceeding 8 per cent'.

Reserve Requirements

1.10 In keeping with the medium-term objective of reducing the Statutory Liquidity Ratio (SLR) to 25 per cent of net demand and time liabilities (NDTL) by 1996-97, the base SLR was reduced from 34.75 per cent in two phases of 0.50 percentage point each from the fortnights beginning August 20, 1994 and September 17, 1994 to 33.75 per cent of domestic NDTL upto the level as on September 17, 1993 and for any increase in domestic NDTL over the September 17, 1993 level, the ratio continued to be applied

Table I.2 : Structure of Lending Rates
(Excluding Interest Tax)

(per cent per annum)

Category of Account	Rates Effective				
	June 24, 1993	September 2, 1993	March 1, 1994		October 18, 1994
			Term Loans (3 years and above)	All Other Advances	All Advances including Term Loans
1	2	3	4	5	6
Size of Credit Limit					
1. Upto and inclusive of Rs. 25,000	12.0	12.0	12.0	12.0	12.0
2. Over Rs.25,000 and upto Rs.2 lakh	16.0@	15.0@	14.0@	15.0@	13.5
3. Over Rs.2 lakh	16.0*	15.0*	14.0*	15.0*	Free

@ Fixed
* Minimum

at 25 per cent. Effective from the fortnight beginning October 29, 1994 the base date for SLR on domestic NDTL was brought forward from September 17, 1993 to September 30, 1994 and the base SLR was fixed at 31.5 per cent. For any increase in domestic NDTL over the level as on September 30, 1994, the SLR continued to be applied at 25 per cent. The average effective SLR which was around 37.4 per cent at the end of March 1992 is expected to decline to 29.5 per cent by the end of March 1995.

1.11 In order to sterilise the expansionary effect of increase in net foreign exchange assets, the Cash Reserve Ratio (CRR) was raised by one percentage point from 14.0 per cent to 15.0 per cent in three stages — 14.50 per cent, 14.75 per cent and 15.0 per cent from the fortnights beginning June 11, 1994, July 9, 1994 and August 6, 1994, respectively. The liabilities under the Foreign Currency (Non-Resident) Accounts (Banks) [FCNR(B)] Scheme have been brought under the purview of cash reserve requirement with a CRR of 7.5 per cent effective from the fortnight beginning October 29, 1994; this was raised to 15.0 per cent with effect from the fortnight beginning January 21, 1995. Furthermore, a CRR requirement of 7.5 per cent was introduced on liabilities under Non-Resident (Non-Repatriable) [NRNR] Scheme with effect from the fortnight beginning January 21, 1995.

1.12 To reduce volatility in the maintenance of cash balances by banks with the Reserve Bank and to facilitate more orderly conditions in the call/notice money market, from the fortnight beginning January 7, 1995 banks are required to maintain at least 85 per cent of the required CRR balances on each of the first 13 days of the reporting fortnight, failing which they would not be paid interest for that/those day/days even though there is no shortfall in the maintenance of CRR on average basis during the fortnight. On the 14th day of the reporting fortnight, banks will be allowed to maintain less than 85 per cent of the required cash balances to adjust the average of daily balances to the required level. This measure would reduce the large borrowing requirements of banks on any one day and thereby provide for greater stability in the call money market.

Investment Portfolio Management

Capital Market Instruments

1.13 A number of restrictions on banks' investment in capital market instruments have been eased, and in some cases removed. This is essentially to provide banks the freedom of portfolio choice to optimise returns on their funds. Effective January 24, 1994 banks can directly invest upto 5 per cent of their incremental deposits of the previous year in corporate shares (including PSU equity) and debentures with a sub-ceiling of 1.5 per cent for investment in corporate shares as against the earlier stipulation of acquiring shares/debentures only through devolvement of underwriting obligations not exceeding 1.5 per cent of the incremental deposits of the previous year. Effective May 15, 1994 the sub-ceiling of 1.5 per cent was abolished. Effective January 25, 1994 there is no ceiling on investment in PSU bonds as against the previous ceiling of 5 per cent of incremental deposits of the previous year.

Government Securities Market

1.14 During 1993-94, banks increased their investments in Government and other approved securities as these securities were offered at market related rates of interest. Moreover, in view of the capital adequacy norms and the slack demand for credit, banks increased their investment in these securities. With the meeting of the capital adequacy norms, the relaxations of restrictions on other investments and the very steady revival of credit demand, banks have drastically slowed down their investment in Government securities since November 1994.

Profitability of Banks

1.15 The working results of public sector banks (excluding RRBs) for the year 1993-94 are of particular significance as the banks were required to make complete provisioning against their loan portfolio with outstanding balance of Rs. 25,000 and above. Their operating profit as a percentage of working funds increased from 0.91 per cent in 1992-93 to 0.97 per cent in 1993-94. The net losses to working funds, however, increased from (-) 1.00 per cent to (-) 1.25 per cent during the period, suggesting high level of non-performing assets in the banks' loan portfolios requiring substantial provisioning.

1.16 While net losses are in evidence at the system level (i.e., of all the public sector banks), some banks have performed well. The State Bank of India and its associate banks and 7 nationalised banks[1] posted net profit. It is of interest to note that out of 27 public sector banks, 21 banks showed operating profit during 1993-94 compared to 19 banks in the previous year. The operating losses for two banks, however, increased substantially.

Non-Performing Assets

1.17 Apart from the magnitude of current profit, the level of non-performing assets (NPAs) provides an important measure of the performance of banks as it reflects on the quality of the loan portfolio. At the end of March 1993, NPAs of public sector banks at Rs.39,746 crore formed 23.2 per cent of the total advances. The NPAs of public sector banks as at the end of March 1994 are provisionally placed at Rs.39,553 crore accounting for 23.6 per cent (Table I.3). The increase in NPAs in relative terms is due to the fact that, for the year ended March 1994 banks have had to meet more stringent norms.

Table I.3 : Classification of Loan Assets
(As on March 31)

(Amounts in Rs. crore)

	1993 - 94@		
	SBI and its Associates	Nationalised Banks	Total
1	2	3	4
Standard Assets	47,358.19 (77.65)	80,599.98 (75.67)	1,27,958.17 (76.39)
Sub-standard Assets	3,487.99 (5.72)	8,674.85 (8.14)	12,162.84 (7.26)
Doubtful Assets	8,396.20 (13.77)	14,921.00 (14.01)	23,317.20 (13.92)
Loss Assets	1,746.50 (2.86)	2,326.42 (2.18)	4,072.92 (2.43)
Total	60,988.88 (100.00)	1,06,522.25 (100.00)	1,67,511.13 (100.00)

@ Provisional.

Notes:
1) Figures in brackets are percentages to total.
2) Total loan assets are on gross basis including provisions.
3) NPAs for accounts with balances less than Rs.25,000 are included under 'sub-standard' assets.

Private Sector Banks

1.18 In order to enhance competition in the financial system, new private sector banks have been allowed to be set up from January 1993, the details of which were covered in the previous year's Report. Out of the ten

1. Includes Punjab National Bank which has projected both operating and net profit for the year ended March 31, 1994.

new private sector banks, which have been granted 'in principle' approval, six banks *viz.*, UTI Bank Ltd., IndusInd Bank Ltd., ICICI Banking Corporation Ltd., Global Trust Bank Ltd., Centurion Bank Ltd., and HDFC Bank Ltd. have already commenced banking business.

1.19 Certain provisions of the Banking Regulation Act, 1949 were amended through an Ordinance promulgated on January 31, 1994 (since ratified by the Parliament). According to the amendment, a banking company can appoint a non-executive part-time Chairman and in which case the management of the whole of the affairs of the bank shall be entrusted to a Managing Director. Besides, the ceiling on the exercise of voting rights on poll by any person has also been raised from one per cent to 10 per cent of the total voting rights of all the shareholders of the banking company. A banking company incorporated in India is now permitted to have on its Board of Directors not more than three directors who are directors of companies which among themselves are entitled to exercise voting rights in excess of 20 per cent of the total voting rights of all the share-holders of the banking company. The quantum of penalties for violation/contravention of the provisions of the Act has also been raised.

Board for Financial Supervision

1.20 As a part of the overall strategy for strengthening the oversight of the different segments of financial sector, it was decided in May 1993 to set up a Board for Financial Supervision (BFS) within the Reserve Bank. Accordingly, for the constitution of BFS, the Reserve Bank of India (BFS) Regulations, 1994 have been framed under the provisions of Section 58 of the RBI Act, 1934. This has come into effect with notification in the official Gazette of the Government of India dated July 28, 1994.

1.21 The BFS and the Advisory Council constituted on November 16, 1994 under the Reserve Bank of India (BFS) Regulations, 1994 would each have a term of two years. The BFS has become functional from November 16, 1994 under the Chairmanship of the Governor of the Reserve Bank with a Deputy Governor as Vice-Chairman and six other members. The Governor has also nominated a five member Advisory Council. The BFS would exercise integrated supervision, both on- and off-site over the banks, the financial institutions and the financial companies. Operational support to the BFS is being provided by the Department of Supervision (DoS) set up within the Bank in December 1993.

Debt Recovery Tribunals

1.22 As mentioned in the previous year's Report, the very low rate of loan recoveries among the banks has led to the passing of the 'Recovery of Debts Due to Banks and Financial Institutions Bill, 1993' in August 1993, so that the establishment of Debt Recovery Tribunals for expeditious adjudication and recovery could be facilitated. The Central Government has so far notified the establishment of Debt Recovery Tribunals at Calcutta, New Delhi, Jaipur, Ahmedabad and Bangalore. The establishment of an Appellate Tribunal at Bombay has also been notified on July 12, 1994. Although most of the Tribunals have already started functioning and quite a few cases have been decided by these, the Constitutional validity of the Act and the establishment of Tribunals thereunder have been challenged in certain High Courts. The Delhi High Court had quashed the notification constituting the Tribunal for Delhi region in March 1995. However, the Supreme Court has stayed the operation of

Delhi High Court judgement.

Disclosure on Defaulting Borrowers

1.23 In order to alert banks and financial institutions (FIs) against defaulting borrowers to other lending institutions, the Reserve Bank has announced in April 1994 a scheme for disclosure of information regarding defaulting borrowers of banks and FIs with outstandings aggregating Rs. one crore and above as on March 31 and September 30, every year. A list of suit-filed accounts would also be brought out every year. This is expected to improve the recovery climate and enforce payment discipline among the borrowers. A list of defaulting borrowers as on March 31, 1994 has been circulated among all banks and FIs.

Penalties on Banks for Securities Irregularities

1.24 In view of the gravity of the irregularities committed by banks in respect of Portfolio Management Scheme (PMS)/ Ready Forward (RF) transactions as also for shortfall in maintaining minimum average daily cash balance with the Bank, as prescribed under Section 42 of the Reserve Bank of India Act, 1934, the Bank issued show cause notice on July 25, 1994 to 20 banks consisting of seven public sector banks, four private sector banks and nine foreign banks as to why the funds accepted by them under PMS and deployed in violation of the Reserve Bank's instructions, should not be treated as 'deposits' for the purpose of determining their net demand and time liabilities (NDTL) for arriving at the minimum average daily cash balance to be maintained by them with the Reserve Bank (See Box 1). Similarly, in the case of banks which had undertaken RF deals in PSU bonds and units of the Unit Trust of India and also RF deals in Government and other approved securities with non-bank clients, the Reserve Bank has asked the banks as to why the funds so obtained should not be treated as 'borrowings' for the purpose of determining NDTL. Subsequently, on September 26, 1994, the Bank issued show cause notice to one more public sector bank for violation of RF deals. The aggregate amount of interest recovered as well as the penal interest levied, for which show cause notices were issued, amounts to around Rs.146 crore. All the 21 banks have paid the penalties.

1.25 Furthermore, the Reserve Bank has decided, in the case of 35 scheduled commercial banks, to withdraw with effect from the fortnight beginning August 6, 1994 and in respect of two more banks, with effect from the fortnight beginning October 1, 1994 until further notice, the exemption given in April 1992 under Section 42(7) of the Reserve Bank of India Act, 1934 from maintenance of 10 per cent incremental cash reserve ratio (See Box 1). Out of 37 banks, exemption from maintenance of 10 per cent incremental CRR has been restored in respect of 25 banks on different dates.[1]

1.26 In pursuance to the recommendations of the Joint Parliamentary Committee (JPC), the Janakiraman Committee and other investigation agencies on the irregularities of the securities transactions in banks and financial institutions that surfaced in April 1992, several remedial as well as preemptive actions have been taken during 1993-94 to avoid recurrence of such irregularities, the details of which are covered in Chapter II of this Report.

Rural Credit

1.27 For restructuring the institutional

1. Effective from fortnights beginning November 12, 1994 for 12 banks, from February 4, 1995 for 6 banks and from March 4, 1995 for 7 banks.

Box 1

Banks under Withdrawal of Exemption from Incremental Cash Reserve Ratio

Public Sector Banks	*i) Allahabad Bank*
	ii) Andhra Bank
	iii) Bank of Baroda
	iv) Bank of India
	v) Canara Bank
	vi) Central Bank of India
	*vii) Corporation Bank**
	viii) Indian Bank
	ix) Punjab National Bank
	*x) State Bank of Hyderabad**
	*xi) State Bank of India**
	xii) State Bank of Mysore
	xiii) State Bank of Patiala
	*xiv) State Bank of Saurashtra**
	*xv) Syndicate Bank**
	*xvi) UCO Bank**
	*xvii) Vijaya Bank**
	xviii) Indian Overseas Bank
Private Sector Banks	*i) Bank of Madura Ltd.**
	*ii) Federal Bank Ltd.**
	iii) Karnataka Bank Ltd.
	iv) Karur Vysya Bank Ltd.
	v) Nedungadi Bank Ltd.
	*vi) Vysya Bank Ltd.**
	vii) Lord Krishna Bank Ltd.
Foreign Banks	*i) ABN AMRO Bank N.V.*
	*ii) American Express Bank Ltd.**
	*iii) ANZ Grindlays Bank plc.**
	*iv) Bank of America National Trust and Savings Association**
	*v) Bank Indosuez**
	vi) Banque Nationale de Paris
	*vii) British Bank of the Middle East**
	*viii) Citibank N.A.**
	*ix) Deutsche Bank**
	*x) Hongkong and Shanghai Banking Corporation**
	xi) Oman International Bank S.A.
	*xii) Standard Chartered Bank**

** Banks under show cause notice*

rural credit delivery system to improve the present unduly low levels of credit flow to agriculture as also to provide a basis for enduring improvement in rural credit, the Union Budget for 1994-95 provided Rs.100 crore for augmenting the share-capital of NABARD with a similar contribution from the Reserve Bank. Besides, recognising the poor performance of RRBs in the rural credit delivery system, Government has taken up the task of their rehabilitation such as restructuring their activities, cleaning up their balance sheets, and infusing fresh capital. Out of 196 RRBs 50 have been identified by a committee, of which 49 would be taken up for restructuring during the current financial year.

1.28 The Reserve Bank has been assisting NABARD in providing refinance support to the rural sector by making available funds under the General Line of Credit (GLC 1 and 2). Since January 1993, the existing credit lines were enhanced by the Bank to the extent of Rs.1,500 crore. For 1994-95, the Bank has asked commercial banks to formulate specific plans for increasing their deployment in agricultural sector. The modifications in the Service Area Approach, which provides the framework for ensuring that the credit needs of the rural sector are adequately met, should help the banks.

1.29 In order to facilitate quicker completion of projects in rural infrastructure, the Union Budget 1995-96 proposes to establish a new Rural Infrastructural Development Fund within NABARD from April 1995. The Fund will provide loans to State Governments and State owned corporations for completing ongoing projects relating to medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructure. Resources for the Fund will come from commercial banks which will contribute an amount equivalent to a bank's shortfall in achieving the priority sector target for agricultural lending, subject to a maximum of 1.5 per cent of the bank's net credit. The Budget expects to create a corpus of about Rs.2,000 crore for completion of rural infrastructure projects.

1.30 Considering the importance of non-farm employment and earning opportunities in the Khadi and Village industries, a new scheme is proposed to be established under which the banking system will provide Rs.1,000 crore on a consortium basis to the Khadi and Village Industries Commission (KVIC) which in turn will lend to viable khadi and village industry units either directly or through State level Khadi and Village Industries Boards (KVIBs). The Central and State Governments will guarantee these loans provided by the commercial banks to KVIC and KVIBs, respectively. Besides, specialised bank branches are being set up to serve the needs of small scale units. During 1995-96, 100 such specialised branches are proposed to be put into operation.

1.31 Furthermore, the rebate on income-tax on interest income of rural advances of commercial banks from the current financial year onwards would help in improving the viability of rural lending. The co-operative credit structure is also proposed to be strengthened through State-specific development action plans, and through Memorandum of Understanding(MoU) between the NABARD, State Governments, State Co-operative Banks (SCBs) and Central Co-operative Banks (CCBs).

Expert Committee on IRDP

1.32 The Expert Committee on Integrated Rural Development Programme (IRDP), chaired by Shri D.R.Mehta, formerly Deputy Governor, in its interim report has suggested far reaching changes in the implementation of the IRDP for making it more effective. The most significant recommendation of the Committee is that since all the poor are not alike, they should be segmented into two categories. The category of extremely poor not having experience of handling assets or lacking in skills should be initially helped through wage employment schemes. The other class of poor who are below the poverty line but slightly better off and having skills and experience in handling assets could be put on the self employment route under the IRDP. The other recommendations of the Committee, *inter alia*, include: i) switch over from front-end to a back-end system of subsidy to avoid misutilisation of funds; ii) linking of certain percentage of subsidy allocation to recovery performance; iii) enhancement of both loan and subsidy provided under IRDP; iv) provision for extending credit to acquire land besides meeting working capital requirements and v) associating voluntary organisations and Self-Help Groups with implementation of IRDP. The recommendations of the Committee are under examination by the Government of India and the Reserve Bank.

Committee on Technology Issues in the Banking Industry

1.33 The Committee on Technology Issues in the Banking Industry, chaired by Shri W.S.Saraf, Executive Director, submitted its report to Governor, Reserve Bank of India on December 9, 1994. The Committee in its report has suggested far reaching changes relating to payments system, cheque clearing and securities settlement technology related issues and training in technology for the banking industry. The Committee has suggested a delivery versus payment (DVP) system with Subsidiary General Ledger (SGL) transactions in Government securities.

PERSPECTIVES

1.34 In the immediate future the performance of public sector commercial banks would depend on how effectively the banks are able to cope with competitive pressure emanating from within the banking industry and from the financial sector in general. The ultimate objective of financial sector reforms is to bring about efficient resource allocation. The progress of financial sector reforms in the last three years is set out in the Annexure. The success in facing challenges of competitiveness and achieving improved customer service would critically hinge upon the extent of functional and organisational restructuring that banks would bring about, the changes in management culture that banks could effect and the strategies adopted by banks to capitalise on their experience and strengths. The ultimate objective ought to be customer satisfaction through speed and quality of service.

1.35 As the process of correcting the exogenous and structural factors bearing upon the working of the banking sector is carried out as part of banking sector reforms, certain functions which were of peripheral interest to banks under the erstwhile regulatory framework assume paramount importance. The banks now have to manage credit and foreign exchange risks. In order to minimise credit risks and reduce the level of NPAs, banks will have to take a number of measures such as sharpening their own expertise in the selection of borrowers, better use of information provided by credit rating agencies and strengthening of the internal control system.

1.36 Over time there would inevitably be a progressive deregulation of interest rates and against this background banks need to expeditiously develop their expertise in management of interest rate risks and evolve systems for minimising asset-liability maturity mismatches.

1.37 The banks could improve their service based income by paying more attention to costing and pricing of various non-fund-based bank services. Alongside, banks have to develop their skills in regard to product development to suit the specific needs of their customers. In regard to disbursal of loans, banks would have to improve their services by ensuring timely availability of adequate funds. Keeping this point in view, a number of policy initiatives have been recently taken to simplify the procedure for computation of maximum permissible bank finance (MPBF) and consortium lending. The commercial banks should quickly take advantage of the new policies which would improve the loan delivery system by reducing operational bottlenecks.

1.38 The banks could also ensure that their business is rendered profitable by reaping the economies of scope by diversification of their activities. With reforms in the government securities market, the yields on dated government securities are market determined. Banks need to strengthen their treasury departments with a view to improving the average yield on their investment portfolio and more importantly, banks need to give greater attention to the maturity pattern of their investments in keeping with their liquidity requirements.

1.39 The increasing globalisation of the Indian economy has opened up new opportunities for the banking industry. Banks have to arrange for syndication of loans, provide custodial services and handle funds flow in view of the capital inflows from foreign institutional investors. At present public sector banks are at a disadvantage as compared with their foreign counterparts in this regard and should therefore develop the necessary expertise in these areas.

1.40 The public sector banks have a comparative advantage in their vast branch network and could effectively compete in the retail segment of banking with judicious restructuring of branch offices. It may be useful to consider functional specialisation of branches in order to render certain services effectively and efficiently.

1.41 It is now increasingly clear that the issue of recapitalisation of banks will need different treatment for individual banks. While all nationalised banks have benefited by the initial dose of recapitalisation, some of these banks are positioning themselves to tap the capital market through public offerings of equity and debt. In this context, banks find that their existing equity base is oversized in comparison with the projected stream of earnings. It may become necessary in such cases to reduce the Government equity stake. Recently the Government of India promulgated an Ordinance in January 1995 to amend the Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970 and 1980 for enabling the banks to reduce the paid-up capital by:

(i) extinguishing or reducing the liability on any of its shares in respect of share capital not paid-up;
(ii) either with or without extinguishing or reducing liability on any of its paid-up shares, cancelling any paid-up capital which is lost, or is unrepresented by available assets; or
(iii) either with or without extinguishing or reducing liability on any of its paid- up shares paying off any paid-up share capital which is in excess of the wants of the corresponding new bank.

1.42 A number of steps have been taken by the Reserve Bank to strengthen and improve the supervision of banks. But supervision by an external agency cannot be a substitute for banks' own internal supervision and control system, more so as the banks are gradually given more freedom to manage their business. There is, therefore, the need for strengthening internal control systems and change in organisational culture so that the decision making process could be made more decentralised and accountable.

1.43 Tentative estimates indicate that the NPAs of the banking system may decline from 23.6 per cent in March 1994 to a little less than 20 per cent in March 1995. While this decline is welcome it is necessary to interpret the decline in NPAs with an element of caution. While a realistic policy for banks would be to undertake write offs where there is little chance of recovery, it must be recognised that such write offs involve a cost to the banks. The experience has been that about two-thirds of the reduction in NPAs are attributable to write offs, while only one-third is attributable to recoveries. There are obvious limits to write offs and banks should endeavour to attain a higher level of recoveries.

1.44 With the revival of the real sectors of the economy, there has been an unprecedented surge in non-food credit in 1994-95: the increase being Rs.35,032 crore (22.8 per cent) upto March 17, 1995 and Rs.43,921 crore (28.6 per cent) upto March 31, 1995. Quite apart from the phenomenon of March 31 increase, such a large increase in credit is unprecedented and is clearly excessive in relation to what is warranted by the development in the real sectors. It is therefore imperative that banks should exercise an element of caution in their lending operations so as to avoid liquidity problems. In an increasingly deregulated environment it is important that banks avoid large maturity mismatches between their assets and liabilities.

CHAPTER II

COMMERCIAL BANKING

Overview

The scheduled commercial banks' operations during the year[1] 1993-94 were markedly different from the normal pattern of the past. Unlike in the past when lending motivated mobilisation of resources to support the expanded assets, there was a very large increase in investments in government securities and a strong increase in demand deposits. This was attributable in part to the surge in liquidity in the financial system stemming from the unprecedented capital inflows and the distinct preference for investments rather than bank lending, notwithstanding the reduction in statutory liquidity ratio (SLR), because of the implementation of prudential norms. There was, however, a sharp increase in food credit in the context of the build up of public sector foodgrain stocks.

Trends in Deposits and Credit

Trends in Deposits

2.2 Aggregate deposits showed a large growth in 1993-94. The pace of increase accelerated in the second-half of 1993-94, following substantial capital inflows from abroad. During the year as a whole, aggregate deposits expanded by Rs.46,560 crore or 17.3 per cent as compared with Rs.37,814 crore or 16.4 per cent in 1992-93 (Table II.1).

2.3 The growth in time deposits at 16.4 per cent was the lowest in recent years. Demand deposits increased sharply by 21.8 per cent or Rs.10,111 crore as against 3.0 per cent or Rs.1,373 crore in the previous year. The high rate of expansion in demand deposits reflected the economic units' preference for liquidity essentially to enable them to shift their funds to assets that give relatively high rates of return in the market. This trend continued during the first quarter of 1994-95 as well.

Trends in Bank Credit

2.4 During 1993-94, bank credit recorded a slower expansion of Rs.12,436 crore or 8.2 per cent as against a substantial increase of Rs.26,390 crore or 21.0 per cent in the previous year. Non-food credit recorded a modest increase of Rs.8,272 crore or 5.7 per cent in 1993-94 as compared with a marked increase of Rs.24,317 crore or 20.1 per cent in 1992-93. Food credit increased sharply by Rs.4,164 crore or 61.8 per cent in 1993-94 on top of the increase of Rs.2,073 crore or 44.4 per cent in 1992-93 mainly due to a large public food procurement and a continuing increase in large stocks of foodgrains for the second year in succession (Table II.1).

2.5 The lower expansion in non-food credit during 1993-94, reflected an overall slack demand for bank credit. This may be attributed to several factors, namely: (i) substantial amount of funds mobilised by the corporate sector from international markets

1. Relates to financial year (April-March) unless otherwise stated.

Table II.1 : Important Banking Indicators - Scheduled Commercial Banks

(Amounts in Rs. crore)

Items	Outstanding as on					Variations during the financial year		Variations during the quarter (April-June)	
	March 20, 1992	March 19, 1993	March 18, 1994	June 25, 1993	June 24, 1994*	1992-93	1993-94	1993-94 Upto June 25	1994-95* Upto June 24
1	2	3	4	5	6	7	8	9	10
1. Total Demand and Time Liabilities@	2,51,795	2,97,709	3,48,893	3,09,059	3,62,853	45,914	51,184	11,351 (3.8)	13,959 (4.0)
2. Aggregate Deposits (a+b)	2,30,758	2,68,572	3,15,132	2,78,389	3,27,179	37,814 (16.4)	46,560 (17.3)	9,817 (3.7)	12,046 (3.8)
a) Demand Deposits	45,088	46,461	56,572	46,882	58,722	1,373 (3.0)	10,111 (21.8)	421 (0.9)	2,150 (3.8)
b) Time Deposits	1,85,670	2,22,111	2,58,560	2,31,507	2,68,457	36,441 (19.6)	36,449 (16.4)	9,396 (4.2)	9,896 (3.8)
3. Borrowings from RBI	577	1,619	1,813	599	1,875	1,042 (180.6)	194 (12.0)	-1,020 (-63.0)	62 (3.4)
4. Liability to Banks	7,033	11,148	11,283	12,078	12,320	4,115	135	931 (8.3)	1,037 (9.2)
5. Bank Credit (a+b)	1,25,592	1,51,982	1,64,418	1,54,685	1,64,584	26,390 (21.0)	12,436 (8.2)	2,703 (1.8)	166 (0.1)
a) Food Credit	4,670	6,743	10,907	9,576	12,146	2,073 (44.4)	4,164 (61.8)	2,833 (42.0)	1,239 (11.4)
b) Non-food Credit	1,20,922	1,45,239	1,53,511	1,45,109	1,52,438	24,317 (20.1)	8,272 (5.7)	-130 (-0.1)	-1,073 (-0.7)
6. Investments (a+b)	90,196	1,05,656	1,32,522	1,12,200	1,45,350	15,460 (17.1)	26,866 (25.4)	6,544 (6.2)	12,827 (9.7)
a) Government Securities	62,727	75,945	1,01,201	82,591	1,14,524	13,218 (21.1)	25,256 (33.3)	6,647 (8.8)	13,322 (13.2)
b) Other Approved Securities	27,469	29,711	31,321	29,608	30,826	2,242 (8.2)	1,610 (5.4)	-103 (-0.3)	-495 (-1.6)
7. Cash in hand	2,008	2,293	2,283	2,480	2,538	285 (14.2)	-10 (-0.4)	187 (8.2)	255 (11.2)
8. Balances with RBI	34,179	28,535	47,760	31,587	48,148	-5,644 (-16.5)	19,225 (67.4)	3,052 (10.7)	388 (0.8)

* Provisional

@ Excluding borrowings from RBI/IDBI/NABARD.

Notes: 1. Figures in brackets are percentage variations.
2. Constituent items may not add up to the totals due to rounding off.
3. No sign is indicated for positive variations.

through Global Depository Receipts (GDRs), and Foreign Currency Convertible Bonds (FCCBs), (ii) access to Commercial Papers (CPs) market at favourable terms, (iii) continued slower industrial growth, (iv) better inventory management facilitated by removal of foreign exchange constraint and liberalised import policy and (v) larger access to the domestic primary capital market. In addition, the banks were concerned about the quality of assets while providing credit, so as to move towards fulfillment of the prudential norms for provisioning and capital adequacy standards. The deceleration in credit appears somewhat magnified in view of the unusually large credit expansion during the previous year. The slow pace of credit expansion has continued through the first quarter of 1994-95 as it increased by only Rs 166 crore or 0.1 per cent as against Rs. 2,703 crore or 1.8 per cent during the corresponding period of the previous year. Although non-food bank credit showed a distinct deceleration in 1993-94, the overall flow of funds to the commercial sector from all sources was sizeable.

Investment and Cash Balances

2.6 The commercial banks' investment in government and other approved securities rose sharply by Rs.26,866 crore in 1993-94 as compared with Rs.15,460 crore in 1992-93. This, however, includes investment in tradeable 12-year bank recapitalisation bonds of Rs.5,700 crore. During the first quarter of 1994-95, commercial banks' investments increased by a further Rs.12,827 crore.

2.7 This availability of risk-free government securities of various maturities at market related rates of interest in the primary market through auctions and sale of securities under the Reserve Bank's open market operations made these investments attractive to banks. The relatively high yields on government securities *vis-a-vis* the effective average lending rate seems to have been the main influence on the banks' decision to move in favour of government securities.

Insurance Cover for Deposits

2.8 The Deposit Insurance and Credit Guarantee Corporation (DICGC) has raised the limit of insurance cover per depositor for deposits in an insured bank from Rs.30,000 to Rs.1,00,000 with effect from May 1, 1993. The premium payable by the insured banks on their assessable deposits has also been raised from four to five paise per Rs.100 per annum with effect from July 1, 1993.

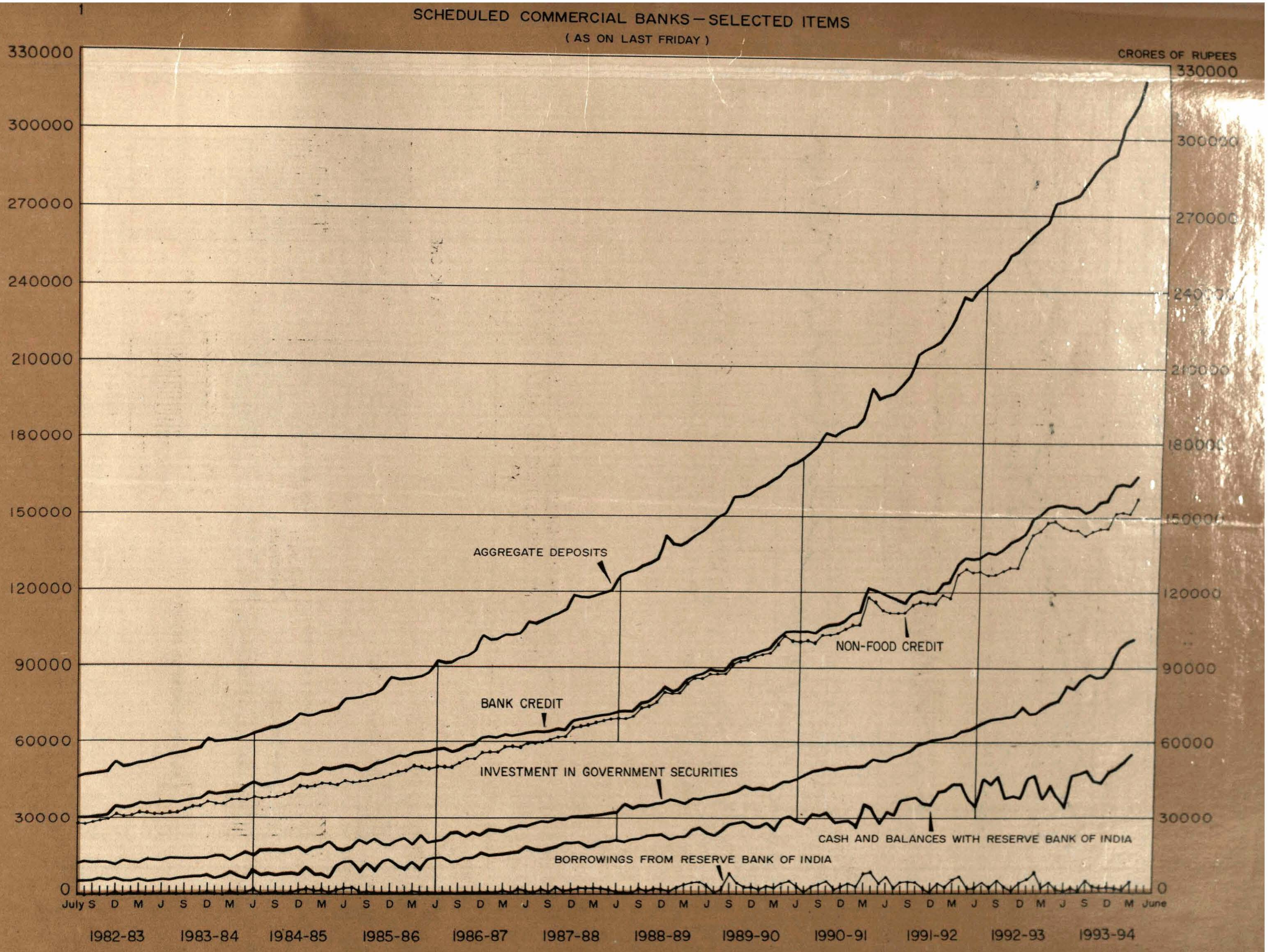
2.9 As at the end of March 1994, the Deposit Insurance Scheme covered 1990 banks comprising 80 commercial banks, 196 RRBs and 1,714 co-operative banks in 19 States and 3 Union Territories. During 1993-94 the Scheme was extended to co-operative banks in the States of Bihar, Assam and Manipur. The amount of assessable deposits increased from Rs.2,44,375 crore as at the end of June 1992 to Rs.2,49,034 crore as at the end of June 1993; the insured deposits also rose from Rs.1,64,527 crore as at the end of June 1992 to Rs.1,68,405 crore as at the end of June 1993 constituting 67.6 per cent of the total assessable deposits.

Sectoral Deployment of Credit

2.10 As mentioned earlier, while bank credit for food procurement increased sharply, non-food gross bank credit decelerated during 1993-94. Credit to priority sector as a percentage of net bank credit was 35.3 per cent during 1993-94 against the stipulated target of 40 per cent (Table II.2).

2.11 Gross bank credit to Industry (Small, Medium and Large scale) showed a modest increase of Rs.1,830 crore or 2.3 per cent during 1993-94 as against an expansion of Rs.13,422 crore or 20.6 per cent during 1992-93. Industry-wise disaggregation showed a relatively higher increase of gross bank credit in respect of industries such as Leather and Leather products, Paper and Paper products, Coal, Gems and Jewellery, Metal and Metal products, and Jute Textiles (Appendix Table II.1).

1

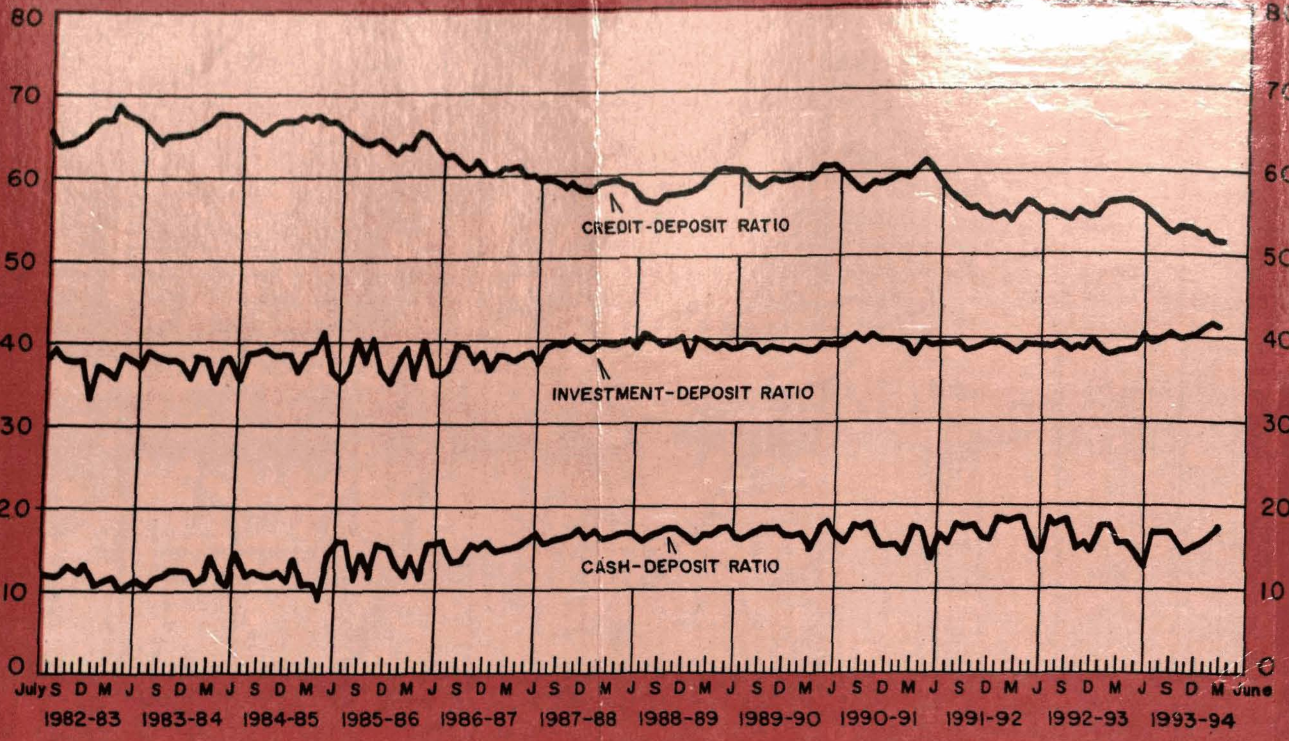


SCHEDULED COMMERCIAL BANKS – SELECTED ITEMS
(AS ON LAST FRIDAY)
CRORES OF RUPEES
330000
300000
270000
240000
210000
180000
150000
120000
90000
60000
30000
0
AGGREGATE DEPOSITS
BANK CREDIT
NON-FOOD CREDIT
INVESTMENT IN GOVERNMENT SECURITIES
CASH AND BALANCES WITH RESERVE BANK OF INDIA
BORROWINGS FROM RESERVE BANK OF INDIA
July S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M J S D M June
1982-83
1983-84
1984-85
1985-86
1986-87
1987-88
1988-89
1989-90
1990-91
1991-92
1992-93
1993-94

2

SCHEDULED COMMERCIAL BANKS : IMPORTANT

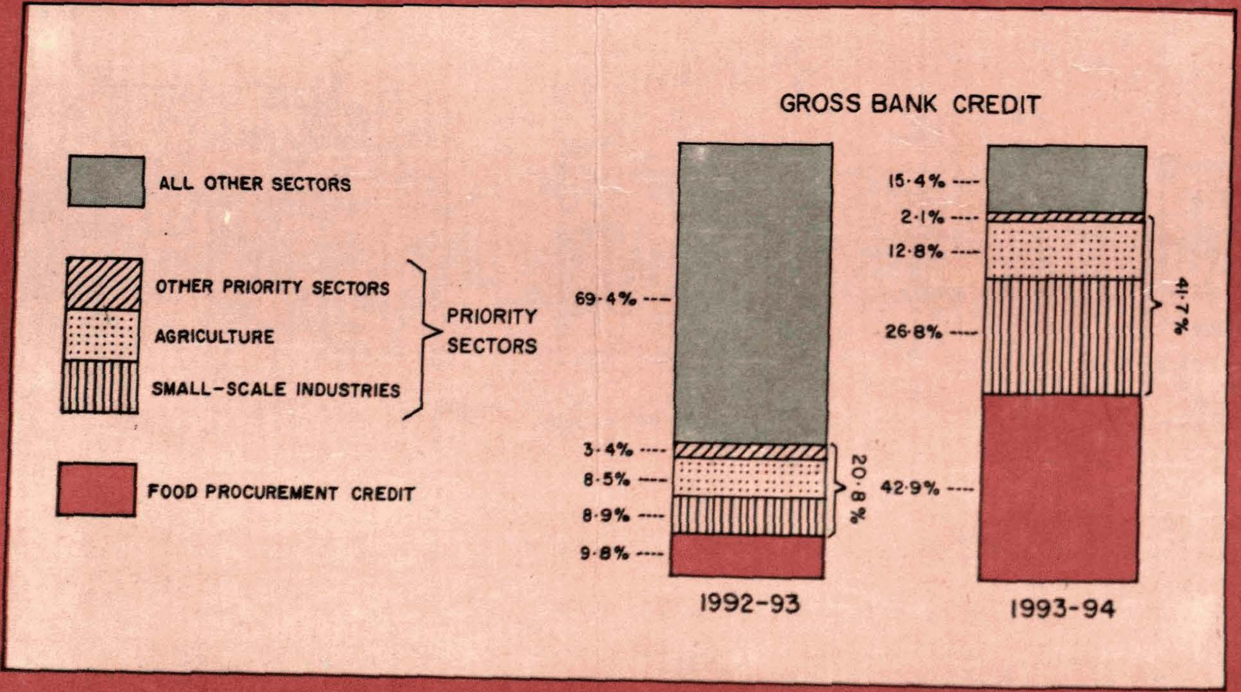
(AS ON LAST FRIDAY)



3

SECTORAL DEPLOYMENT OF GROSS BANK CREDIT VARIATIONS DURING 1992-93 AND 1993-94

(APRIL - MARCH)



Export Credit Refinance

2.12 Given the comfortable liquidity position of banks, the utilisation of export credit refinance was limited. During 1993-94 (April-March), the total export credit refinance limits of scheduled commercial banks declined by Rs.1,689 crore or 16.2 per cent from Rs.10,402 crore at end-March 1993 to Rs.8,713 crore at end-March 1994 (Appendix Table II.2). Export credit (rupee) refinance limits of banks declined by Rs.3,159 crore or 54.1 per cent, whereas refinance limits against post-shipment export credit denominated in U.S. dollars (PSCFC) increased by Rs.1,470 crore or 32.2 per cent during 1993-94. The fortnightly average of utilisation of export credit refinance was low at Rs.3,073 crore during 1993-94 as against Rs.5,450 crore during the previous year. The peak level of utilisation at Rs.10,768 crore was reached during 1992-93 on March 23, 1993, whereas the highest level of utilisation reached during 1993-94 was Rs. 10,626 crore on April 5, 1993.

Export Credit

2.13 The total outstanding export credit eligible for refinance at Rs.16,986 crore extended by all the scheduled commercial banks as at end-March 1994, stood higher by Rs.1,948 crore or 13.0 per cent against Rs.15,038 crore as at end-March 1993.

2. Credit Targets and Achievements

2.14 All the scheduled commercial banks, including the foreign banks operating in India, are required to extend a certain minimum proportion of their lending as credit to priority sector[1] and sub-sectors thereof.

Priority Sector Advances by Public Sector Banks

2.15 The public sector banks increased their lending under priority sector by Rs.5,349 crore from Rs.47,848 crore as at the end of June 1993 to Rs.53,197 crore as at the end of March 1994. As a share of net bank credit, it increased by 1.9 percentage points from 35.9 per cent in June 1993 to 37.8 per cent in March 1994, against the stipulated target of 40 per cent. Within the priority sector, direct agricultural advances increased from Rs.18,332 crore in June 1993 to Rs.19,255 crore in March 1994 with its share at 13.7 per cent showing a marginal decline. The share of credit to SSIs in overall net bank credit increased from 14.1 per cent to 15.3 per cent and that of other priority sector also increased from 6.9 per cent to 7.4 per cent, during this period (Appendix Table II.3).

Priority Sector Advances by Private Sector Banks

2.16 As on the last Friday of September 1993, priority sector advances of private sector banks amounted to Rs. 2,473 crore accounting for 31.6 per cent of their net bank credit, with direct finance to agriculture and advances to SSIs forming 6.2 per cent and 16.6 per cent, respectively (Appendix Table II.4).

Priority Sector Advances by Foreign Banks

2.17 In order to align the priority sector lendings of foreign banks operating in India with that of Indian banks, the target of priority sector lending by foreign banks was raised in October 1993 from 15 per cent to

1. The priority sector target is 40 per cent of the net bank credit and the sub-targets are: 18 per cent for agriculture, of which not more than one-fourth can be indirect advances and 10 per cent for weaker sections; of the total credit to small scale industry, 40 per cent is to be for smaller and tiny units.

32 per cent of their net bank credit inclusive of two separate sub-targets of at least 10 per cent each in respect of advances for SSIs and exports to be achieved by the end of March 1994. Taking into account their difficulties in extending credit to the agricultural sector due to lack of rural branch network, the composition of priority sector advances for foreign banks has been enlarged to include export credit extended by them with effect from July 1, 1993. It has been stipulated that in the event of any shortfall in the target as at the end of March 1994, the foreign banks will have to make good the shortfall by placing a deposit with SIDBI. Accordingly, nine foreign banks, which did not attain the target, have deposited Rs.310.0 crore with SIDBI.

2.18 As at the end of March 1994, the advances to priority sector by foreign banks stood at Rs. 3,176.50 crore accounting for 32 per cent of their net bank credit.

Recovery of Direct Agricultural Advances

2.19 The recovery of direct agricultural advances by the public sector banks has marginally improved from 54 per cent as at the end of June 1992 to 55.8 per cent as at the end of June 1993 (Table II.3).

Table II.3 : Recovery of Agricultural Advances

(Amounts in Rs. crore)

Year ended June	Demand	Recovery	Recovery as percentage of demand
1	2	3	4
1991	8,496	4,937	58.1
1992	9,105	4,925	54.0
1993	10,217	5,709	55.8

Improving Access of Rural Poor to Bank Credit

2.20 With a view to ensuring effective utilisation of banks' assistance for the poor, wider coverage of the target group and improvement of recoveries, NABARD has launched a pilot project under which 500 Self-Help Groups are envisaged to be linked to the banks. The Reserve Bank instructed all the scheduled commercial banks to take necessary action with a view to successfully implementing the innovative method of reaching out to the rural poor.

Advances to Weaker Sections and Special Assistance Programmes

2.21 As at the end of March 1994, advances of public sector banks to weaker sections[1] aggregated Rs. 12,779 crore constituting 9.07 per cent of their net bank credit as against the target of 10 per cent.

2.22 Credit to minority communities by the public sector banks stood at Rs.1,070 crore in 12.8 lakh borrowal accounts as at the end of March 1994 in 41 identified districts. This showed a marginal improvement over the outstanding amount as at the end of March 1993.

2.23 Outstanding advances to SCs/ STs under priority sector by public sector banks increased from Rs.4,142 crore in about 93.0 lakh borrowal accounts as at the end of March 1993 to Rs.4,737 crore in about 97.5 lakh borrowal accounts as at the end of March 1994.

2.24 The Scheme for Preparing Ex-Servicemen for Self-Employment, introduced in 1983-84, was operative in 43 districts of 11 States during 1993-94 against 45 districts

1. These sections consists of (i) small and marginal farmers with land holding upto five acres, landless labourers, tenant farmers and share-croppers, (ii) artisans, village and cottage industries enjoying credit limit upto Rs. 25,000, (iii) IRDP, DRI beneficiaries and (iv) beneficiaries belonging to scheduled castes/scheduled tribes.

in 11 States during 1992-93.

2.25 The Debt Relief Scheme (DRS) for November 1984 Riot-Affected Borrowers authorises the banks to write-off all those advances in amounts of Rs.25,000 and less granted to riot victims along with the outstanding interest. For those riot-affected borrowers who are not covered under DRS and where total loans by way of principal from all banks exceeded Rs.25,000 per borrower, the Reserve Bank introduced the 'Revised Interest Subsidy Scheme for November 1984 Riot-Affected Borrowers' which envisages to charge one per cent per annum (simple) rate of interest on all eligible loans outstanding for the period, November 1, 1984 through March 31, 1992 and the subsidy of the Government being the difference between one per cent (simple rate) and 16 per cent or the actual rate of interest being levied whichever is lower. An amount of Rs. 23.47 crore has so far been released by the Government, out of which Rs. 21.50 crore has been disbursed to banks as interest subsidy under the earlier scheme, *viz.*, 'Central Interest Subsidy Scheme for November 1984 Riot-Affected Borrowers'.

Differential Rate of Interest Scheme (DRI)

2.26 Under the DRI Scheme, the total outstanding advances in respect of public sector banks as at the end of March 1994 at Rs.694 crore in 26.14 lakh borrowal accounts were lower than Rs.705 crore in about 30.0 lakh borrowal accounts as at the end of March 1993. These advances constituted 0.52 per cent of total advances as at end-March 1994, against the stipulated target of one per cent. However, as at the end of March 1994, SCs/STs borrowers accounted for Rs.379 crore in 12.4 lakh borrowal accounts constituting 54.6 per cent of total DRI advances as against the target of 40 per cent.

Integrated Rural Development Programme (IRDP)

2.27 During the year 1993-94, banks assisted 25.38 lakh beneficiaries under IRDP. A total amount of Rs.1,408.0 crore and Rs.757 crore were disbursed as loan and subsidy, respectively. Of the total beneficiaries, 13.46 lakh belonged to SCs/STs and 8.54 lakh were women. The recovery performance of IRDP loans has been generally poor except for the year 1991 in which loans were waived under Government's ARDRS, 1990 showing higher recovery (Table II.4).

Table II.4 : Recovery of IRDP Loans

(Amounts in Rs. crore)

Year ended June	Demand	Recovery	Recovery as percentage of demand
1	2	3	4
1991	1,272	526	41.4
1992	1,439	457	31.8
1993	1,657	502	30.3

Self-Employment Scheme for Educated Unemployed Youth (SEEUY)

2.28 The Government of India in consultation with the Reserve Bank launched this Scheme in September 1983 to enable the educated unemployed youth to undertake self-employment ventures in industry, services and business. During 1992-93, Rs. 146 crore was sanctioned to 0.72 lakh beneficiaries against a target of one lakh beneficiaries. Provisional estimates for 1993-94 place the amount of loan sanctioned at Rs.142 crore to 0.63 lakh beneficiaries (Table II.5). This scheme has since been subsumed in the Prime Minister's Rozgar Yojana for Educated Unemployed Youth (PMRY) with effect from April 1, 1994.

Table II.5 : Number of Beneficiaries and Loans granted under SEEUY

Programme Year	Target	Achievement	
	No. of beneficiaries (lakh)	No. of benefici-aries (lakh)	Loans sanctioned (Rs. crore)
1990-91	1.25	1.01	223
1991-92	1.29	0.94	206
1992-93*	1.00	0.72	146
1993-94*	1.26	0.63	142

* Provisional

Source : Ministry of Industry, Government of India for 1990-91 to 1992-93 and for 1993-94 data received from banks.

Prime Minister's Rozgar Yojana for Educated Unemployed Youth (PMRY)

2.29 The scheme introduced in October 1993, with the objective of providing self employment in micro-enterprises to educated unemployed urban youth, has been extended throughout the country from April 1, 1994. The scheme provides for reservation of 22.5 per cent and 27 per cent for SCs/STs and other backward classes (OBCs), respectively. Around 30,000 applications have been sanctioned against the target of 42,040 as at the end of March 1994. The target for the year 1994-95 has been fixed at 2,39,175 prospective beneficiaries.

Scheme for Urban Micro Enterprises (SUME)

2.30 The scheme is implemented by selected branches of public sector banks. The provisional figures on disbursements during 1993-94 showed decline from the previous year, while the amounts sanctioned increased during the same period (Table II.6).

Agricultural and Rural Debt Relief Scheme (ARDRS) 1990

2.31 According to provisional data, the

Table II.6 : Loans under SUME

Year	No. of Accounts	Loans (Rs. lakh)	
		Sanctioned	Disbursed
1991-92	1,51,033	8,139	5,908
1992-93	1,60,506	10,246	7,932
1993-94	1,76,076	12,673	7,054

total debt relief has been provided to the extent of Rs.7,262 crore under the scheme, of which public sector banks provided Rs.2,549.50 crore, regional rural banks (RRBs) Rs.719.15 crore and co-operatives Rs.3,993.49 crore. The Government of India released Rs.1,500 crore, Rs.1,425 crore, Rs.1,500 crore, Rs.500 crore and Rs.341 crore out of the budgetary allocations of the respective years ending March 1995. For meeting the claims of the implementing agencies, the cumulative amount disbursed upto the four year period ending March 1995 will be of the order of Rs.2,549.50 crore for public sector commercial banks, Rs.719.15 crore for RRBs and Rs.1,996.75 crore for co-operatives. The Reserve Bank has provided a loan of Rs.1,996.75 crore through NABARD to State Governments to enable them to meet their financial commitments of 50 per cent in respect of borrowers from co-operatives.

3. Lead Bank Scheme and Service Area Approach

Lead Bank Scheme

2.32 The number of districts covered by the lead bank scheme, under which each commercial bank functions as a lead bank in the allocated district for co-ordinating the deployment of credit, increased to 493 as at the end of March 1994 compared with 483 a year ago.

Service Area Approach (SAA)

2.33 The SAA which entails allocation of specific areas to rural/semi-urban bank branches is intended to improve the quality of rural lending. In order to make the SAA more effective, the following modifications have been introduced : (i) Service Area branches may be grouped block-wise without disturbing their Service Area identities or their obligation to prepare village level/ service area plans so that the borrowers have the flexibility to approach other branches within the block to meet their credit requirement adequately; (ii) satellite/mobile offices be opened in Service Areas which are very large and are located in tribal/hilly and inaccessible areas; (iii) the area of operations of the specialised branches such as agricultural development branches, agricultural banking division and *gram vikas kendras* may be enlarged to use their infrastructure to the maximum; (iv) realigning the scattered service areas; and (v) exemptions from the SAA in respect of large projects covering several districts/States.

2.34 Under the SAA, annual credit plans are prepared by the banks. The all-India sector-wise targets *vis-a-vis* achievement for the financial years 1992-93 and 1993-94 are given in Table II.7. The target for the year 1993-94 is higher by Rs 1,207.65 crore or 6.3 per cent as compared with 1992-93. The achievement during 1993-94 has been 102.62 per cent compared with 87.77 per cent in 1992-93.

Table II.7 : Annual Credit Plans

(Amounts in Rs. crore)

Sector	1992-93 Targets	1992-93 Achievement	1993-94 Targets	1993-94 Achievement*
Agriculture	13,184.72	11,829.12 (89.72)	13,987.56	14,034.73 (100.34)
SSI	3,162.46	2,910.79 (92.04)	3,567.67	3,828.50 (107.31)
Services	2,919.87	2,171.59 (74.37)	2,919.47	3,148.42 (107.84)
Total	19,267.05	16,911.50 (87.77)	20,474.70	21,011.65 (102.62)

* Provisional

Note: Figures in brackets represent percentages of achievement to targets.

4. Regional Dispersal Of Credit

2.35 The credit-deposit (CD) ratio is often considered to be an important indicator, among others, of the extent of contribution made by the banks to the developmental activities in the concerned State. The CD ratio depends not only on the efforts made by the banks but also on various other factors such as credit-absorptive capacity of the region, infrastructural support, and the over-all policy framework in the region.

2.36 The CD ratio as per utilisation provides an understanding of credit dispersal as it takes into account the migration of credit. The all India CD ratio of scheduled commercial banks as per credit utilisation declined to 57.7 per cent at the end of March 1992 from 61.9 per cent in the preceding year (Appendix Table II.5). This decline of the CD ratio was observed in all regions barring the north-eastern region which has to be viewed against the background of the credit compression measures in 1991-92. During 1991-92, total bank credit grew by only 8.0 per cent as compared with the deposit growth of 19.8 per cent.

2.37 The southern region witnessed a high ratio of 77.7 per cent, with Tamil Nadu registering a ratio of 89.1 per cent. The eastern region had a low ratio of 49.1 per cent. Among all States and Union Territories, the lowest ratio of 13.4 per cent was observed in Lakshadweep, followed by 23 per cent in Meghalaya. During 1991-92, the CD ratio of the north-eastern region in terms of utilisation showed further improvement to

66.3 per cent at the end of March 1992 from 60.9 per cent a year ago.

2.38 The investment plus credit (as per utilisation) to deposits (ICD) ratio is yet another indicator of deployment of bank funds. As shown in Appendix Table II.5 the all India ICD ratio declined to 69.2 per cent at the end of March 1992 from 73.7 per cent a year ago.

Task Forces on CD Ratio

2.39 As mentioned in the previous year's Report, with a view to ascertaining the reasons for low CD ratio in certain States, Task Forces had been constituted. The Task Forces for Uttar Pradesh, Bihar, West Bengal and Rajasthan have already submitted their reports, which were discussed in their respective State Level Bankers' Committees (SLBCs) for implementation of the recommendations.

2.40 In order to improve the credit absorption capacity, the Task Forces, in general, stressed the need for improving infrastructural facilities, consolidation of land holdings, development of markets, early detection and rehabilitation of sick industrial units, land development, promotion of small scale industries, financing of minor irrigation schemes and allied activities like horticulture and pisciculture. In the case of Uttar Pradesh, development of tourism related industries and the traditional ones like carpets and leather were found to have great potential for credit absorption. The provision of term loans apart from working capital, where project cost does not exceed Rs.30 lakh, was recommended for small scale industries in Bihar. Need for effective co-ordination between term lending institutions and financing banks, and introduction of Entrepreneurial Development Programmes have been highlighted in the case of Rajasthan. Provision of packages of incentives for new entrepreneurs was recommended for the State of West Bengal. The need for setting up of debt recovery tribunals was also stressed.

2.41 The reports of the Task Forces for Kerala and Pondicherry are awaited. In respect of States/Union Territories, where CD ratio was low and at the same time specific Task Forces were not constituted, the conveners of SLBCs were advised to convene special meetings to discuss and find out ways and means of improving the position.

5. Industrial Sickness

2.42 The Reserve Bank continued to lay emphasis on the revival of potentially viable sick units. Sick Industrial Companies Act has been further amended to bring about identification of sickness at an earlier stage besides quickening the process of rehabilitation. The amendments, *inter alia,* include revised definition of a sick[1]/ potentially sick[2] unit.

2.43 The number of non-SSI sick units and bank credit outstanding against them have increased between the period ending March 1992 and March 1993. However, in the case of non-SSI weak units, the number as well as outstanding credit has decreased. This is mainly due to a number of weak non-SSI units of March 1992 becoming 'sick' following complete erosion in their networth. The number of sick SSI units has decreased while

1. Sick industrial company means, an industrial company (being registered for not less than five years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth.

2. If the accumulated losses of an industrial company as at the end of any financial year have resulted in the erosion of fifty per cent or more of its peak net worth during the immediate preceding four financial years.

the bank credit against them has increased during the period under review (Appendix Table II.6).

2.44 The total bank funds locked up due to industrial sickness increased from Rs.11,533 crore as at end-March 1992 to Rs.13,134 crore as at end-March 1993 (Appendix Table II.6).

2.45 The Committee on Industrial Sickness and Corporate Restructuring under the chairmanship of Dr. Omkar Goswami has submitted its Report in July 1993. The details of recommendations of the Committee, already brought out in the previous year's Report, were examined by the Reserve Bank and comments thereon have been forwarded to the Government of India.

6. Export Credit

Policy changes

2.46 During 1993-94, a number of measures have been taken by the Reserve Bank in respect of export credit. The State Level Export Promotion Committee (SLEPC), detailed in the previous year's Report, is functioning satisfactorily. The commercial banks have been advised to attain a minimum level of outstanding export credit of 10 per cent of net bank credit (outstanding) and those which have already achieved this have been advised to increase it further.

2.47 The Pre-shipment Credit in Foreign Currency (PCFC), discussed in detail in the previous year's Report, has been further simplified. The borrowers have now been extended PCFC on 'Running account' basis. The Scheme now allows the borrowers flexibility to produce letter of credit or export order within a reasonable period of time. Concessional export credit for deemed export category, *hitherto*, available to supplies made to projects financed by IBRD/IDA/UNICEF and projects financed by the other listed bilateral/multilateral agencies is now available only to those bilateral or multilateral agencies/funds as notified by Government of India, Ministry of Finance, Department of Economic Affairs under Chapter 10 of Exim Policy.

7. Bank Finance for Working Capital

2.48 The Reserve Bank has constituted a Committee consisting of representatives of banks and financial institutions to decide the modalities of identifying and dealing with the problem of default in repayment of dues by the larger borrowers who have siphoned off funds/defrauded banks and financial institutions under the 'group approach'.

Bridge loans/Interim Finance

2.49 Commercial banks were permitted to extend bridge loans/interim finance against capital issues/market borrowing upto 50 per cent of the amount called-up on each occasion. This ceiling has now been enhanced to 75 per cent and made applicable to financial institutions as well. Accordingly, banks and financial institutions put together may sanction bridge loan/interim finance against public issues and/or market borrowings not exceeding 75 per cent of the amount actually called up on each occasion. Banks and financial institutions must obtain from borrowers suitable certificates to ascertain the amount of total borrowings at any point of time. They should also ensure, *inter alia*, utilisation of the finance for the purpose for which the public issue/market borrowings are intended.

8. Money/Government Securities Market

2.50 With the gradual shift of emphasis from direct to indirect instruments of monetary control, the attempt at developing and activating the money market as well as the government securities market was further intensified during 1993-94.

Primary Dealers System/Securities Trading Corporation of India

2.51 With a view to strengthening the institutional structure for development of a vibrant market in government securities, it has been decided to set up a system of primary dealers whose role would be to underwrite the auctions of government securities, act as 'market maker' by providing two-way quotes and access securities to final investors. The Securities Trading Corporation of India (STCI) has been established for dealing in government dated securities and public sector bonds and the STCI is now operational. The Reserve Bank, public sector banks and financial institutions have contributed to the initial capital of STCI.

Certificate of Deposits

2.52 As mentioned in the previous year's Report, in order to provide greater operational autonomy to banks, effective October 16, 1993 the bank-wise limits for issue of Certificate of Deposits (CDs) were withdrawn. The outstanding amount of CDs has, however, decreased from a high figure of Rs.12,557 crore (14.9 per cent of aggregate deposits) as on July 9, 1993 issued by 49 banks to Rs.5,347 crore (1.8 per cent of aggregate deposits) as on July 22, 1994 issued by 45 scheduled commercial banks. The decline may be attributed to the costly nature of the instrument as well as to the excess liquidity with the banking system during the year.

2.53 The typical interest rates for CDs with a maturity of three months which were in the range of 12.5 per cent to 13.5 per cent per annum in the month of July 1993 came down to a range of 8.0 per cent to 9.0 per cent in the month of July 1994. Similarly, for CDs with a maturity of one year the rates have declined from a range of 13.0 per cent to 14.0 per cent in July 1993 to 10.0 per cent to 10.5 per cent in July 1994.

Commercial Paper

2.54 The year 1993-94 witnessed a spurt in the issue of Commercial Papers (CPs). The outstanding amount of CPs recorded an increase of Rs.2,181 crore between July 1993 to June 1994 as against a rise of Rs.1,117 crore during 1992-93 (July-June). As on August 15, 1994 the amount outstanding was Rs.4,182 crore. The high growth in the issue of CPs was rendered possible by the excess liquidity in the system. The interest rate on CPs too was lower than the lending rates of commercial banks' advances. The majority of CPs issued between July 1, 1993 to June 30, 1994, carried effective interest rates of around 10 per cent to 12 per cent per annum as compared with the rates of 15.5 per cent to 17.5 per cent offered during 1992-93. The maturity period of CPs was predominantly three months in the recent period, notwithstanding the relaxation made in maturity period effective October 18, 1993.

2.55 As the bulk of CPs issued was held by the commercial banks, the investments of scheduled commercial banks in CPs increased from Rs.652 crore as on June 25, 1993 to Rs.2,878 crore as on June 24, 1994 and further to Rs.3,161 crore as on July 22, 1994, and formed 85.6 per cent of total CPs outstanding as on July 15, 1994 (Rs.3,693.1 crore).

2.56 The Reserve Bank has accorded the status of an approved rating agency to Credit Analysis and Research Ltd. (CARE) for the purpose of rating issue of CP, besides the two already existing agencies, *viz.*, Credit Rating Information Services of India Ltd. (CRISIL) and Investment Information and Credit Rating Agency of India Ltd. (ICRA). The minimum credit rating of CARE specified by the Reserve Bank for the issue of CP is 'PR-2'.

9. Regional Spread of Banking

2.57 In keeping with the ongoing reforms in the financial sector, the main thrust of the branch licensing policy for 1990-95 continued to be on providing operational autonomy to banks to rationalise the structure of their branches. As per the existing guidelines, banks are free to open certain categories of specialised branches for industrial finance, non-resident Indians (NRIs), treasury operations, small industries business/small scale industries, specialised overseas branches and other purposes without the prior approval of the Reserve Bank. They are also allowed to convert their non-viable rural branches into satellite offices subject to certain conditions and to provide locker facilities at extension counters. Following the undertaking of performance obligations and commitments by the nationalised banks in connection with their recapitalisation by the Government of India, loss-making banks have been advised not to open new branches or utilise their pending licences except in cases where firm commitments for acquiring of premises, etc., have been made and/or the proposed branch would earn profit in the very first year of its operation. In such cases, prior approval of the Reserve Bank would be necessary. In August 1993, banks have been allowed to close, with the approval of the Reserve Bank, on mutual consultation, one loss-making branch at rural centres served by two commercial bank branches excluding RRBs.

2.58 With a view to improving the operational efficiency of RRBs, they have been allowed, in December 1993, to relocate their loss-making branches at new places like village *mandis*, agricultural produce centres, etc., and selectively at block/ district headquarters. Besides, RRBs can open extension counters on their own at premises of institutions of which they are the principal bankers.

2.59 Banks have been allowed to open branches at 434 rural centres under the current Branch Expansion Programme (BEP), 1990-95 and they have opened branches at 207 centres by the end of June 1994. As many as 1,043 centres in urban/ metropolitan/ port towns were allowed for opening of branches under the BEP.

2.60 With a view to promoting investment in agriculture, particularly in the high-tech areas, such as, horticulture, tissueculture, etc., the banks have been advised that the conveners of State Level Bankers' Committees (SLBCs) should draw a suitable plan for opening at least one Specialised Agricultural Finance Branch (SAFB) in each State.

2.61 The number of scheduled commercial bank branches (including RRBs) has gone up from 61,248 at the end of June 1993 to 61,742 as at the end of June 1994, of which 57.3 per cent are in rural areas and 19.0 per cent in semi-urban areas (Appendix Tables II.7 and II.8). The nationalised banks account for the largest number of branches with a share of 49.2 per cent, followed by RRBs with 23.5 per cent, SBI with 14.1 per cent and its associate banks with 6.3 per cent of the total number of branches. Rural branches account for 51.1 per cent of the total number of branches of the SBI.

2.62 The rapid pace of branch expansion since 1969 has led to a perceptible decline in average population served per bank branch from 64,000 at the time of nationalisation to 14,000 (as per estimated mid-year population of 1991) at the end of June 1994, with the lowest figure of 11,000 observed in northern region and the highest of 17,000 in eastern and north-eastern regions (Appendix Table

II.7). The intra-regional disparity was particularly observed in the north-eastern and western regions, and among the States and Union Territories, Goa registered the lowest population per branch figure of 4,000 as against the highest figure of 22,000 for Manipur.

10. Diversification in Banking

2.63 The Indian financial system witnessed diversification in their activities. This has been reflected, *inter alia*, in a marked shift in asset preference from monetary assets (such as currency and bank deposits) to other financial assets (such as contractual savings and other assets including shares, debentures, units, etc.) leading to some degree of financial disintermediation. Against this backdrop, banks' own role in non-banking business has been increasing with the introduction of a number of innovative schemes/instruments in the financial market.

Para Banking Activities

2.64 In keeping with the liberalisation process in the financial system, in February 1994, banks have also been allowed departmentally to undertake para banking activities like equipment leasing, hire purchase financing and factoring. Banks have been advised to select certain branches to undertake these activities. Earlier, such activities could be undertaken by banks only through separately established subsidiaries. Banks can now undertake such activities subject to an overall exposure ceiling of 25 per cent of the bank's capital funds to an individual borrower and 50 per cent to a group of borrowers. Besides, the banks will be subject to certain conditions, *inter alia*, prudential norms on income recognition, asset classification and provisioning, capital adequacy norm, exposure limit of 10 per cent of total advances for each activity and extension of factoring services only against invoices with genuine trade transactions. Moreover, the merchant banking/equipment leasing subsidiaries of banks are now permitted to undertake selectively issue management functions on behalf of other leasing/hire purchase finance companies within a prescribed ceiling.

Banking Subsidiaries

2.65 During 1993-94 (July-June), Bank of Rajasthan, a private sector bank, has been given permission to set up a merchant banking subsidiary. At the end of June 1994, there were nine subsidiaries of scheduled commercial banks set up for merchant banking activities.

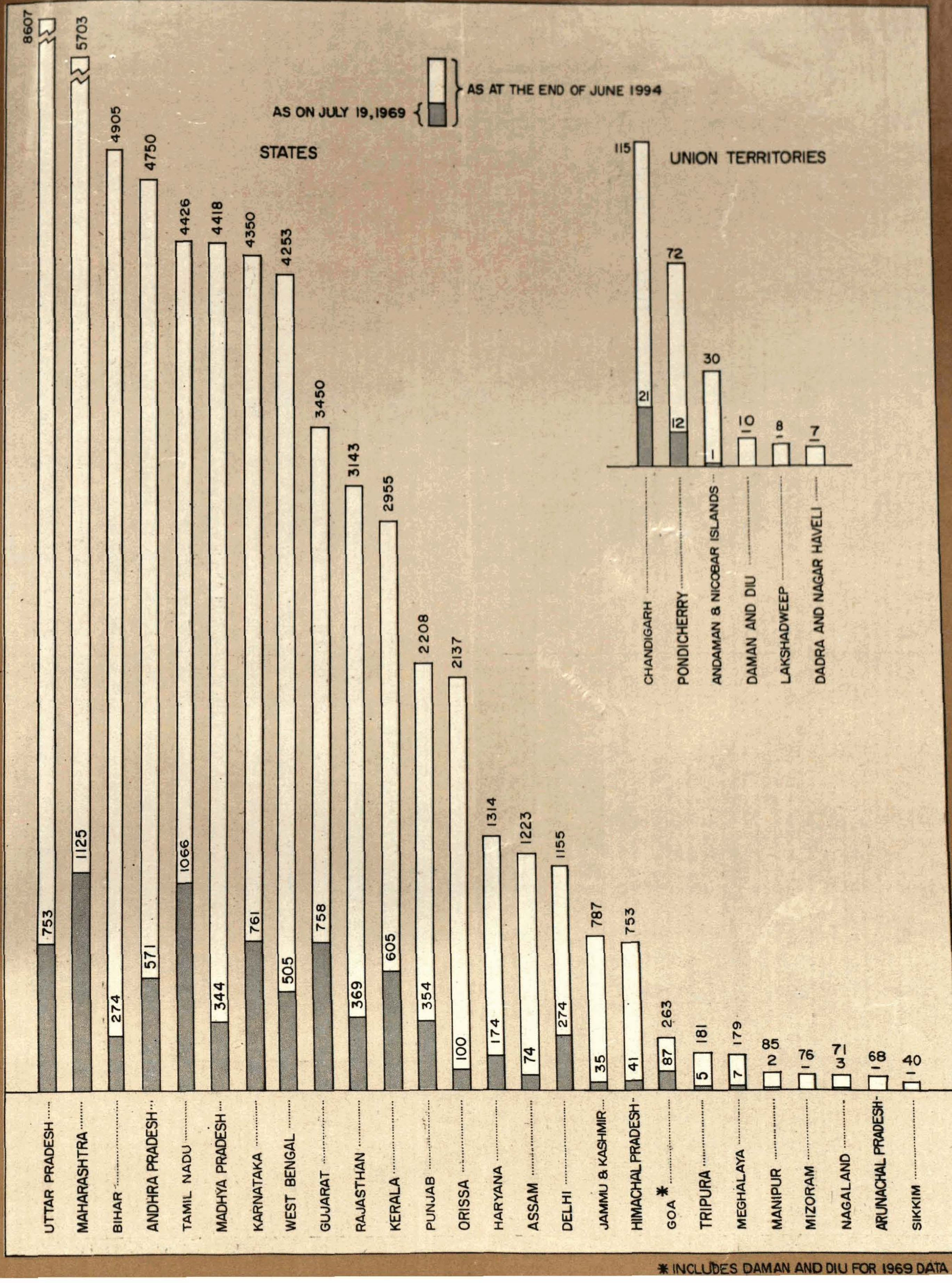
Mutual Funds

2.66 The number of public sector mutual funds set up by banks remains at six. The Vysya Bank Ltd. has been given 'in principle' approval to set up a mutual fund. During the period under review, bank-sponsored mutual funds floated ten schemes. Pursuant to the decision taken by the High Level Committee on Capital Markets, in May 1994 the Reserve Bank has withdrawn the precondition of obtaining its approval for floating individual schemes by bank-sponsored mutual funds, provided prior approval from SEBI is obtained. During the period under review, four banks, *viz.*, Bank of India, Bank of Baroda, Punjab National Bank and Indian Bank have been permitted to set up their respective asset management companies to handle the mutual fund business. State Bank of Patiala and State Bank of Hyderabad have been given 'in principle' approval to set up a money market mutual fund.

Stockinvest Scheme

2.67 With the discontinuation of the scheme by Bareilly Corporation Bank Ltd., the total number of stockinvest issuing banks

NUMBER OF OFFICES OF COMMERCIAL BANKS

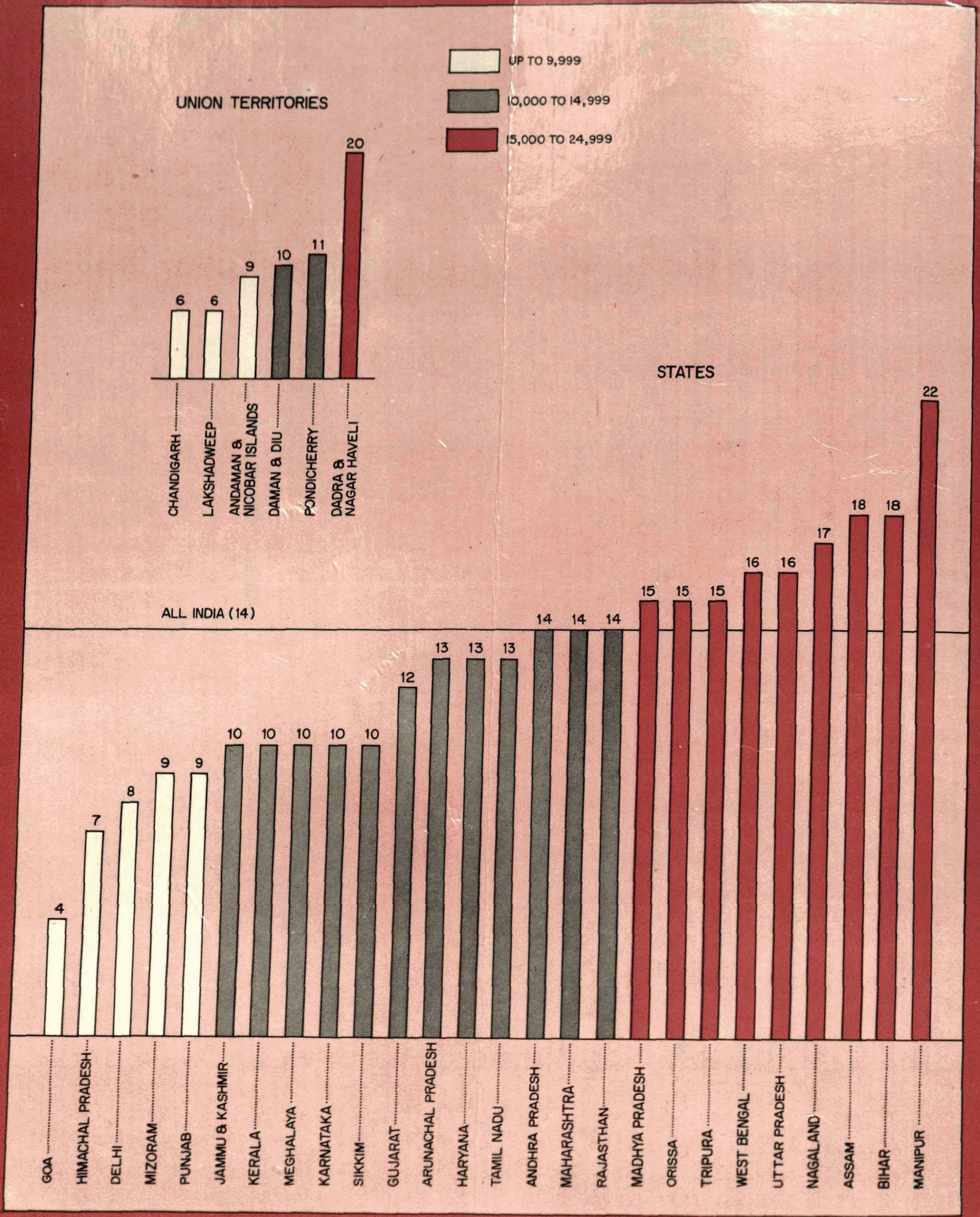


* INCLUDES DAMAN AND DIU FOR 1969 DATA

AVERAGE POPULATION PER COMMERCIAL BANK BRANCH

(AS AT THE END OF JUNE 1994)

FIGURES ARE IN THOUSANDS



BASED ON 1991 MID-YEAR POPULATION DATA

stands at 50. Following a review of the operation of the stockinvest scheme by a Standing Committee comprising members from the Reserve Bank, SEBI and Indian Banks' Association, a few modifications in the scheme based on their recommendations have been introduced as under:

(i) The stockinvests should be restricted to individual investors and mutual funds. Stockbrokers, corporate bodies, banks and financial institutions should not be allowed this facility.
(ii) The stockinvests should be issued only against term deposits and credit balances available in savings bank or current accounts.
(iii) The stockinvests instrument should not be issued in blank. The banks should, henceforth, fill in the name of the capital issuing company before the stockinvests are delivered to the applicants.
(iv) Banks should issue stockinvests only if they have made arrangements at all the mandatory centres as decided by SEBI from time to time (presently 30 including 21 centres where stock exchanges are situated).

2.68 Further, the Department of Administrative Reforms and Public Grievances, Ministry of Personnel, Public Grievances and Pensions, Government of India had conducted a study on 'Acceptability and Effectiveness of the Stockinvest Scheme.' The findings of the study have been examined by the Reserve Bank and banks have been advised as under:

(i) Banks should ensure that there is no delay in issue of stockinvests.
(ii) The lien on deposit accounts should be lifted without undue delay.
(iii) In order to make the scheme accessible to more investors, stockinvests may be issued by as many branches as possible.
(iv) The application form for issue of stockinvests may be made simpler.
(v) To avoid delays in clearing and processing, etc., of the instrument, banks are advised to exercise due caution and provide the correct branch code on stockinvests.
(vi) Banks are advised to indicate the amount of stockinvest issued both in figures and words.

Credit Card Business

2.69 As on June 30, 1994 six nationalised banks, SBI and its associate banks and five foreign banks were engaged in credit card business. Further, 20 Indian banks (ten public sector banks and ten private sector banks) have entered into the business by having tie-up arrangements with other banks.

Equity Participation

2.70 The disintermediation process in the financial sector has further led to setting up of various other service agencies by banks. Canara Bank, Federal Bank Ltd. and Vysya Bank Ltd. have been permitted to participate in the equity of Credit Analysis and Research Ltd. (CARE). Indbank Merchant Banking Services Ltd. is allowed to offer custodial services to Coimbatore Stock Exchange of India Ltd. SBI Capital Markets Ltd. has been permitted to participate in the equity of the proposed joint venture company, Investor Services of India Ltd. Eight banks, *viz.*, State Bank of India, Oriental Bank of Commerce, Union Bank of India, Corporation Bank, Indian Bank, Canara Bank, Bank of Baroda, Punjab National Bank and one merchant banking subsidiary, i.e., SBI Capital Markets Ltd. have been permitted to participate in the equity of National Stock Exchange of India Ltd. (NSE). Five bank subsidiaries namely, SBI Capital Market Ltd., Canbank Financial Services Ltd., BOI Finance Ltd., PNB Capital Services Ltd. and Indbank Merchant Banking

Services have taken up membership in the OTC Exchange of India.

11. Organisational Matters

Liquidation, Amalgamation and Moratorium

2.71 106 commercial banks were under liquidation as on December 31, 1993. The issue of early completion of liquidation proceedings continues to be pursued with the concerned official/court liquidators. No bank was taken up for amalgamation during the year under review. Final valuation of the assets was not due in respect of 10 banks amalgamated during the period 1985 to 1991. The Kashinath Seth Bank Ltd., a non-scheduled bank, was placed under moratorium in June 1994. The period of moratorium expired on December 19, 1994 and the bank is now functioning under certain directions issued by the Reserve Bank.

Bank of Karad Ltd.

2.72 As mentioned in the previous year's Report, the Bombay High Court order on sale of specified assets of Bank of Karad Ltd. (BOK) and also take-over of the deposit liability by Bank of India (BOI) was contested by the Deposit Insurance and Credit Guarantee Corporation (DICGC). On reconsideration, the Appellate Bench of the Bombay High Court passed a revised order on April 6, 1994, approving the offer of BOI for purchase of specified assets of BOK for a total sum of Rs.52 crore together with taking over of liability of staff. The order also provides that the BOI would take over the liability in respect of demand and time deposits of BOK and pay the provisional liquidator only the amount net of deposit liabilities to be taken over by it. The order states that the net amount received by the provisional liquidator along with other amounts realised by him would be utilised to repay the dues of the DICGC as per the provisions of the Act. In accordance with the Court order, BOI has commenced payments to depositors from May 2, 1994 and taken over the employees of BOK, who had been with it as on April 30, 1994.

Action Plan for Banks

2.73 With a view to bringing about an improvement in the overall performance, banks were advised to continue the Action Plan exercise during the period under review and forward to the Reserve Bank the progress report as at the end of March and September in the existing proforma. These reports are discussed by the Reserve Bank with the Chairmen and other senior executives of banks.

2.74 All the nationalised banks have submitted the three year Action Plans for the period ending March 1996. The banks were advised that while preparing plans they should specifically lay emphasis on adoption of strategies for better credit administration, recovery of overdues/reduction of sticky advances with suitable targets, increased productivity in terms of business per employee and increase in income and strict expenditure control for improvement in overall profitability.

Indian Banks' Overseas Operations

2.75 During the period ending March 1994, no new branches were opened abroad by Indian banks. Bank of Baroda has closed down three of its branches in U.K. and one offshore banking unit in Bahrain; Bank of India merged three branches and closed one branch in U.K., and State Bank of India closed one branch in U.K. Country-wise distribution of Indian banks abroad shows that the U.K. has the largest number of banks, followed by Fiji Islands and the U.S. Bank-wise break-up shows that Bank of Baroda has the largest number of branches abroad followed by State Bank of India and Bank of

India. The total number of overseas branches of Indian banks (eight in public sector and one in the private sector) has come down from 109 as at the end of March 1993 to 101. The number of representative offices abroad remained at 13.

2.76 The number of wholly owned subsidiaries (including three deposit taking companies) of Indian banks abroad has gone up from 10 to 11 with the setting up of the SBI European Bank Ltd. (SEBAL), a wholly owned subsidiary of the State Bank of India in London, U.K. The number of joint venture banks/affiliates has remained unchanged at seven.

Foreign Banks in India

2.77 In view of the implementation of the capital adequacy norm of eight per cent from April 1, 1993 for foreign banks operating in India, the Reserve Bank reviewed in 1993-94 its earlier requirement for foreign banks to fund their losses/investments in immovable property for official/residential purposes entirely by inward remittances from their head offices and prescribed instead that, if book value of investments in immovable property exceeds 50 per cent of Tier I capital, only the additional acquisition would have to be funded by external funds.

2.78 During the period under review, the Bombay branch of BCCI (O) Ltd. has been taken over by SBI Commercial and International Ltd. Oman International Bank, Deutsche Bank and British Bank of the Middle East have opened a branch each at Cochin, Bangalore and Thiruvananthapuram, respectively. Societe Generale, Barclays Bank and Credit Lyonnais did so at New Delhi and International Nederlanden Bank opened its maiden branch in Bombay. As a result, the number of foreign banks operating in India has gone up to 24 from 23 and number of branches to 147 from 141. However, the number of representative offices has declined to 22 due to the closure of the representative office of Midland Bank p.l.c. in Bombay and upgradation of representative offices of Credit Lyonnais and Barclays Bank to branches at New Delhi. At present two foreign banks have both representative offices as well as branches. Besides, 14 foreign banks are having tie-up/agency arrangements either with Indian companies or individuals.

12. Technology in Banking

2.79 Modernisation of banking operations through introduction of new technology and computerisation has assumed importance as well as urgency in the light of the need to promote competitive efficiency. In recognition of this view, the Reserve Bank set up a high powered committee, headed by Executive Director, Shri W.S. Saraf, with representatives from banks, Government of India and research and educational institutions, to study the technology issues relating to payment and settlement systems in the banking industry.

2.80 As mentioned in the previous year's Report, computerisation of branch operations got a major boost in 1993-94, consequent on the agreement between the Indian Banks' Association (IBA) and the employees' unions in October 1993. Under the agreement, about 4,000 branches of public sector banks are eligible for computerisation. IBA has also suggested setting up of a Shared Payment Network System of Automated Teller Machines (ATMs) to improve customer service. The proposed network would be set up and operated by a consortium vendors supplying the ATMs.

2.81 As at the end of July 1994, public sector banks have installed 9,659 Advanced Ledger Posting Machines (ALPMs) at 3,099 branches, of which 9,350 ALPMs were operationalised with 8,993 on 'live' run. At their regional/zonal offices, so far 377 minicomputers have been installed. Mainframe computers have been installed in 15 banks. As many as 77,310 staff members of banks were imparted training in computerisation/ mechanisation.

Cheque Clearance

2.82 Apart from the MICR clearing in operation at four metropolitan cities since 1989 for local cheques clearance, return clearing and inter-bank clearing have also been computerised at four Metropolitan centres. Out of other ten clearing houses managed by the Reserve Bank, settlement work relating to cheques clearing has been computerised at nine centres. At the remaining centre, *viz.*, Guwahati, the clearing of cheques is being computerised shortly.

2.83 Under the one way inter-city clearing, six centres, *viz.*, Ahmedabad, Bangalore, Hyderabad, Kanpur, Nagpur and Thiruvananthapuram are already connected to the four MICR centres. Patna and Bhubaneswar have been connected with Calcutta, and Guwahati would be brought under the inter-city clearing shortly. Among the cities where clearing is managed by the State Bank of India, Baroda is connected to the four MICR centres. Pune and Indore are connected to Bombay for one way inter-city clearing. Further, Madras is connected with 24 commercially important centres in Tamil Nadu/Pondicherry.

Electronic Clearing Service

2.84 With a view to providing a simpler, faster, reliable and cost effective solution for repetitive payment transactions such as salary, pension, interest, commission, dividend, etc., by companies, corporations and government departments, the Reserve Bank has finalised a scheme for electronic clearing. Under the scheme, customers of banks, such as, companies, corporations, etc., who are required to make payments to a large number of beneficiaries, would provide magnetic media files to the clearing houses for effecting credits to the bank accounts of respective beneficiaries. The scheme has been successfully tested on a pilot basis at Madras and Bombay.

Telecommunication Network

2.85 As mentioned in the previous year's Report, apart from the Banking Division (Government of India), 12 offices of the Reserve Bank have been connected under the dedicated speech network. As regards the dedicated communication network for the banking industry, so far 251 ports at seven centres, *viz.*, Bombay, Delhi, Madras, Calcutta, Hyderabad, Bangalore and Nagpur have been brought under BANKNET. At present, majority of public sector banks, one private sector bank and certain financial institutions use the BANKNET system for exchanging structured messages in the operational areas, as well as information dissemination such as currency rates, foreign currency sales/purchases, etc.

2.86 Another wide area network (utilising the transmission lines of BANKNET) has been conceived to meet the need for exchanging free format messages, texts, ASCII and Binary file transfers. The solution, named RBINET, would connect all the offices of the Reserve Bank and co-exist with BANKNET.

2.87 At present the total number of live users of the Society for Worldwide Inter-bank Financial Telecommunications (SWIFT) network stands at 41. Several banks have connected their upcountry branches to their computer-based terminals at Bombay. An inter-bank task force constituted for promoting further use of SWIFT within the individual banks would identify more number of branches for connecting to the computer-based terminals at Bombay in order to transmit all international financial messages through SWIFT.

13. Customer Service in Banks

2.88 To promote competitive efficiency in the banking industry, it is necessary to ensure that qualitative as well as diversified customer services in banks are enhanced. As covered in detail in the previous year's Report, a number of measures have already been undertaken by the Reserve Bank, following the Goiporia Committee recommendations. During the period under review, further follow-up actions were taken up: (i) In accordance with the observation of the Goiporia Committee that the banks should undertake periodic evaluation of the extent of actual implementation at the grass root level of the various recommendations of the Committee, a uniform format of customer service evaluation and monitoring, containing 25 core customer service areas, has been evolved in consultation with the IBA. Banks were also advised to include more items for such audit and instruct their branches to submit a quarterly report to their Controlling Offices which, in turn, would consolidate these reports and forward to their Head Offices on half-yearly basis for consideration of the Chairman/Board. Banks are also required to submit a half-yearly brief review to the Reserve Bank. (ii) A format of complaint-book on customer service has been designed with adequate number of perforated copies so that the complainant can be given an acknowledged copy readily. A copy of the complaint is required to be forwarded to the Controlling Office along with the remarks of the Branch Manager indicating the position regarding the disposal of the complaint within a time frame.

14. Regional Rural Banks (RRBs)

Progress of RRBs

2.89 RRBs, totalling 196, covered 405 districts with 14,546 branches at the end September 1993. State-wise data reveal that Uttar Pradesh has the largest number of branches at 3,055, followed by Bihar with 1,892 and Madhya Pradesh with 1,604. The aggregate deposits outstanding increased by Rs.1,403 crore or 5.8 per cent from Rs.6,935 crore as at end-March 1993 to Rs.7,338 crore in September 1993. The aggregate advances registered a marginal growth of 1.2 per cent from Rs.4,626 crore as at the end-March 1993 to Rs.4,682 crore in September 1993 (Appendix Table II.9). The purpose-wise break-up of advances outstanding are set out in Table II.8. The credit-deposit ratio of RRBs continued to decline from 70 per cent at the end-March 1992 to 67 per cent in March 1993 and further to 63.8 per cent in September 1993. The percentage of overdues to outstanding advances of RRBs increased marginally from 32.2 per cent as at the end of March 1993 to 34.9 per cent in September 1993.

Borrowings

2.90 Borrowings of RRBs from the sponsor banks, NABARD, IDBI, and other institutions aggregated Rs.1,832 crore as at the end of September 1993, of which Rs.1,491 crore or 81 per cent was from NABARD alone. The proportion of total borrowings of RRBs to their total outstanding advances was 39 per cent.

Table II.8: Purpose-wise outstanding Advances of RRBs(end-September 1993)

Purpose	Amount (Rs.crore)
1. Short Term (Crop loan)	856
2. Term Loan for Agriculture	793
3. Allied activities	674
4. Rural artisans, village and cottage industries	418
5. Retail Trade and Self-employed etc.	1,264
6. Consumption Loans	105
7. Other purposes	540
8. Indirect advances	32
Total	4,682

Source : NABARD

Refinance from NABARD

2.91 During the financial year 1993-94, NABARD sanctioned total credit limits aggregating Rs.557 crore for short-term purposes, which include credit limits for seasonal agricultural operations (SAO) aggregating Rs.396 crore sanctioned to 132 RRBs. Medium-term credit limits (non-schematic) were sanctioned to 88 RRBs for an aggregate amount of Rs.58 crore as against Rs.54 crore to 102 RRBs in the previous year.

2.92 RRBs continued to avail of long-term refinance from NABARD. Up to March 1994, 5,547 schemes involving NABARD's commitment of Rs.2,962 crore were sanctioned to RRBs and drawals against this commitment amounted to Rs.2,672 crore as against 5,146 schemes involving NABARD's commitments of Rs.2,577 crore and disbursements of Rs.2,314 crore up to March 1993.

Refinance from Sponsor Banks/Other Institutions

2.93 The amount of refinance availed of by RRBs from their respective sponsor banks stood at Rs.313 crore as at the end of September 1993 as against Rs.323 crore as at the end of March 1993. RRBs had also availed of refinance to the tune of Rs.12 crore from IDBI/SIDBI and Rs.14.91 crore from other institutions/ sources.

Policy Measures

2.94 In view of the endemic problem of poor recovery rate leading to erosion of networth and deposits among the RRBs, a number of policy measures were taken by the Reserve Bank in consultation with the Government of India during 1993-94. This, *inter alia,* include: i) the permission to re-locate the loss incurring branches; ii) the freeing of 70 RRBs whose disbursals during 1992-93 were below Rs. two crore, from the Service Area Approach obligations, and iii) the permission to lend to the extent of 60 per cent of fresh lending to non-target group-borrowers from the existing limit of 40 per cent.

Committee on Restructuring of RRBs

2.95 Pursuant to the Government of India's announcement in the Budget for 1994-95 for taking up 50 out of 196 RRBs for revival and restructuring, a committee was appointed under the Chairmanship of Dr. M.C. Bhandari, Chief General Manager, NABARD regarding identification of RRBs for restructuring. The committee has since submitted its interim report identifying 50 RRBs on the basis of their financial strength and consideration of regional representation. The Government of India has accepted the recommendations of the Committee for taking up 49 out of 50 RRBs identified for restructuring.

15. Banking Reform

2.96 The reform of the banking sector, which is the core of the ongoing financial sector reforms, was further intensified during 1993-94. The major elements of banking reform are set out below.

Prudential Accounting Standards

2.97 A prudential system of income recognition, asset classification and provisioning for bad debts was introduced in the financial year 1992-93 in order to make the accounting and reporting procedures of the banks more transparent and to provide an accurate picture of the financial position of each bank.

Provisioning

2.98 The banks were allowed to phase out the total provision required to be made as on March 31, 1993 over two years ending March

31, 1994. Accordingly, the carried forward provisioning for the year ended March 31, 1993 together with fresh provisioning in respect of credit facilities identified as NPA during 1993-94 was required to be made as on that date.

2.99 The following changes in asset classification and provisioning norms have been introduced for the year ending March 1994:

(i) For advances with outstanding balances of less than Rs.25,000 the aggregate provisioning for such accounts has been raised from 2.5 per cent to 5 per cent of the total outstandings without reckoning DICGC/ECGC cover value of securities in any form.
(ii) Floating provisions wherever available could be set off against the required provisions.
(iii) Advances secured against term deposits, NSCs, *Indira Vikas Patras (IVPs), Kisan Vikas Patras (KVPs)* and Life policies are not to be treated as NPAs and are exempted from provisioning requirements. Unrealised interest on such advances may also be taken to income account provided adequate margin is available in the accounts. In respect of advances with balances less than Rs.25,000, the value of security in any form including term deposits, NSCs, etc. should not be deducted from the aggregate amount of these advances while arriving at the provisioning requirement of 5 per cent for the year ended March 31, 1994.
(iv) The need for making provision in respect of additional facilities sanctioned as per the package finalised by BIFR and/or term lending institutions may be decided in consultation with the bank's auditors.
(v) While making provisions, amounts held in interest suspense account should be deducted from the relative advances and should not be treated as part of provisions.

2.100 Regarding accounting standards for investment, banks are now required to uniformly follow yield to maturity method for arriving at valuation of unquoted securities. For unquoted shares, the book values as ascertained from the latest available balance sheet are to be taken. If balance sheets are not available, the shares are to be taken at Re. one per company. In the case of debentures, where interest is not serviced and is in arrears, the same should be valued applying the NPA norms for 'classified advances'.

Capital Adequacy Norms

2.101 In April 1992, the Reserve Bank introduced as part of financial sector reforms, capital adequacy norms to encourage banks to be more risk sensitive against both on- and off-balance sheet exposures. As a matter of refining the norms, further changes were made in 1993-94, as under :

(i) Indian banks having branches abroad have been given a one year extension to achieve capital adequacy norm of eight per cent by March 31, 1995.
(ii) All claims on banks and public financial institutions have been assigned a risk weight of 20 per cent. Further, in regard to off-balance sheet items, guarantees issued by banks against the counter guarantees of other banks and rediscounting of documentary bills accepted by banks were to be treated as claims on banks and carry a risk weight of 20 per cent.
(iii) Advances covered by the guarantee of DICGC/ECGC would be assigned a risk weight of 50 per cent.
(iv) Investments in subordinated debt instruments and bonds issued by other

banks or public financial institutions would carry 100 per cent risk weight.

(v) Advances against term deposits, Life policies, NSCs, *IVPs* and *KVPs*, where adequate margin is available would be assigned 'zero' risk weight.

(vi) Loans to staff of banks, foreign exchange contracts with an original maturity of 14 calendar days or less, income tax deducted at source (net of provision), advance tax paid (net of provision), interest due on government securities, accrued interest on CRR balances and net claims on the Reserve Bank on account of Government transactions would all carry 'zero' risk weight as against the earlier weight of 100 per cent.

Recapitalisation

2.102 As set out in detail in the previous year's Report, for meeting the gap created by the application of the first stage of prudential norms, the Government of India has contributed in January 1994 Rs.5,700 crore as equity to recapitalise the nationalised banks. The recapitalisation was subject to the nationalised banks undertaking certain performance obligations and commitments. A contribution of Rs.5,600 crore has been proposed in the Union Budget for 1994-95. The Government has decided to allow some of the public sector banks to tap directly the domestic capital markets. Accordingly, subsequent to the Amendment of the State Bank of India Act, 1955 by an Ordinance, the SBI successfully tapped the capital market with an equity-cum-bond issue of Rs.2,532 crore in December 1993, the details of which were covered in the previous year's Report.

2.103 In order to enable the nationalised banks to access the capital market to strengthen their capital base and meet the capital adequacy norms, Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/1980 have also been amended with effect from July 15, 1994 permitting the public to contribute to capital upto 49 per cent (See Box 2).

Issue of Shares, etc. by Private Banks

2.104 With a view to keeping a check on uncalled for benefit for certain class of shareholders such as management groups or promoters at the expense of their banks, the Reserve Bank having considered it necessary in the public interest has issued the following directions:

(i) The pricing of shares to be issued by banks should not be less than that based on the net asset value and profit earning capacity value according to the guidelines operative in 1990 of the erstwhile Controller of Capital Issues (CCI).

(ii) While the preferential allotment of shares at preferential prices should be discouraged, the Reserve Bank may permit banks to make such allotment selectively to prevent the destabilisation of the existing well performing managements, subject to the following conditions :

(a) The preferential allotment should be backed by the resolutions of the Board of Directors and the General Body.

(b) While approving the preferential allotment, the majority of the shareholders, excluding the beneficiaries, should support the preferential allotment at the preferential price.

(c) Every preferential allotment of shares by banks shall be at not less than the market value of the shares to be determined on the basis of their average price during the immediately preceding six months at the main

Box 2

Important Provisions of the Amendment to the Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/ 1980.

(i) The authorised capital of each corresponding new bank has been set at Rs.1,500 crore divided into 150 crores fully paid-up shares of Rs.10 each. However, the Government of India, in consultation with the Reserve Bank, is empowered to raise the authorised capital upto Rs.3,000 crore or lower it but not below Rs.1,500 crore, by notification as and when considered necessary.

(ii) Provision has been made for public issue of shares such that the Government of India shall at all times hold or contribute not less than 51 per cent of the paid up capital of each corresponding new bank.

(iii) No shareholder of the corresponding new bank, other than the Government of India, shall be entitled to exercise voting rights in excess of one per cent of the total voting rights of all the shareholders.

(iv) The number of elected directors on the Board of Directors of each corresponding new bank would be on a graded scale. There would not be more than two, four and six elected directors on the Board of Directors of each corresponding new bank depending upon the share of public issue in total paid up capital being not more than 20 per cent, more than 20 per cent but not more than 40 per cent, and more than 40 per cent, respectively. For the purpose of providing for election of directors on such a graded scale, equal number of directors nominated by the Government of India shall retire.

(v) The Government of India would nominate not more than two directors from amongst SEBI, NABARD, public financial institutions and other institutions in which not less than 51 per cent of the paid up share capital is held or controlled by the Government.

(vi) Provision has been made for the declaration of dividend and retaining the surplus, if any, in place of transferring the whole of the profits to the Government of India.

(vii) Provision for holding the Annual General Meeting and other general meetings, as necessary, has also been incorporated.

listing centres calculated on the monthly average of high and low rates quoted for the shares at such centres. In the absence of a market price, the value of shares should not be less than the value on the basis of the net asset value and earnings per share according to the guidelines of the erstwhile CCI in December 1990, as explained under (i) above.

2.105 In the case of rights issue to all shareholders or special allotment to employees, the price should not be less than half the price fixed for the public issue determined according to the CCI formula of December 1990. The bank managements are free to take decisions on bonus issues provided such issues are made simultaneously with rights/public issues made under these directions and subject to banks following SEBI guidelines, as applicable. The banks should determine the price of the various categories of shares according to the directions and get them duly certified by a firm of Chartered Accountants which should be submitted along with the application for obtaining the permission of the Reserve Bank for the issue of shares. All these requirements should be complied with, in addition to those prescribed under the guidelines of SEBI insofar as the latter are not inconsistent or contrary to the above directions.

16. Securities Irregularities and Follow-up Action

Janakiraman Committee

2.106 As covered in detail in earlier Reports, pursuant to the findings of the Janakiraman Committee on Irregularities in the Securities Operations of Banks and Financial Institutions, a number of remedial steps have been undertaken by the Government of India and the Reserve Bank, with a view to unearthing the entire ramifications of the episode, to recover the bank dues, to punish the guilty and to set in motion enduring measures of preventive nature. During 1993-94, further follow-up measures were taken :

(i) The Reserve Bank appointed Special Officers to fix accountability of the top management in respect of one bank and one subsidiary of another bank and forwarded to Government of India the report in respect of one bank and its subsidiary for necessary action. Thus, till the end of June 1994, the reports submitted by four retired senior officials out of the seven appointed as Special Officers in five banks and six subsidiaries of five banks have been examined and sent to the Government of India with the recommendations of the Reserve Bank.

(ii) The progress in regard to action taken by banks and financial institutions against erring officials is being monitored by the Reserve Bank on a quarterly basis and communicated to the Government of India periodically.

(iii) The Bank had caused special audit in respect of ten banks with irregular securities transactions, follow-up action in respect of them is in progress.

(iv) The audit firms which were adversely commented upon in the Janakiraman Committee reports were continued to be denied bank audit assignment for the second year, i.e. 1993-94. Following the submission of further reports by the Committee, 13 more firms were denied bank audit assignment for the year 1993-94. Besides, the Institute of Chartered Accountants of India (ICAI) has been requested to take suitable disciplinary action against the erring auditors.

(v) In the case of foreign banks, the irregularities in securities transactions are kept in view while permitting them to open branches in India and remitting profits.

(vi) In order to trace out the end-use of funds raised by brokers during the securities irregularities and also to recover the assets created out of these funds, the Reserve Bank, in consultation with the Government of India, has constituted an Inter-Disciplinary Group (IDG) under the Chairmanship of the Custodian with representatives from the Reserve Bank, Central Bureau of Investigation, Income Tax and Enforcement Directorate. The IDG has prepared a draft interim report which was submitted on June 28, 1994 to the Government of India/the Reserve Bank.

Joint Parliamentary Committee

2.107 Reference was made in earlier Reports about the setting up of a Joint Parliamentary Committee (JPC) to enquire into the entire gamut of the irregularities and suggest appropriate measures for future reform of the system. In its report submitted in December 1993, the JPC has identified the non-observance of the prescribed rules and procedures as the major factor for the irregularities, with critical comments on the mode of functioning of banks, both Indian and foreign, brokers, public sector undertakings and ministries and failure of supervisory authorities.

2.108 Pursuant to the recommendations of Janakiraman Committee and the JPC, the Reserve Bank has initiated several measures to prevent recurrence of such irregularities. Detailed instructions covering a number of areas including laying down norms for proper conduct of investment transactions have been issued as under : (i) framing of investment policy, (ii) restrictions on the use of Bank Receipts (BRs), (iii) use of Subsidiary General Ledger (SGL) transfer forms including penalty provisions in the case of their bouncing, (iv) restricting Ready Forward (RF) deals to Treasury bills and certain specified government securities among banks, (v) conduct of business through brokers (including prescribing a ceiling of five per cent per broker on the business routed through them annually), (vi) internal control measures such as concurrent audit of investment transactions, (vii) separate audit of Portfolio Management Scheme (PMS) transactions, (viii) laying down capital adequacy norms and accounting standards for financial institutions as well as non-banking financial companies (NBFCs), and (ix) exercising precautions in the sphere of bills discounting and rediscounting, etc. In particular, during the year 1993-94, banks have been advised not to restart or introduce any new PMS or similar scheme in future without obtaining specific prior approval of the Reserve Bank of India. Further, banks have also been advised to introduce a system of concurrent audit covering at least 50 per cent of the business operations during the year 1993-94. For this purpose a note broadly defining the concepts of concurrent audit, scope, coverage of business/branches for the audit and reporting system has been circulated to the banks for their guidance.

2.109 Considering the lapses in observance of the regulatory framework, on July 25, 1994 the Reserve Bank has withdrawn exemption from maintenance of 10 per cent incremental cash reserve ratio in respect of 35 scheduled commercial banks and in respect of two more banks on September 26, 1994. The Bank also simultaneously issued show cause notices for levy of penalty to 20 of these banks and to one more bank on September 26, 1994 for irregularities in PMS/RF transactions and also for shortfall in maintaining minimum average daily cash balance with the Bank, the details of which have been covered in Chapter I.

17. Working Results of Commercial Banks

2.110 As a part of implementation of prudential accounting standards, the banks were permitted to phase the provisioning against their advances over a period of two years with atleast 30 per cent provisions during 1992-93. Considering that the banks had to provide for balance provision, in addition to fresh provisioning for 1993-94, effectively the burden of provisioning during 1993-94 was high. The working results of the commercial banks need to be viewed against this backdrop.

Scheduled Commercial banks excluding RRBs

2.111 The available data for scheduled commercial banks (68 banks) indicate that operating profit registered a substantial increase of Rs.1,126.3 crore or 28.9 per cent from Rs.3,893.0 crore during 1992-93 to Rs.5,019.3 crore during 1993-94. As a percentage of working funds, the operating profit increased to 1.24 per cent in 1993-94 from 1.01 per cent in the previous year. The provisions and contingencies showed an increase of Rs.697.9 crore or 8.7 per cent from Rs.8,043 crore during 1992-93 to Rs.8,740.9 crore in 1993-94 reflecting the requirement of the balance provisions for 1992-93 and fresh provisions for 1993-94. The net losses were Rs. 3,721.7 crore during 1993-94 as compared with Rs.4,150.0 crore during 1992-93. Accordingly, the ratio of net loss to working funds improved from (-)1.08 per cent in 1992-93 to (-)0.92 per cent in 1993-94 (Appendix Table II.10).

Public Sector Banks

2.112 The working results of public sector banks (excluding Punjab National Bank) showed a total operating profit of Rs.3,408.6 crore during 1993-94 as against Rs.3,069.0 crore during the previous year, registering an increase of Rs.339.6 crore or 11.1 per cent. The net losses showed further deterioration to Rs.4,423.5 crore in 1993-94, on top of a net loss of Rs.3,368.0 crore during the previous year. While the operating profits as a ratio of working funds showed a marginal increase from 0.91 per cent in 1992-93 to 0.96 per cent during 1993-94, the net profits to working funds deteriorated to (-) 1.25 per cent from (-) 1.00 per cent (Appendix Table II.11).

2.113 The interest income declined by 6.0 per cent from Rs. 32,111.0 crore during 1992-93 to Rs.30,187.8 crore in 1993-94, with its share in the total income declining from 88.9 to 87.0 per cent. Noticeably, while the interest expenditure showed a substantial decline of Rs.2,189.4 crore or 9.1 per cent from Rs.24,112.0 crore for 1992-93 to Rs.21,922.6 crore during 1993-94, the other operating expenses have risen by 5.0 per cent. As expected, the provisions and contingencies increased substantially by 21.7 per cent from Rs.6,437.0 crore during 1992-93 to Rs.7,832.1 crore during 1993-94.

2.114 Though the operating profit of State Bank Group for 1993-94 declined by Rs.228.6 crore or 10.1 per cent from Rs.2,264.0 crore in 1992-93 to Rs.2,035.4 crore in 1993-94, the net profit registered a significant increase of Rs.76.0 crore or 27.2 per cent due mainly to decline in provisions and contingencies. While the operating profit as a ratio to working funds has declined from 1.82 per cent in 1992-93 to 1.44 per cent in 1993-94, the net profit to working funds inched up from 0.22 per cent to 0.25 per cent.

2.115 In contrast, the nationalised banks while showing a substantial improvement of 70.6 per cent in respect of operating profit over the previous year, reported increase in net loss to Rs.4,779.5 crore in 1993-94 from Rs.3,648.0 crore during the previous year because of substantial rise in provisions and contingencies. Though the operating profit as a percentage to working funds improved from 0.38 per cent in 1992-93 to 0.65 per cent in 1993-94, the net profit to working funds further deteriorated from (-) 1.72 per cent to (-) 2.25 per cent during the period under review (Appendix Tables II.12 and II.13).

Foreign Banks

2.116 The foreign banks in India, have put up a comparatively better performance. Although their total income increased only by 1.9 per cent from Rs.4,009.0 crore in 1992-93 to Rs.4,084.8 crore in 1993-94, the total expenditure registered a considerable decline of 27.6 per cent from Rs.4,851.0 crore to Rs.3,510.9 crore. Consequently, both their operating profit and net profit increased substantially by 117.1 per cent and 168.2 per cent, respectively, during the period under review. Accordingly, the operating profit and net profit as a percentage to working funds, also showed an increase to 3.78 per cent and 1.72 per cent, respectively during 1993-94 from 1.83 per cent and (-)2.66 per cent during the previous year (Appendix Table II.14).

Indian Private Sector Banks

2.117 The Indian private sector banks (19 banks) showed relatively better performance during 1993-94. Their operating profit and net profit at Rs.349.1 crore and Rs.128.0 crore recorded a marked increase of 43.7 per cent and 113.4 per cent, respectively. Consequently, the ratio of operating profit and the net profit to working funds worked out to 1.87 per cent and 0.69 per cent, respectively, up from 1.36 per cent and 0.34 per cent in 1992-93. Significantly, the total operating expenditure declined by 2.8 per cent reflecting an increase in productivity (Appendix Table II.15).

18. Supervision and Miscellaneous Issues

2.118 As mentioned in the previous year's Report, inspection of commercial banks continued to be carried out by the newly set-up Department of Supervision (DoS) during the period under review. Financial Inspection in respect of 14 private sector banks and 13 foreign banks were completed during July 1, 1993 to June 30, 1994.

2.119 Annual Financial Inspections in respect of the 28 public sector banks (including New Bank of India before its merger with Punjab National Bank) and 13 local Head Offices of State Bank of India taken up for inspection during 1993-94 (July-June) have been completed during the period under review. Besides, 1,147 branches of public sector banks having advances of Rs. five crore and above and 330 Controlling Offices were inspected under the scheme of Annual Financial Inspection.

Robberies/Frauds

2.120 During July 1993 to May 1994, 81 cases of robberies /dacoities involving a sum of Rs.116.07 lakh were reported by the public sector banks.

2.121 During 1993-94 (July-March) commercial banks reported 2,052 cases of frauds involving an amount of Rs.280.03 crore. During the same period, 30 cases of frauds involving Rs.23.79 crore were reported in overseas branches of banks. These cases were followed up with the banks for necessary remedial measures and fixing of staff accountability.

Customer Grievances

2.122 During the year under review, several complaints were received from companies' investors against interception of their interest/dividend warrants/refund orders by unscrupulous persons who got them encashed at the branches of commercial/co-operative banks. Pursuant to the findings of investigation undertaken by the Bank into these complaints, the banks were advised to ensure strict adherence by branch officials to the Bank's instructions on opening and operating of bank accounts, failing which punitive action would be taken against the officials violating prescribed safeguards.

2.123 Besides, 7,039 references relating to complaints were received. These related mainly to irregularities in grant of advances, non-sanction of limits, deviations from the set norms for recruitment, promotion, posting of staff, non-payment of invoked bank guarantees, clearing house transactions, unsatisfactory customer service, mis-behaviour of bank staff, non-acceptance of small denomination notes, delay/refusal for allotment of lockers, issue of drafts, etc., to non-account holders during the period July 1993 to April 1994 from/through the public and the Government. Serious complaints were investigated by the concerned Regional Offices of the Bank while others were taken up with the concerned banks for necessary remedial action, under advice to the Bank, whenever considered necessary. The complainants were also advised suitably in appropriate cases.

Meeting of Chief Vigilance Officers (CVOs)

2.124 On April 21, 1994 a meeting of the CVOs of all public sector banks was convened by the Reserve Bank to review the working of the vigilance machinery in banks and to suggest improvements in the operations. In the light of the decisions taken at the meeting, appropriate follow-up action is being taken.

Committee on Frauds/Malpractices

2.125 Mention was made in the previous year's Report about the Ghosh Committee's recommendations on frauds and malpractices in banks and the introduction of a system of concurrent audit at large branches. During 1993-94, further follow-up measures were undertaken :

(i) All the commercial banks were advised to introduce the practice of obtaining photographs of the depositors/account holders, residents or non-residents, who are authorised to operate the accounts at the time of opening of all new deposit accounts with effect from January 1, 1994. The cost of the photographs would be borne by the customer.

(ii) All proposals for acquisition (including construction) of premises/ flats on an out-right basis or for undertaking substantial repairs/ renovations should be placed before the Board or the Managing Committee of the Board of the concerned bank for approval, as considered appropriate in terms of delegated powers.

(iii) As regards proposals for acquiring premises on lease/rental basis, the Board of the bank may decide suitable cut-off limits for proposals to be approved by the Managing Committee or an internal Committee of Executives to be headed by the Chairman and Managing Director (CMD) or Executive Director (ED) of the bank as appropriate in terms of delegated powers. The bank may also hire the services of engineers from outside on deputation basis, if so needed, to augment the strength of internally available technical staff to handle the proposals of acquisition or leasing/ renting of premises.

(iv) To check the incidence of abuse of powers and gross violation of laid down procedures by the senior bank officials just prior to their retirement, the banks have been advised that sanctioning powers should be exercised jointly with other officials by the retiring officials during the period three months prior to retirement. In the case of ED, his powers would be exercised by CMD, whose powers, in turn, would be exercised by the Management Committee of the Board. In exceptional circumstances, CMD could release the limits subject to immediate reporting to the Managing Committee of the Board at the next meeting.

Local Advisory Boards of Foreign Banks

2.126 Local Advisory Boards have been constituted by 23 foreign banks. The three foreign banks which were issued licenses only recently, have also been advised to constitute the Local Advisory Boards.

Appointment of Chairmen of Banks

2.127 The post of CMD in Andhra Bank and the posts of ED in Bank of India, Central Bank of India, Dena Bank, Oriental Bank of Commerce and Vijaya Bank were vacant as on June 30, 1994. These vacancies have been subsequently filled. However, the post of CMD in Indian Overseas Bank has been vacant since August 1, 1994. Full-time Chairmen/Chief Executive Officers are in position in all the private sector banks except Ratnakar Bank Ltd.

Appointment of Auditors of Banks

2.128 All the banks in the public sector as well as those in the private sector (including foreign banks) have adhered to the legal provisions on appointment of statutory auditors. During 1993-94, 27,196 branches of 27 public sector banks constituting about 63.7 per cent of the total branches of these banks were taken up for annual audit.

Use of Hindi in Banks

2.129 Efforts for the progressive use of Hindi in all public sector banks under the guidance and supervision of the Reserve Bank and the Government of India were persevered with during 1993-94. The banks continued imparting working knowledge of Hindi under the Hindi Teaching Scheme of the Government of India.

2.130 As emphasised in the Fourteenth Official Language Conference held in October 1993 at Kanpur, banks are focussing their attention on the use of Hindi in various areas of innovative banking. The banks have also organised various training programmes on innovative banking through Hindi medium.

CHAPTER III

CO-OPERATIVE BANKING

Overview

The adverse effect of Agricultural and Rural Debt Relief (ARDR) Scheme, 1990 on rural credit structure continued to be felt during 1993-94. Partly due to mismatch of resources stemming from the operation of ARDR Scheme, the net resources mobilised by National Bank for Agriculture and Rural Development (NABARD) amounted to (-)Rs.93 crore during 1993-94 as against Rs.1,215 crore in 1992-93. In line with the trend towards rationalisation of interest rate structure, NABARD further simplified its interest rate structure by reducing the number of slabs, aligning refinance rates with the interest rate charged to the ultimate beneficiaries.

3.2 To re-orient the co-operative banking operations on commercial lines with cost effectiveness, State Co-operative Banks (SCBs), State Land Development Banks (SLDBs), Central Co-operative Banks (CCBs) and Primary Land Development Banks (PLDBs) were advised to prepare institution-specific Development Action Plans and State Action Plans.

3.3 Provisional data indicate that total deposits of co-operative banks/societies, which include SCBs, CCBs, Primary Agricultural Credit Societies (PACS) and Primary Co-operative Banks (PCBs), increased by 20.1 per cent from Rs.31,044 crore in 1991-92 to Rs.37,291 crore in 1992-93. Total loans outstanding of these institutions including SLDBs showed a much lower growth of 13.5 per cent from Rs.40,400 crore in 1991-92 to Rs.45,865 crore in 1992-93 (Table III.1).

3.4 While the growth in deposits of PCBs was as high as 21.8 per cent, it was 16.1 per cent for PACS during 1992-93. Outstanding loans of PACS showed a high growth rate of 20.9 per cent during 1992-93 as compared with a negative growth rate of 1.8 per cent for SCBs (Appendix Table III.1).

Table III.1 : Co-operative Credit Sector

(Amounts in Rs. crore)

	1991-92	1992-93	Variation	
	(July-June)		Actual	Per cent
1. Deposits	31,044	37,291	6,247	20.1
2. Borrowings*	21,083	23,633	2,550	12.1
3. Loans issued	27,751	29,342	1,591	5.7
4. Loans Outstanding	40,400	45,865	5,465	13.5

* from RBI/NABARD/Apex Banks

Source : NABARD

3.5 A major weakness of the co-operative credit structure is the poor recovery rate of loans. Loan overdues as a percentage of loan demand was 53.7 per cent in 1992-93 for SLDBs, followed by 42.9 per cent for CCBs, 42 per cent for PACS and 16.2 per cent for SCBs. The overdue rates for the co-operatives in 1992-93 in general showed no improvement over the previous year except for SCBs and SLDBs (Appendix Table III.1).

2. Progress of Credit Co-operatives

Primary Co-operative Banks

3.6 The number of PCBs stands at 1,400 as at the end of March 1994, which includes 91 salary earners' banks and 41 Mahila banks. Fiftyone of the total PCBs are under liquidation. The number of offices of PCBs increased by 162 from 3,691 in March 1993 to 3,853 in March 1994. The aggregate deposits of all PCBs registered an increase of Rs.3,238 crore or 23.9 per cent from Rs.13,531 crore as at the end of March 1993 to Rs.16,769 crore as at the end of March 1994. The outstanding loans increased from Rs.10,132 crore to Rs.12,172 crore registering a growth of 20.1 per cent during the same period. The owned funds of PCBs rose by 22.4 per cent from Rs.2,224 crore to Rs.2,723 crore as at the end of March 1994 (Table III.2).

Table III.2: Primary Co-operative Banks
(April-March)
(Amounts in Rs.crore)

Items	1991-92	1992-93	1993-94
Number	1,401	1,399	1,400
Owned funds	1,766	2,224	2,723
Deposits	11,108	13,531	16,769
Borrowings	556	565	496
Loans Outstanding	8,713	10,132	12,172

Licensing and Inspection

3.7 The total number of licenced PCBs increased to 1,045 as at the end of March 1994 from 1,039 as at the end of March 1993. The revised licensing policy is based on the need for such institutions and the potential for growth of banking business. Proposals for setting up of PCBs for women (Mahila banks) and weaker sections continued to be given sympathetic consideration.

3.8 During 1993-94, the Reserve Bank carried out statutory inspections in respect of 456 PCBs under Section 35 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies).

Refinance facilities

3.9 The Reserve Bank continued to extend refinance facilities to eligible PCBs against advances to small and tiny industrial units at Bank Rate. During 1993-94, short-term credit limits aggregating Rs.7.01 crore was sanctioned to SCBs on behalf of 14 PCBs. The outstandings against such limits was Rs.3.90 crore as at the end of March 1994 as against Rs.9.32 crore a year ago.

Priority Sector Lending

3.10 As at the end of March 1994, out of 737 reporting PCBs, 559 PCBs achieved the stipulated target of 60 per cent of their total advances for priority sector which include 25 per cent for weaker sections.

Weak and Non-viable Banks

3.11 The number of weak and non-viable PCBs increased to 224 as at the end of March 1994 from 217 a year ago. The Reserve Bank issued directions to four PCBs placing restrictions on making payment to depositors, sanctioning fresh advances and incurring expenditure beyond specified amounts. There are 13 PCBs under such directions as at the end of March 1994.

Policy measures

3.12 Some of the credit policy measures directed towards the commercial banks such as those relating to loans and advances, credit to individuals against shares and debentures/ bonds, interest rates on deposits and advances, etc., are also made applicable to PCBs with suitable modifications:

(i) The PCBs are allowed to offer at their discretion additional rate of interest not exceeding one-half of one percentage point per annum on term deposits of 46 days and above, and one percentage point per annum on savings deposits over the rates prescribed for scheduled commercial banks.

(ii) PCBs are allowed to accept term deposits for periods exceeding 10 years.

(iii) Interest rates on term loans for three years and above have been reduced by 0.5 per cent to 1.0 per cent per annum with effect from March 1, 1994. Furthermore, in line with the commercial banks, the 'prime' lending rate for advances above Rs.two lakh has been made effective from October 18, 1994 (Table III.3).

(iv) For the first time, scheduled PCBs were considered for investing their surplus funds in CDs and CPs with credit rating P1 or A1 from CRISIL/ ICRA. During 1993-94, four of the scheduled PCBs were permitted to place their surplus funds in CPs and six PCBs in CDs issued by the scheduled commercial banks and financial institutions authorised by the Reserve Bank.

Assessment of Working Capital

3.13 The norms for calculating the Maximum Permissible Bank Finance (MPBF) have been further relaxed in December 1993. PCBs have been advised to exclude entire term loan instalments falling due in the next 12 months from the current liabilities for the purpose of arriving at MPBF. In respect of all SSI units having aggregate fund-based working capital limits upto Rs.one crore, PCBs have been advised to compute the working capital requirements on the basis of a simple formula of a minimum of 20 per cent of projected annual turnover.

Advances against units of Mutual Funds, etc.

3.14 While granting advances against units of mutual funds, PCBs have been advised to follow broad guidelines on advances against shares and debentures and in addition ensure that: (i) units against which advances are to be made are listed on stock exchanges; (ii) the minimum lock-in-period is over; (iii) the quantum of advance is linked to the need of the borrower as also the net asset value or market value whichever is lower (not face value); and (iv) prescribed margins are to be maintained and the advances are to be purpose oriented.

3.15 Subject to the overall ceiling on borrowings by equipment leasing and hire purchase companies, PCBs are allowed to lend to such companies in consortium with commercial banks upto four times the net

Table III.3 :Interest Rate Structure for Advances of Primary Co-operative Banks

(per cent per annum)

Size of Loans		September 2, 1993	March 1, 1994		October 18, 1994
		All categories of advances	Term Loans for 3 years & above	All other advances	All advances including term loans
i) Over	Rs.10,000 and				
upto	Rs.25,000	14.5@	14@	14@	13@
ii) Over	Rs.25,000 and				
upto	Rs.2 lakh	15.0@	14@	15@	13.5@
iii) Over	Rs.2 lakh	15.0*	14*	15*	Free

@ Fixed * Minimum

owned funds of the individual company.

Income Recognition, etc.

3.16 In line with instructions to commercial banks, PCBs have been advised that advances secured against term deposits, National Savings Certificates, *Indira Vikas Patras* and *Kisan Vikas Patras* are exempt from the provisioning requirements envisaged in the guidelines issued. Further, PCBs are permitted to take into account the amount of interest on the above types of advances on accrual basis, provided adequate margin is available in the accounts.

State Co-operative Banks

3.17 During 1992-93, deposits of SCBs increased by Rs.1,274 crore (17.4 per cent) from Rs.7,321 crore as at end-June 1992 to Rs.8,595 crore as at end-June 1993. Loans issued during 1992-93 at Rs.8,260 crore were higher by 7.5 per cent than that in the previous year. Overdue loans declined from Rs. 1,042 crore at the end of June 1992 to Rs.919 crore at the end of June 1993. Consequently, the percentage of overdues to demand declined significantly from 21.4 per cent to 16.2 per cent during the period (Appendix Table III.1).

Central Co-operative Banks

3.18 Deposits of CCBs rose from Rs.11,010 crore as at end-June 1992 to Rs.13,302 crore as at end-June 1993, registering an increase of 20.8 per cent. Loans issued during 1992-93 amounted to Rs.13,575 crore, registering a decline of 4.6 per cent over that in the previous year. Overdue loans increased by 7.7 per cent to Rs.3,664 crore; consequently, the proportion of overdues to demand increased from 40.5 per cent as at end-June 1992 to 42.9 per cent as at end-June 1993 (Appendix Table III.1).

State/Central Land Development Banks

3.19 During 1992-93 (July-June), loans issued by SLDBs amounted to Rs.1,106 crore as against Rs.867 crore in 1991-92. Loans outstanding as at the end of June 1993 stood at Rs.4,677 crore as compared with Rs.4,174 crore a year ago. The proportion of overdues to demand declined from 57.1 per cent as at end-June 1992 to 53.7 per cent as at end-June 1993 (Appendix Table III.1).

Primary Agricultural Credit Societies

3.20 The membership of 83,000 reporting PACS declined from 86.76 million as at the end of June 1992 to 86.18 million as at the end of June 1993. Deposits of PACS increased by 16.1 per cent from Rs.1,605 crore as at end-June 1992 to Rs.1,863 crore as at end-June 1993. During 1992-93, total loans issued registered an increase of Rs.1,428 crore or 29.0 per cent to Rs.6,401 crore. Total loans outstanding as at end-June 1993 was placed at Rs.9,116 crore as against Rs.7,539 crore a year ago while overdues increased from Rs.2,875 crore as at end-June 1992 to Rs.3,189 crore as at end-June 1993 (Appendix Table III.1).

3. NABARD and the Co-operative Sector

Resources of NABARD

3.21 The resources of NABARD consist mainly of the National Rural Credit (NRC) Funds, capital and reserves, deposits and borrowings. In addition, the Government provides funds received from the World Bank and other external agencies under various credit projects supported by these agencies. During 1993-94, there were no net additional resources mobilised by NABARD; in fact NABARD's resources had depleted by Rs.93 crore during 1993-94, as against a substantial amount of funds mobilised at Rs.1,215 crore in the previous year. This was mainly due to decline in borrowings from the Government by Rs.172 crore and borrowings under ARDR Scheme, 1990 from the Reserve Bank by Rs.532 crore. The resources (other than the General Line of Credit and borrowings under ARDR Scheme, 1990 from the Reserve Bank) recorded a net increase of Rs.451 crore during 1993-94 as against Rs.742 crore during the previous year. With the contribution of Rs.10 crore each from Government of India and the Reserve Bank, the paid-up capital of NABARD increased from Rs.100 crore to Rs.120 crore during 1993-94. NABARD mobilised Rs.78 crore through market borrowings by the issue of the 'Thirteenth Series of NABARD Bonds' (at par), having a maturity period of ten years and carrying an interest rate of 13.5 per cent per annum (Table III.4).

Table III.4 : Resources (net) Mobilised by NABARD

(Amounts in Rs. crore)

Resources	1992-93	1993-94
	(April-March)	
1	2	3
Capital	—	20
Reserves and surplus	78	113
NRC (LTO) Fund	525	556
NRC (Stabilisation) Fund	20	3
Deposits	(-)8	(-)11
Open Market Borrowings	100	78
Borrowings from Central Government	(-)146	(-)172
General Line of Credit from RBI	415	(-)12
Borrowings from RBI under ARDR Scheme, 1990	58	(-)532
Others	173	(-)136
Total	1,215	(-)93

Source: NABARD

3.22 NABARD transferred Rs.556 crore and Rs.three crore to the NRC (Long Term Operations) Fund and NRC (Stabilisation) Fund, respectively, in 1993-94 as against Rs.525 crore and Rs.20 crore, in 1992-93.

Refinance from NABARD

3.23 The aggregate credit limits sanctioned by NABARD for co-operatives, and State Governments stood at Rs.4,133.2 crore during the financial year 1993-94, as compared with Rs.3,983.7 crore in 1992-93. Drawals against the limits stood at Rs.5,358.7 crore in 1993-94 as against Rs.5,022.4 crore in 1992-93 (Table III.5).

3.24 NABARD has revised the rates of interest on its refinance with effect from March 1, 1994 which would be applicable in respect of all fresh lendings/disbursements by banks. Interest rates prescribed for refinance were mostly specified rather than linked to the Bank Rate (Table III.6).

4. Major Policy Initiatives

3.25 The NABARD continued its efforts to identify thrust areas and priorities for credit support. Major thrust areas identified *inter alia* were minor irrigation, plantation and horticulture, post-harvest technology, tissueculture, export-oriented projects, agro-processing, dryland farming, wasteland development, forestry, fisheries and non-farm activities.

3.26 For remunerative deployment of the resources of SCBs/CCBs, NABARD decided to liberalise the norms for financing individuals by the banks. The facilities extended for the purpose *inter alia* include, (i) raising of the maximum ceiling for loans against gold ornaments/jewellery per individual to Rs.40,000, (ii) raising of the ceiling for loans for purchase of consumer durables from Rs.25,000 to Rs.30,000, and (iii) sanction of cash credit facility to businessmen/traders against collateral, pledge or hypothecation of stock-in-trade upto Rs. two lakh.

Table III.5 : NABARD's Credit to Co-operatives and State Governments

(Rs. crore)

Category	1992-93 (April-March)				1993-94 (April-March)			
	Limits	Drawals	Repay-ments	Outstand-ing	Limits	Drawals	Repay-ments	Outstand-ing
I. State Co-operative Banks								
a) Short-term	3,802.8	4,754.0	4,313.4	2,977.8	4,060.2	5,270.8	5,323.6	2,920.3
b) Medium-term	156.7	244.3	228.4	237.8	33.3	57.4	141.8	153.5
Total	3,959.5	4,998.3	4,541.8	3,215.6	4,093.5	5,328.2	5,465.4	3,073.8
II. State Governments								
Long-term	24.2	24.1	24.9	235.2	39.7	30.5	29.2	236.5
Grand Total	3,983.7	5,022.4	4,566.7	3,450.8	4,133.2	5,358.7	5,494.6	3,310.3

Note : Limits and Outstanding are as on March 31.
Source: NABARD.

Table III.6 : NABARD's Structure of Interest Rates for Term Loans

Size of limit	Rate of interest to ultimate beneficiaries (% per annum)	Rate of interest on refinance (% per annum)	
		Co-ops/RRBs	CBs
1. Advances upto & inclusive of Rs.25,000	12.0 (12.0)	6.5	7.5
2. Advances over Rs.25,000 and upto Rs.2 lakh	14.0 (15.0)	9.5	10.0
3. Advances over Rs.2 lakh	(15.0 Min.)		
A. Farm Sector Loans			
i) Thrust Areas*	14.0	9.5	10.0
ii) All other schemes@	15.0	10.5	11.0
B. Non-Farm Sector advances over Rs.2 lakh	15.0	10.5	11.0

* Scheme for wasteland development, dry land farming, 100% export oriented agriculture projects (other than tea, coffee, and rubber) and minor irrigation schemes implemented by co-operatives/ public sector corporations.

@ Other than schemes mentioned in category (i) supported by NABARD refinance.

CBs: Commercial banks.

Note: Figures in brackets are short-term rates.

Development Action Plans

3.27 To reorient co-operative banks with cost effectiveness, commercial - orientation, regular recycling of funds, professionalisation and accountability, the SCBs/SLDBs and DCCBs/PLDBs have been advised to prepare institution-specific Development Action Plans (DAPs) and State Action Plans (SAPs) for the States. The basic objective of Action Plans is to analyse in detail the strengths and weaknesses and to identify untapped potential available for development and evolve a specific course of action. The essential features of the DAPs would be consolidated into the SAPs to be prepared by the SCBs and SLDBs which would form the basis for formulating the Action Points to be incorporated in a Memorandum of Understanding (MoU). The SCBs, SLDBs and State Governments will be required to enter into MoU with NABARD to bring about improvements in the co-operative institutions.

Business Development Plan (BDP)

3.28 Details of BDP for PACS which aims

at development of selected societies in certain States into viable units were mentioned in the previous reports. All the PACS are expected to be covered under the Plan by the end of 1996-97. The provisional figures indicate that, upto June 1993, 22,038 PACS were identified in various States/Union Territories for implementation of BDPs.

Co-operative Development Fund

3.29 Mention was made in the previous ear's Report on setting up of a Co-operative Development Fund by NABARD to provide financial assistance by way of grants/loans to co-operative banks for human resources development with suitable training input and to build-up better management information systems and infrastructural facilities for PACS for mobilising deposits. Upto March 31, 1994, a total assistance of Rs.6.32 crore has been sanctioned to 10 SCBs and 3 SLDBs which include Rs.3.62 crore in grants and the balance of Rs.2.70 crore in interest free loans.

CHAPTER IV

FINANCIAL INSTITUTIONS

Overview

The Indian financial system is currently undergoing a process of diversification leading to inter-penetration of markets and blurring of the traditional distinction between banks and non-banks. Against this backdrop, this Chapter gives an overview of the operations of financial institutions ranging from development banks to non-bank companies.

4.2 Financial assistance as per sanction by all the term lending and investment institutions recorded an increase of 27.1 per cent during 1993-94 (April - March) as against 47.6 per cent a year ago. The amount of resources mobilised by mutual funds is provisionally estimated at Rs.11,245 crore during 1993-94 as compared with Rs.13,018 crore in 1992-93. The Reserve Bank's assistance as per sanction to eligible financial institutions declined to Rs.280 crore during 1993-94 (July - June) from Rs.655 crore a year ago. As at the end of March 1993, the share of financial institutions in total financial assets increased marginally to 36.8 per cent from 36.7 per cent in the preceding year. The regulated deposits of non-banking companies were equivalent to 4.1 per cent of the aggregate deposits of all scheduled commercial banks as at the end of March 1993.

4.3 With the drying up of the traditional sources of low cost funds from the Government and the Reserve Bank, resource mobilisation by the financial institutions during 1993-94 was more by way of market borrowings at market related rates through a variety of new instruments. The other significant development during 1993-94 was the implementation of prudential norms and accounting standards for all India term lending institutions and non-banking financial companies.

2. Assets of Financial Institutions

4.4 During the financial year 1992-93, financial assets of financial institutions (FIs) increased by a modest 15.4 per cent to Rs.1,82,116 crore at the end of March, 1993 (Appendix Table IV.1). The financial assets of the banks registered a fractionally lower growth rate of 15.1 per cent, resulting in a marginal increase in the share of FIs in total financial assets to 36.8 per cent as against 36.7 per cent in the preceding year. Among the FIs, the term lending institutions witnessed a relatively subdued growth of 14.3 per cent in their financial assets; only Industrial Credit and Investment Corporation of India Ltd. (ICICI) posted an impressive growth of 30.8 per cent during the year followed by a growth of 22.3 per cent for Industrial Finance Corporation of India Ltd. (IFCI). The State level institutions posted a low growth of 9.1 per cent in 1992-93 as against 14.7 per cent for the previous year. Though the growth in the financial assets of investment institutions in 1992-93 at 17.1 per cent was higher than that of term lending institutions, it was much lower than the high growth rate of 34.4 per cent recorded for 1991-92 (Appendix Table IV.2).

4.5 The modest growth in financial assets of FIs was, to a large extent, a reflection of slower growth in outstanding loans and advances of FIs partly due to reduced access to low cost funds from the Reserve Bank in 1992-93. The subdued intermediation role of FIs in 1992-93 was accompanied by a growing recourse to banks as evident in buoyancy of bank credit which could be attributed to withdrawal of the credit compression measures along with a strong agricultural performance and a moderate recovery in industrial activities.

3. Reserve Bank Assistance to Financial Institutions

4.6 During 1993-94 (July-June), the total amount of both long-term and medium/short-term assistance to eligible financial institutions, *viz.*, Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), Exim Bank, Industrial Reconstruction Bank of India (IRBI), State Financial Corporations (SFCs) and National Housing Bank (NHB) as sanctioned by the Reserve Bank under Section 17 read with Sections 46C and 46D of the Reserve Bank of India Act, 1934, declined from Rs.655 crore in the preceding year to Rs.280 crore, of which an amount of Rs.186 crore was sanctioned to SIDBI at an interest rate of eight per cent per annum for a period of 15 years, out of the repayments by IDBI to the NIC (LTO) Fund (Appendix Table IV.3).

4.7 At the end of June 1994, the outstanding long-term borrowings of IDBI, SIDBI, Exim Bank and IRBI under the NIC (LTO) Fund facility aggregated Rs.5,464 crore and that of NHB from the NHC (LTO) Fund stood at Rs.175 crore. The outstanding borrowings of IDBI under the special medium-term refinance facility of Rs.400 crore sanctioned during 1992-93 stood at Rs.360 crore at the end of June 1994. At the State level, 13 SFCs were sanctioned *ad hoc* borrowings limit of Rs.94 crore during the year at Bank Rate against bonds guaranteed by respective State Governments/ Union Territories, valid upto June 25, 1994.

4. Term Lending and Investment Institutions

Financial Assistance

4.8 During 1993-94 (April-March), financial assistance (net of inter-institutional flows) as per sanction and disbursement by all financial institutions stood at Rs.42,450 crore and Rs.26,630 crore, respectively, registering an increase of 26.3 per cent and 15.2 per cent, respectively, over the previous year (Appendix Table IV.4). The same as per sanction and disbursement (net of inter-institutional flows) by all India development banks, *viz.*, IDBI, IFCI, ICICI, SIDBI, IRBI and SCICI Ltd. (SCICI) went up significantly by 44.6 per cent to Rs.31,358 crore and by 28.6 per cent to Rs.18,514 crore, respectively, during 1993-94.

4.9 The specialised financial institutions comprising Risk Capital and Technology Finance Corporation Ltd. (RCTC), Technology Development and Information Company of India Ltd. (TDICI) and Tourism Finance Corporation of India Ltd. (TFCI) also recorded substantial increase in their sanction (24.1 per cent) and disbursements (26.2 per cent) during the period under review. All the three investment institutions together recorded decline in their sanction by 14.6 per cent to Rs.10,765 crore and also in disbursements by 16.2 per cent to Rs.7,877 crore during 1993-94. Besides, the State-level institutions together, *viz.*, SFCs and State Industrial Development Corporations (SIDCs) registered decline in sanction by 4.8 per cent and increase in disbursements by 1.4 per cent over the preceding year.

Resources

4.10 With the drying up of traditional sources of low cost funds, the financial institutions borrowed from the market at market-related interest rates during 1993-94. Two new instruments, *viz.*, term money bond and floating rate bond, were introduced. The share of IDBI's borrowings at market-related rates as percentage of total borrowing rose steeply to 71 per cent in 1993-94 as against 54 per cent in 1992-93 and 32.1 per cent in 1991-92. SIDBI received Rs.549 crore from foreign banks representing shortfall in their priority sector lending targets.

Policy and Other Developments

4.11 Pursuant to the recommendations of the Narasimham Committee on the financial system, the Reserve Bank advised all India term lending institutions, *viz.*, IDBI, IFCI, ICICI, IRBI and EXIM Bank to implement prudential guidelines on capital adequacy, income recognition, asset classification, provisioning and other related matters from the accounting year 1993-94. All the financial institutions having dealings abroad are required to achieve eight per cent capital adequacy norm by March 31, 1995 and those having no such dealings abroad by March 31, 1996. All are, however, required to achieve a capital adequacy norm of four per cent by March 31, 1994. Already all these institutions have achieved the benchmark of eight per cent at the end of March 1994 itself.

4.12 The interest rates on term loans charged by development banks were reduced in three stages by 2.5 percentage points, bringing the interest rate band between 14.5 per cent and 17.5 per cent (inclusive of interest tax) during the fiscal year.

4.13 IDBI and ICICI introduced for the first time a variable interest rate system for lending with effect from December 15, 1993.

4.14 The year 1993-94 witnessed the commencement of operations of a number of institutions set up/sponsored by financial institutions, *viz.*, two private sector banks promoted by Unit Trust of India (UTI) and ICICI, respectively, National Stock Exchange of India Ltd., IDBI sponsored credit rating agency *viz.*, CARE, and UTI Investor Services Ltd., a registrar and transfer subsidiary of UTI.

5. Mutual Funds

4.15 Mutual funds (MFs) have proved to be important conduit of resource mobilisation by providing attractive avenues of investment particularly to small investors. With the entry of private sector, the total number of MFs (including UTI) operating in India stands at 13 at the end of March 1994. Besides UTI, there are five MF subsidiaries of public sector banks (State Bank of India, Bank of India, Punjab National Bank, Canara Bank and Indian Bank), one each of Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) and five of private sector.

4.16 The MFs other than Money Market Mutual Funds (MMMFs) are subject to the Securities and Exchange Board of India (SEBI) regulations announced in January 1993. SEBI has allowed reservation in public issues on a firm allotment basis in favour of Indian MFs in October 1993 and permitted the MFs to buy back their units in January 1994. Besides, MFs have been allowed to invest 100 per cent in money market instruments during the first six months from the date of allotment of units, upto 30 per cent during the next six months and upto 25 per cent thereafter to meet the short-term liquidity requirements. During the terminal six months, 100 per cent investment in money market instruments has been allowed. MFs have also been permitted to underwrite public issues subject to certain conditions.

Furthermore, as per the Union Budget 1993-94, the units of MFs would get benefit of long-term capital gains after one year of investment.

4.17 Resources mobilised by the MFs under various schemes rose sharply from Rs.2,018 crore in 1987-88 to Rs.13,018 crore in 1992-93; the amount mobilised during 1993-94 is provisionally estimated at Rs.11,245 crore (Appendix Table IV.5).

6. Non-banking Companies

4.18 The increasing role of non-banking companies (NBCs) in mobilising resources is reflected in the impressive growth of their aggregate deposits[1] which in terms of provisional data as reported by 11,461 companies went up by Rs.28,919.4 crore or 22.1 per cent to Rs.1,59,772.8 crore at the end of March 1993 as against Rs.1,30,853.4 crore reported by 11,318 companies a year ago (Appendix Table IV.6). Among the NBCs, non-financial companies, financial companies, and miscellaneous and residuary non-banking companies respectively accounted for 69.6 per cent, 27.8 per cent and 2.6 per cent of the aggregate deposits. The regulated deposits of the non-banking companies were equivalent to 4.1 per cent of the aggregate deposits of all scheduled commercial banks at the end of March 1993 as against 4.0 per cent a year ago.

Working Group and Follow-up Action

4.19 In view of the growing role of the non-banking financial companies (NBFCs) in the financial intermediation process, the Narasimham Committee recognised the need for integrating them within the mainstream of the financial system through issue of prudential guidelines and a comprehensive system of supervision under the proposed supervisory authority for the financial system. Accordingly, a Working Group (Chairman: Dr. A.C. Shah) was constituted in May 1992 to set out a programme of reform for financial companies.

4.20 The Reserve Bank, while accepting, in principle, the recommendations of the Shah Working Group with some modifications, has introduced, *inter alia*, certain changes in April/May 1993 in the Directions issued to the NBFCs. All the NBFCs having net owned funds of Rs.50 lakh and above are required to register with the Reserve Bank. In the second phase of the implementation of the recommendations of the Working Group, in June 1994 the Bank has issued, in conformity with the standards and disclosure norms prescribed for banks and financial institutions, detailed prudential guidelines to NBFCs. The prudential norms relate to income recognition, accounting standards for investment, asset classification, provisioning for bad and doubtful debts, capital adequacy and concentration of credit and investment. The NBFCs are required to lend not more than 15 per cent of owned funds to any single party. For both lending to a single group of parties and investment in shares and debentures/bonds of another company, the prescribed limit in each case is 25 per cent of owned funds. The registered financial companies are required to achieve a minimum capital adequacy norm of six per cent by March 31, 1995 and eight per cent by March 31, 1996. The registered financial companies are also required to get themselves rated by March 31, 1995, though such companies with net owned fund below Rs.2 crore will have the option to obtain a rating by March 31, 1996. These registered companies would be required to attain a minimum prescribed rating.

1. Aggregate deposits include money received from public, shareholders/directors, Governments and by way of intercorporate deposits, debentures and borrowings from banks and financial institutions.

Deposit Acceptance and Other Developments

4.21 Effective June 1994, registered NBFCs other than equipment leasing and hire purchase finance companies have been allowed a higher limit of deposit acceptance equal to their net owned funds as against the earlier limit of 25 per cent and 15 per cent of their net owned funds from the public and shareholders, respectively. Such companies are required to attain by December 31, 1994 a minimum liquid assets ratio of 10 per cent of deposit liabilities consisting of deposits from public and shareholders, intercorporate deposits/borrowings, money raised through issue of bonds and debentures (other than convertible bonds and debentures), half of which at least should be in the form of government securities and/or government guaranteed bonds.

4.22 With the amendment of the Companies (Acceptance of Deposits) Rules, 1975 framed under Section 58A of the Companies Act, 1956, on December 10, 1993 the maximum rate of interest on deposits paid by non-banking non-financial companies has been brought down from 15 to 14 per cent per annum. Interest can be paid monthly. This brings the rate of interest payable by non-banking non-financial companies on par with that payable by NBFCs.

4.23 The Chit Funds Act, 1982 has so far been brought into force in 15 States and 6 Union Territories.

ANNEXURE : PROGRESS OF FINANCIAL SECTOR REFORMS

Issues / Year	1992-93	1993-94	1994-95
1	2	3	4
I. Overall Monetary Policy			
1. Reserve Requirements			
a) Cash Reserve Ratio (CRR)	i) The scheduled commercial banks were exempted from the maintenance of the 10 per cent incremental CRR for any increase in net demand and time liabilities (NDTL) over the level as on April 17, 1992.	i) The average CRR on NDTL was reduced from 15 per cent to 14 per cent in two phases i.e., 14.5 per cent from fortnight beginning April 17 and 14 per cent from May 15, 1993.	i) CRR was increased from 14 per cent to 15 per cent in three phases: 14.5 per cent, 14.75 per cent and 15 per cent from the fortnights beginning June 11, July 9, and August 6, 1994, respectively.
	ii) One-third of additional cash balances maintained under the 10 per cent incremental CRR by each bank upto the level of April 17, 1992 was released in three equal instalments from the fortnights beginning October 17, November 14 and December 12, 1992.		ii) From the fortnight beginning January 7, 1995 banks are required to maintain at least 85 per cent of the CRR balances required to be maintained on each of the first 13 days of the reporting fortnight, failing which they would not be paid interest for that/those day/days even though there is no shortfall in the maintenance of CRR. On the 14th day of the reporting fortnight, banks are allowed to maintain less than 85 per cent of the required cash balances to adjust the average of daily balances to the required level.
	iii) Effective from the fortnight beginning October 17, 1992, no interest is being paid on the increase in eligible cash balances based on NDTL maintained after March 23, 1990 under the average 15 per cent CRR as well as on the eligible cash balances maintained under the 10 per cent incremental CRR.		
b) Statutory Liquidity Ratio (SLR)	i) It was announced on February 29, 1992 that upto the level of the outstanding domestic NDTL as on April 3, 1992 SLR will remain frozen at 38.5 per cent and for any increase in domestic NDTL	i) SLR on domestic NDTL as on April 3, 1992 was reduced to 37.5 per cent from August 21 and 37.25 per cent from September 18, 1993.	i) SLR on the level of domestic NDTL as on September 17, 1993 was reduced from 34.75 per cent to 34.25 per cent effective August 20, and 33.75 per

Contd.

1	2	3	4
	over April 3, 1992 level, the SLR was reduced from 38.5 per cent to 30 per cent. ii) SLR on the level of outstanding domestic NDTL as on April 3, 1992 was reduced from 38.5 per cent to 37.75 per cent in three phases, i.e., 38.25 per cent effective from the fortnight beginning January 9, 38.0 per cent from February 6 and 37.75 per cent from March 6, 1993.	ii) The base date for SLR on domestic NDTL was brought forward from April 3, 1992 to September 17, 1993 and SLR was fixed at 34.75 per cent of domestic NDTL upto the level as on September 17, 1993. iii) SLR for any increase in domestic NDTL over the level as on September 17, 1993 was reduced from 30 per cent to 25 per cent.	cent effective September 17, 1994. ii) The base date for SLR on domestic NDTL was brought forward from September 17, 1993 to September 30, 1994 and SLR was fixed at 31.5 per cent and for any increase in domestic NDTL over the level as on September 30, 1994 the SLR was fixed at 25 per cent.
c) Exemption from Reserve Requirements	i) Liabilities under the following schemes were exempt from both CRR & SLR requirements : a) Non-Resident Non-Repatriable Rupee Deposit Scheme(NRNR), b)Foreign Currency Non-Resident Accounts (Banks) [FCNR(B)] Scheme, c) ESCROW Accounts, d)Inter-Bank Foreign Currency Deposit(IBFCD) Accounts, e) Foreign Currency (FC) Accounts, f) Resident Foreign Currency(RFC) Accounts, and g)Foreign Currency Non-Resident (Ordinary) Non-Repatriable (FCON) Accounts. ii) CDs issued over the pre-May 2, 1992 limit equivalent to 5 per cent of the fortnightly average outstanding aggregate deposits in 1989-90 were exempted from CRR requirements.	i) The number of schemes exempt from both CRR & SLR requirements remained the same as in 1992-93. ii) CDs issued over pre-May 2.1992 limit were brought under the purview of CRR.	i) From the fortnight beginning October 29, 1994 a CRR of 7.5 per cent (since revised to 15 per cent from the fortnight beginning January 21, 1995) was prescribed on liabilities under the FCNR(B) Scheme. However, liabilities under FCNR(B) Scheme were exempted from SLR requirement. ii) A CRR of 7.5 per cent on liabilities under NRNR Scheme was prescribed from the fortnight begining January 21, 1995.
2. Interest Rates			
a) Interest Rate Structure	i) The lending rates structure was rationalised into four categories from the earlier six categories of which one was a minimum rate. Deposit interest rates were subject to only one ceiling rate and	i) Effective April 8, 1993, the then existing four categories of lending rates were reduced to three categories. ii) Effective October 16, 1993,	

Contd.

1	2	3	4
	rates on CDs were freely determined in the market.	bank-wise limits on issue of CDs were withdrawn. iii) The minimum maturity of a term deposit under the Non-Resident (External) Rupee (NRE) Deposit scheme was raised upwards from 46 days to 6 months effective May 16, 1994.	
b) Lending Rate	i) The minimum lending rate(MLR) for credit limit of over Rs.2 lakh was reduced from 20 per cent to 19 per cent effective March 2, 1992, 18 per cent effective October 9, 1992 and further to 17 per cent effective March 1, 1993.	i) MLR was further reduced to 16 per cent effective June 24, 1993 and to 15 per cent effective September 2, 1993. ii) MLR on term loan of 3 years and above was lowered from 15 per cent to 14 per cent effective March 1, 1994. iii) The fixed interest rate on term loans over Rs.25,000 and upto Rs.2 lakh was reduced from 15 per cent to 14 per cent effective March 1, 1994.	i) Effective October 18, 1994 MLR for credit limits of over Rs.2 lakh was abolished and banks were free to fix the lending rate for such credit limits. ii) Effective October 18, 1994 the lending rate for credit limits of over Rs.25,000 and upto Rs.2 lakh for all advances including term loans was fixed at 13.5 per cent. iii) The stipulation of effective interest rate on bill discounting of over Rs.2 lakh which was at one percentage point below the lending rate under this category was withdrawn from October 18, 1994.
c) Deposit Rate	i) Banks' maximum deposit rate was reduced from 'not exceeding 13 per cent' to 'not exceeding 12 per cent' effective October 9, 1992 and further to 'not exceeding 11 per cent' effective March 1, 1993. ii) The interest rate on savings deposits under the NRE scheme was raised from 5 per cent to 6 per cent with effect from October 9, 1992.	i) Effective July 1, 1993 interest rate on savings deposits was reduced from 6 per cent to 5 per cent. ii) Effective April 8,1993 maximum term deposits rate under NRE Scheme was reduced from 'not exceeding 13 per cent' to 'not exceeding 12 per cent', and further to 'not exceeding 11 per cent'	i) Effective November 1, 1994 the savings deposits rate for deposits including under NRE accounts was reduced to 4.5 per cent from 5 per cent. ii) Effective February 10, 1995 banks' maximum term deposits rate was increased to 'not exceeding 11 per cent' from 'not exceeding 10 per cent'.

Contd.

1	2	3	4
		effective October 12, 1993 and to 'not exceeding 10 per cent' effective May 16,1994. iii) Term deposits rate was reduced to 'not exceeding 10 per cent' effective September 2, 1993. iv) New FCNR (B) scheme was introduced effective May 15, 1993 entailing the commercial banks to provide the exchange rate guarantee to depositors.	iii) Effective October 18,1994 term deposit rate for NRE accounts for maturity of 6 months to 3 years and above was reduced from 'not exceeding 10 per cent' to 'not exceeding 8 per cent'.
3. **Internal Debt Management *Policies***	i) During the year, an active debt management policy was persued to prudently influence the composition, maturity structure and yield of Government securities which by reducing monetised deficit and effectively controlling money supply enhanced the efficacy of monetary policy. Accordingly, many reform measures were introduced such as : a) auctions of 364-day and 91-day Treasury Bills, b) auction of Government dated securities of varied maturities, and c) *Repurchase Agreement* (Repo) auction. ii) With the introduction of auction system, the interest rates on Government borrowing instruments were closely market related. The cut-off yields of 91-day Treasury Bills were significantly higher than the earlier fixed discount rate of 4.6 per cent per annum. The cut-off-yield of 364-day Treasury Bills ranged between 10.96 per cent and 11.42 per cent. The coupon rate on 15-year State Government securities turned out to be 13.0 per cent.	i) In order to develop an efficient secondary market for Government *securities, the* Reserve Bank decided to set up 'Securities Trading Corporation of India' (STCI). ii) The maximum maturity period of State Government securities was reduced from 15 years to 10 years. iii) The coupon rate on 10 year State Government securities was hiked from 13.0 per cent to 13.5 per cent in order to make these securities attractive. iv) A new instrument, *Zero Coupon* Bond of five year maturity was introduced on auction basis in January 1994. v) Funding of Treasury Bills was effected as an important aspect of internal debt management.	i) *A historic agreement was signed on September* 9,1994 between RBI and the Government on the net issue of ad hoc Treasury Bills. As per the agreement, the net issue of ad hoc Treasury Bills for the year 1994-95 was not to exceed Rs.6000 crore; if the net issue of ad hoc Treasury Bills exceeded Rs.9000 crore for more than ten consecutive working days at any time during the year, the Reserve Bank was *to* automatically reduce the level *of ad hoc Treasury* Bills by *auctioning* Treasury Bills or *selling fresh* Government dated *securities* in the market. Similar ceilings for the net issue of ad hoc Treasury Bills were to be stipulated for 1995-96 and 1996-97. From 1997-98 the system of ad hoc Treasury Bill would be totally discontinued. ii) STCI commenced operations from June 27, 1994.

Contd.

1	2	3	4
			iii) From 1994-95 the allocations of open market borrowings was made only to State Governments and not to State guaranteed institutions. iv) From August 1994, State Governments and non-Government provident funds were allowed to participate in 91 day Treasury Bills auctions on a non-competitive basis with allotment at weighted average price. v) Government, for the first time, issued securities on a tap basis on July 29, 1994. vi) Particulars of transactions in Government securities including Treasury Bills put through SGL accounts at Public Debt Office at Bombay were being released to the Press daily beginning September 1, 1994. vii) Government issued, for the first time, on November 14, 1994 Government Stock (securities) for which payment was made in instalments. viii) Repo facility with RBI in Government dated securities was extended to STCI and DFHI to provide liquidity support to their operations. ix) To strengthen Government securities market, guidelines were issued for enlistment of Primary Dealers in Government securities.

Contd.

1	2	3	4
			x) A system of Delivery versus Payment in SGL transactions was to be introduced to improve payment and settlement system in Government securities transactions.
II. In-House Issues			
a) Capital Adequacy Norms	i) In order to improve the financial health of the banking system, the Reserve Bank introduced a risk-asset ratio system for banks in India as a capital adequacy measure. Accordingly, all Indian banks with international presence were asked to achieve a capital to risk-asset ratio of 8 per cent by March 31, 1994. Foreign banks operating in India were asked to achieve this norm of 8 per cent by March 31, 1993. Other banks were asked to achieve 4 per cent by March 31, 1993 and 8 per cent by March 31, 1996.	i) The Government of India had made a provision of Rs.5,700 crore in the 1993-94 Union Budget for recapitalisation of nationalised banks. Recapitalisation of 19 nationalised banks was made on January 1, 1994 subjecting the banks under time bound 'performance obligations'. The recipient banks were required to invest the Government's capital subscription in Government bonds known as '10 per cent Recapitalisation Bonds, 2006'.	i) As against the budgetary provision of Rs 5,600 crore towards recapitalisation of nationalised banks the revised estimates are placed at Rs. 5292.37 crore out of which a sum of Rs. 4,362.54 crore was allocated to 13 nationalised banks and Rs. 924.58 crore was passed on as Tier II capital to six nationalised banks against the World Bank assistance.
		ii) Indian banks having branches abroad were given one year extension to achieve the capital adequacy norm of 8 per cent by March 31, 1995.	
b) Capital Restructuring		i) 'The State Bank of India Act, 1955' was amended by an Ordinance in October 1993 to enhance the scope of the provision for partial private shareholding.	i) Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/1980 were amended with effect from July 15, 1994 permitting the banks to raise capital upto 49 per cent from the public.
		ii) SBI was the first public sector bank to tap the capital market with an equity cum bond issue of Rs.2,532 crore.	ii) Oriental Bank of Commerce was the first nationalised bank to access the capital market with an equity issue of Rs. 360 crore.

Contd.

1	2	3	4
			iii) The Government of India promulgated an Ordinance in January 1995 to amend the Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/1980 for enabling the banks to reduce their paid-up capital.
c) Income Recognition and Provisioning	i) In order to reflect actual financial health of banks, the Reserve Bank instructed the commercial banks to treat an amount in respect of term loans, overdrafts and cash credit accounts, bills purchased and discounted and other accounts as 'past due' when not been paid on the due date (since revised to 30 days beyond the due date). ii) Banks were instructed not to charge and take to income account interest on all non-performing assets (NPAs). A 'non-performing asset' is defined as a credit facility in respect of which interest has remained 'past due' for a period of four quarters ending March 31, 1993, three quarters ending March 31, 1994, two quarters ending March 31, 1995 and onwards. iii) Banks were required to classify their advances into four broad groups : standard assets, sub-standard assets, doubtful assets and loss assets. iv) From a practical viewpoint, aggregate provisioning in respect of amounts less than Rs.25,000 to the extent of 2.5 per cent of the total outstanding was to be made rather than a case by case evaluation of a very large number of small accounts. v) Provisioning of NPAs was stipulated at 30 per cent of the total provisions on	i) Banks were required to make full stipulated provision against NPAs identified during 1993-94 besides the carried forward provisioning for 1992-93. ii) In respect of advances with balances less than Rs.25,000 the required provision for the year ended March 31, 1994 was enhanced from 2.5 per cent to 5 per cent without reckoning the DICGC/ECGC cover.	i) The provisioning requirement for NPAs with balances of less than Rs.25,000 was increased from 5 per cent of the aggregate amount outstanding to 7.5 per cent for the year ending March 31, 1995 and further to 10 per cent for the year ending March 31, 1996.

Contd.

1	2	3	4
	sub-standard assets, doubtful assets and advances with balances less than Rs.25,000. For loss assets, the entire amount was to be provided for by March 1993.		
d) Recovery of Bank Loans		i) In order to effect speedy recovery of loans, a new Act 'Recovery of Debts due to Banks and Financial Institutions Act, 1993', for the creation of Special Recovery Tribunals was passed by the Parliament on August 10, 1993.	i) Debt Recovery Tribunals at Calcutta, Delhi, Bangalore, Jaipur and Ahmedabad, and Appellate Tribunal at Bombay were set up. However, Delhi High Court has quashed the notification constituting the Tribunal for Delhi region in March 1995.
e) Lending Norms	i) For calculation of Maximum Permissible Bank Finance (MPBF) only two-thirds of term loan instalments falling due for payment during the next 12 months were treated as current liabilities effective January 8, 1993.	i) Only one third of term loan instalment (since revised to none falling due for payment during next 12 months) was treated as current liabilities for purpose of the calculation of MPBF.	i) Banks were advised to extend cash credit facilities to farmers with irrigation facilities and also to other farmers undertaking off farm/ allied activities.
		ii) Banks were allowed to decide the levels of holding of individual items of inventory and of receivables while assessing credit requirements. of borrowers.	ii) For term loans for any project the ceiling of Rs.50 crore for individual banks stands withdrawn and the limit of Rs.200 crore for the banking system as a whole was raised to Rs.500 crore subject to sanction of such term loans conforming to the prudential exposure norms.
		iii) Threshold limit for obligatory consortium lending was raised from Rs.5 crore to Rs.50 crore.	iii) The stipulated margin of not less than 25 per cent for advances granted against deposits was withdrawn; banks were free to determine the margin on a case by case basis.
		iv) Banks were permitted to extend bridge loans/interim finance against capital issues/market borrowing (domestic) upto 50 per cent of the amount 'called up' on each occasion without the prior approval of	iv) Banks along with financial in-

Contd.

1	2	3	4
		the Reserve Bank.	stitutions were permitted to extend bridge loans against public issues/market borrowing (domestic) upto 75 percent of the amount called up on each occasion (as against 50 per cent earlier by banks). Banks were advised not to extend bridge loans/interim finance loans in the form of bridging nature to all non-banking financial companies.
		v) There was a major change in policy by linking bank participation in term loans to quantum instead of cost of project. Banks were allowed to lend individually upto Rs.50 crore and the banking system collectively up to Rs.200 crore for each project subject to compliance with prudential exposure norms.	v) The overall limits of bank credit to loan and investment companies and residuary non-banking financial companies were reduced to twice the net owned fund(NOF) as against three times the NOF as hitherto. In respect of credit to equipment leasing and hire purchase companies, the limit of four times the NOF was to continue provided such borrowers were predominantly engaged in equipment leasing/ hire purchase business; otherwise, bank credit should be restricted to three times the NOF.
		vi) Jilani Committee set up to review the cash credit system submitted its Report in October 1993.	vi) Banks were permitted to extend finance to public sector undertakings (registered under the Companies Act, 1956 or as a corporation under the relevant Act) for projects involving creation of infrastructure facilities subject to the same terms and conditions as applicable to the private
		vii) Banks were permitted to provide term loans to entrepreneurs/ private sector undertakings for technically feasible, financially viable and bankable projects involving creation of infrastructure facilities subject to the terms and conditions and extent of participation governing sanction of term loans. Banks, however, were not allowed to extend term loans for infrastructure facilities created out of budgetary allocations.	

Contd.

1	2	3	4
			sector. Additionally, banks were asked to ensure that such PSUs were run on commercial lines and repayment was made out of income generated by the project and not out of Government subsidies.
f) Investment Norm		i) Ceiling of 5 per cent of incremental deposits of the previous year on bank's investment in PSU bonds was withdrawn.	i) Standby facility for CP was abolished; after issuance of CP, the bank would effect a 'pro tanto' reduction in the cash credit limit.
g) Computerisation		i) Decks were cleared for further computerisation of banks following agreements with trade union in October, 1993.	i) A High Powered Committee headed by Shri W.S. Saraf set up to study the technology issues relating to payment and settlement system in the banking industry has since submitted its report.
III. Other Issues			
a) Supervision System		i) A decision to set up a Board for Financial Supervision (BFS) within the Reserve Bank was taken in May 1993 to ensure implementation of regulations in the areas of credit management, asset classification, income recognition, capital adequecy and treasury operations.	i) To enable the BFS to perform some of the functions of the Central Board of the Reserve Bank of India, the Reserve Bank of India (BFS) Regulations, 1994 framed under Section 58 of the RBI Act, 1934 came into effect from July 28, 1994.
		ii) Operational support to BFS was to come from the new Department of Supervision (DoS) set up within the Bank in December 1993. DoS started exercising supervision over commercial banks.	ii) BFS under the Chairmanship of Governor of the Reserve Bank became functional from November 16, 1994 with a Deputy Governor as Vice Chairman and six other members. BFS and the Advisory Council constituted under the RBI (BFS)

Contd.

1	2	3	4
			Regulations, 1994 would each have a term of two years.
b) Bank Branch Licensing	i) Bank branch licensing policy was considerably liberalised. Banks were permitted to shift their existing branches within the same locality, open specialised branches, convert the existing non-viable rural branches into satellite offices, spin-off business of a branch. ii) Banks which attained the stipulated capital adequacy norms and prudential accounting standards were permitted to set up new branch offices / upgrade the extension counters into full-fledged new branches without the prior approval of the Reserve Bank.	i) Banks were allowed to decide the closure, on mutual consultation, of one loss making branch at rural centres served by two commercial bank branches (excluding RRBs). Such closure proposals required the Reserve Bank's permission. ii) RRBs were allowed in December 1993 to relocate their loss making branches at new places within their service area/ area of operation. iii) Banks which attained capital adequecy ratio of 8 per cent were advised in June 1994 to submit to the Reserve Bank a plan of action for opening of new branches during the next one year for prior approval. iv) In June 1994, scheduled commercial banks were asked to open at least one specialised Agricultural Finance Branch in each State where they are convenors of the respective State Level Bankers' Committee.	
c) Private Sector Banks	i) In order to introduce greater competition in the banking system, the Reserve Bank gave approval 'in principle' for the establishment of new banks in private sector.	i) The Banking Regulation Act, 1949 was amended raising the ceiling of voting rights of an individual shareholder in a private bank from one per cent to ten per cent.	i) Six private banks, viz., UTI Bank Ltd., IndusInd Bank Ltd., ICICI Banking Corporation Ltd, Global Trust Bank Ltd., Centurion Bank Ltd., and HDFC Bank Ltd. commenced banking business out of 'in principle' approval

Contd.

1	2	3	4
			given for setting up ten private banks.
d) Priority Sector Lending		i) Effective April 1993, foreign banks were advised to increase their priority sector advances from 15 per cent of their net credit to 32 per cent by March 1994. Within the enhanced target of 32 per cent, two sub-targets of 10 per cent each in respect of advances to (a) small scale industries and (b) export sector were fixed.	
e) Customer Services	i) Customer service in the banking sector was perceived as an integral part of the overall financial sector reforms. Accordingly, the Reserve Bank initiated speedy action relating to (a) advancing of working hours, (b) extension of business hours, (c) acceptance of small denomination notes, (d) exchange of soiled and mutilated notes, (e) immediate credit of local cheques upto Rs.5,000 and (f) payment of interest at enhanced rate on delayed collection of outstation instruments at minimum lending rates when the proceeds of the instruments were to be credited to cash credit.	i) As a part of implementation of the recommendations of the Goiporia Committee on customer service in banks, the Reserve Bank advised all commercial banks to monitor and evaluate 25 core recommendations of the Committee in the prescribed format. The branches were required to send their evaluation reports on a quarterly basis to their controlling offices, which would in turn consolidate them and send a report to their head offices as also to the Reserve Bank at prescribed intervals (half-yearly).	
f) Credit to Small Scale *Industries* (SSIs)	i) The system of credit delivery to the SSIs constituted an important plank in the financial sector *reforms*. Accordingly, the Reserve Bank took the following *decisions* : a) The banks should step up the credit flow to meet the legitimate require-	i) Government of India redefined SSI with investment in plants and machinery worth upto Rs.60 lakh. All advances granted to SSI as per revised definition were treated as priority sector advances.	i) Banks were advised to consider on merits proposals for term finance/loans in the form of lines of credit to State Industrial Development Corporations and State Financial Corporations subject to

Contd.

1	2	3	4
	ments of SSI sector in full during the Eighth Five-Year Plan. b) Working capital limits upto Rs.50 lakh would be provided. c) The definition of a sick SSI unit was modified so that viable SSI units could be helped in their rehabilitation efforts at an early stage. d) Banks should set up an institutional frame-work for redressal of grievances of SSI units.		the observance of terms and conditions advised to banks from time to time. The extent of such loans to SSI units would be treated as a part of priority sector lending.
g) Frauds and Malpractices in Banks	i) Banks were instructed to implement the recommendations of Ghosh Committee on frauds and malpractices in banks.		
h) Export Credit	i) The Reserve Bank directed the commercial banks to set up State Level Committee for Export Promotion.		i) Sub-suppliers of export orders were to be provided credit within the overall permissible preshipment export credit wherever letters of credit were opened by the export order holder.
i) Bank Merger		i) New Bank of India was merged with the Punjab National Bank in September 1993.	
j) RRBs			i) As recommended by the Bhandari Committee, 49 RRBs were taken up for restructuring and revival. ii) RRBs were allowed to deploy a part of their surplus non-SLR funds in credit portfolios of their sponsor banks and in specified investment avenues like UTI listed schemes, etc.

Contd.

1	2	3	4
IV. Reforms in Co-operative Banking			
a) Co-operative Banks	i) Licensing of new urban co-operative banks was liberalised greatly. Apart from prescribing entry point/viability norms and the guidelines relating to their operations, the Reserve Bank also placed on urban co-operative banks stipulations in respect of income recognition, classification of assets, and provisioning on the lines stipulated for commercial banks.	i) The National Co-operative Bank of India (NCBI) was registered on August 5, 1993 as a Multi State Co-operative Society. ii) A Co-operative Development Fund was set up by NABARD to help improve managerial systems and skills in co-operative banks. iii) For the first time, scheduled PCBs were considered for investing their surplus funds in CDs and CPs with credit rating P1 or A1 from CRISIL/ICRA.	i) Co-operative credit structure was set to be strengthened through State specific development action plans, and through MoU between NABARD, State Governments, SCBs and CCBs. ii) Lending and deposit rates of all co-operative banks excluding urban co-operative banks were deregulated in October 1994 subject to a MLR of 12 per cent. iii) Effective October 18, 1994, MLR for credit limits of over Rs.2 lakh was abolished and urban co-operative banks were free to fix their lending rates for such credit limits.
V. Reforms in Non-bank Financial Sector			
a) Non-bank Financial Companies (NBFCs)	i) In order to integrate NBFCs within the mainstream of overall financial sector reform, the Reserve Bank initiated a comprehensive programme of reform of the financial companies.	i) The recommendations of the Shah Committee *Report on* NBFCs were accepted and the first phase of implementation was initiated.	i) Detailed prudential guidelines to NBFCs were issued in June 1994. The registered NBFCs were required to achieve a minimum capital adequacy norm of 6 per cent by March 31, 1995 and 8 per cent by March 31, 1996.
b) Insurance Sector	i) The insurance sector had till recently not been brought within the ambit of the reform process; however, the Committee on Reforms in the Insurance Sector under the Chairmanship of Shri. R.N.Malhotra was set up to	i) Malhotra Committee on the insurance sector submitted its report.	

Contd.

1	2	3	4
	make recommendations on reforms in this sector.		
c) Term Lending Institutions		i) Term lending institutions *viz.*, IDBI,IFCI,ICICI,IRBI and Exim Bank were required to achieve a capital adequacy norm of 4 per cent by the end of March 1994. Such of the FIs having dealings with agencies abroad were required to achieve a norm of 8 per cent by March 31,1995 while the rest are to attain 8 per cent norm by March 31,1996.	

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INDEX OF APPENDIX TABLES

IV. FINANCIAL INSTITUTIONS

Appendix Table II.1 : Industry-wise Deployment of Gross Bank Credit @

(Amounts in Rs. crore)

Industry	Outstanding as on			Variations during	
	Mar.20, 1992	Mar.19, 1993	Mar.18, 1994	1992-93 Financial Year	1993-94
1	2	3	4	5	6
Industry (Total of Small, Medium and Large Scale)	**65,240**	**78,662**	**80,492**	**13,422**	**1,830**
1. Coal	246	340	457	94	117
2. Iron and Steel	3,692	5,710	4,530	2,018	-1,180
3. Other Metals and Metal Products	2,312	2,679	3,202	367	523
4. All Engineering	14,842	17,094	17,106	2,252	12
Of which: Electronics	(2,092)	(2,327)	(2,517)	(235)	(190)
5. Electricity (Gen and Trans)	1,298	1,404	1,426	106	22
6. Cotton Textiles	4,278	4,645	4,805	367	160
7. Jute Textiles	330	348	409	18	61
8. Other Textiles	3,970	4,653	4,937	683	284
9. Sugar	899	1,256	1,367	357	111
10. Tea	658	782	917	124	135
11. Food Processing	1,241	1,423	1,598	182	175
12. Vegetable Oils (including Vanaspati)	898	1,017	1,075	119	58
13. Tobacco and Tobacco Products	550	739	623	189	-116
14. Paper and Paper Products	1,501	1,595	1,734	94	139
15. Rubber and Rubber Products	1,077	1,186	1,196	109	10
16. Chemicals, Dyes, Paints, etc.	8,280	10,117	10,027	1,837	- 90
Of which:					
i) Fertilisers	(1,357)	(1,713)	(1,533)	(356)	(-180)
ii) Petro-chemicals	(614)	(945)	(752)	(331)	(-193)
iii) Drugs and Pharmaceuticals	(1,127)	(1,309)	(1,437)	(182)	(128)
17. Cement	986	1,103	1,218	117	115
18. Leather and Leather Products	1,086	1,095	1,284	9	189
19. Gems and Jewellery	1,300	1,624	1,966	324	342
20. Construction	1,344	1,567	1,669	223	102
21. Petroleum	19	436	227	417	-209
22. SAFAUNS*	68	46	30	-22	-16
23. Other Industries	14,365	17,803	18,689	3,438	886

@ Data are Provisional.

* Ships acquired from abroad under new scheme.

Note : No sign is indicated for positive variations.

Appendix Table II.2 : RBI Accommodation to Scheduled Commercial Banks *

(Amounts in Rs. crore)

As on the last reporting Friday of	Export Credit (Rupee denominated) Refinance		Export Credit (Dollar denominated) Refinance		Total Export Credit Refinance		Government Securities Refinance		Total Refinance	
	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
1993										
March	5,834.15	994.19	4,567.64	556.01	10,401.79	1,550.20	1,027.79	–	11,429.58	1,550.20
April	7,123.36	795.96	4,992.67	3,207.19	12,116.03	4,003.15	1,027.79	–	13,143.82	4,003.15
May	6,798.80	466.63	4,479.67	748.80	11,278.47	1,215.43	1,027.79	–	12,306.26	1,215.43
June	6,548.36	194.34	4,679.09	343.24	11,227.45	537.58	1,027.79	–	12,255.24	537.58
July	6,743.28	316.34	4,818.95	690.40	11,562.23	1,006.74	1,027.79	–	12,590.02	1,006.74
August	6,019.01	300.89	5,123.14	1,061.12	11,142.15	1,362.01	1,027.79	–	12,169.94	1,362.01
September	5,448.12	89.81	5,033.62	706.37	10,481.74	796.18	1,027.79	–	11,509.53	796.18
December	3,149.66	45.01	5,361.13	1,268.93	8,510.79	1,313.94	1,027.79	–	9,538.58	1,313.94
1994										
March	2,675.36	60.40	6,037.46	1,723.19	8,712.82	1,783.59	1,027.79	–	9,740.61	1,783.59
April	2,615.83	45.53	6,653.92	1,916.97	9,269.75	1,962.50	1,027.79	–	10,297.54	1,962.50
May	2,374.97	14.68	6,620.48	1,047.83	8,995.45	1,062.51	1,027.79	–	10,023.24	1,062.51
June	1,420.89	141.62	6,008.63	1,713.31	7,429.52	1,854.93	1,027.79	–	8,457.31	1,854.93
July	1,454.81	59.61	5,560.22	140.30	7,015.03	199.91	1,027.79	–	8,042.82	199.91
August	1,452.61	215.37	5,397.49	4,755.05	6,850.10	4,970.42	1,027.79	235.00	7,877.89	5,205.42
September@	1,251.89	1,054.31	5,415.45	5,284.18	6,667.34	6,338.49	1,027.79	587.65	7,695.13	6,926.14

* Excluding special refinance against shipping loans, duty drawback, etc.

@ Pertains to September 16.

Appendix Table II.3 : Advances to the Priority Sectors by Public Sector Banks
(As on the last Friday)

Sector	No. of Accounts (in lakh)				Amount Outstanding (Rs. crore)			
	June 1969	June 1992	June 1993@	March 1994@	June 1969	June 1992	June 1993@	March 1994@
1	2	3	4	5	6	7	8	9
I. Agriculture	1.7	211.9	212.1	217.9	162 (5.4)	18,464 (16.1)	19,774 (14.8)	21,204 (15.0)
i) Direct	1.6	206.5	207.8	212.9	40 (1.3)	17,020 (14.9)	18,332 (13.8)	19,255 (13.7)
ii) Indirect	0.1	5.5	4.3	5.0	122 (4.0)	1,444 (1.3)	1,442 (1.1)	1,949 (1.4)
II. Small-scale industries	0.5	29.5	29.1	30.2	257 (8.5)	17,689 (15.4)	18,841 (14.1)	21,561 (15.3)
III. Other priority sector advances*	0.4	114.6	115.6	116.9	22 (0.7)	8,842 (7.7)	9,234 (6.9)	10,432 (7.4)
IV. Total priority sector advances	2.6	356.0	356.8	365.1	441 (14.6)	44,995 (39.3)	47,848 (35.9)	53,197 (37.8)
V. Net Bank Credit	–	–	–	–	3,016	1,14,502	1,33,231	1,40,914

@ Data are provisional.
* Include small transport operators, self-employed persons, rural artisans, etc.
Note: Figures in brackets represent percentages to net bank credit.

Appendix Table II.4 : Advances to the Priority Sectors by Indian Private Sector Commercial Banks
(As on the last Friday of September 1993)

Sector	Amount (Rs.crore)	Percentage to	
		Total priority sector advances	Net bank credit
1	2	3	4
I. Agriculture	553	22.3	7.1
i) Direct advances	486	19.6	6.2
ii) Indirect advances	67	2.7	0.9
II. Small-scale industries	1,298	52.5	16.6
III. Other priority sectors	622	25.2	7.9
IV. Total (I+II+III)	2,473	100.0	31.6

Appendix Table - II.5 : Region/State-wise Credit Deposit Ratio and Investment + Credit Deposit Ratio of Scheduled Commercial Banks
(As at the end of)

(Per cent)

Region/State/Union Territory	Credit Deposit Ratio				Investment + Credit Deposit Ratio			
	March 1991		March 1992		March 1991		March 1992	
	As per Sanc-tion	As per Utili-sation	As per Sanc-tion	As per Utili-sation	As per Sanc-tion	As per Utili-sation	As per Sanc-tion	As per Utili-sation
1	2	3	4	5	6	7	8	9
NORTHERN REGION	**53.7**	**52.4**	**51.1**	**49.3**	**61.2**	**59.9**	**58.5**	**56.8**
Haryana	60.2	76.0	55.3	69.1	74.2	90.0	69.3	83.1
Himachal Pradesh	38.6	41.4	34.9	37.8	52.4	55.1	50.1	53.0
Jammu & Kashmir	54.8	55.1	50.6	51.1	71.3	71.6	67.1	67.6
Punjab	45.1	49.7	42.7	46.4	51.4	56.1	49.0	52.7
Rajasthan	56.6	60.5	55.6	59.3	81.4	85.3	79.9	83.6
Chandigarh	82.9	58.7	74.2	55.3	83.0	58.8	74.2	55.3
Delhi	54.8	46.6	52.7	44.1	55.7	47.4	53.6	44.9
NORTH-EASTERN REGION	**46.9**	**60.9**	**46.7**	**66.3**	**72.5**	**86.5**	**74.2**	**93.8**
Arunachal Pradesh	28.1	50.5	22.3	39.2	35.2	57.6	29.4	46.3
Assam	49.7	69.9	50.3	79.0	76.1	96.3	79.1	107.8
Manipur	72.3	71.3	67.4	66.9	124.6	123.5	121.9	121.5
Meghalaya	22.1	25.9	21.2	23.0	46.2	49.9	48.2	50.0
Mizoram	27.5	30.4	25.3	28.8	27.5	30.4	25.3	28.8
Nagaland	43.9	47.6	43.4	49.4	81.1	84.8	81.5	87.6
Tripura	68.2	60.7	65.5	60.6	88.9	81.3	86.0	81.1
EASTERN REGION	**49.9**	**49.2**	**49.5**	**49.1**	**65.5**	**64.8**	**66.4**	**65.9**
Bihar	38.3	39.5	36.9	38.5	60.3	61.5	61.5	63.1
Orissa	69.2	72.3	69.0	71.1	104.0	107.2	105.9	108.0
Sikkim	32.4	32.6	23.9	24.6	43.4	43.6	40.0	40.6
West Bengal	53.0	50.7	52.8	51.0	62.6	60.4	63.0	61.2
Andaman & Nicobar Islands	42.0	45.9	32.8	35.7	42.0	45.9	32.8	35.7
CENTRAL REGION	**50.3**	**52.8**	**47.6**	**50.2**	**67.6**	**70.2**	**65.3**	**67.9**
Madhya Pradesh	64.7	66.7	61.0	63.2	85.7	87.7	82.2	84.4
Uttar Pradesh	44.8	47.6	42.5	45.3	60.8	63.5	58.9	61.7
WESTERN REGION	**67.7**	**66.1**	**58.2**	**56.5**	**75.4**	**73.7**	**64.9**	**63.2**
Goa	28.8	31.1	28.9	29.9	30.4	32.6	30.5	31.6
Gujarat	57.7	62.7	52.4	57.3	70.5	75.5	64.4	69.3
Maharashtra	72.3	68.4	60.7	57.1	78.7	74.8	66.2	62.6
Dadra & Nagar Haveli	52.9	191.6	41.9	157.2	52.9	191.6	41.9	157.2
Daman & Diu	24.0	58.3	21.5	59.8	24.0	58.3	21.5	59.8
SOUTHERN REGION	**81.1**	**82.1**	**76.5**	**77.7**	**94.6**	**95.6**	**90.0**	**91.2**
Andhra Pradesh	79.8	81.1	80.1	81.1	95.1	96.3	96.3	97.3
Karnataka	79.1	81.1	76.8	80.5	91.4	93.4	89.2	92.8
Kerala	59.1	59.6	51.7	52.2	73.7	74.2	65.3	65.8
Tamil Nadu	96.9	97.2	89.0	89.1	109.6	109.9	101.5	101.5
Lakshadweep	16.7	17.0	13.1	13.4	16.7	17.0	13.1	13.4
Pondicherry	49.7	59.3	47.9	54.2	49.8	59.4	47.9	54.2
ALL INDIA	**61.9**	**61.9**	**57.7**	**57.7**	**73.7**	**73.7**	**69.2**	**69.2**

Note: Deposits and credit (sanction and utilisation) data are based on BSR-1 and 2 surveys. The investment figures are estimated, based on BSR-5 Survey for March 1992.

Appendix Table II.6: Viability Position of Sick/Weak Industrial Units

(Amounts in Rs. crore)

	SSI Sick Units				Non-SSI Sick Units				Non-SSI Weak Units				Total			
	Number		Amount Outstanding		Number		Amount Outstanding		Number		Amount Outstanding		Number		Amount Outstanding	
	March 1992	March 1993	March 1992	March 1993	March 1992	March 1993	March 1992	March 1993	March 1992	March 1993	March 1992	March 1993	March 1992	March 1993	March 1992	March 1993
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Potentially viable units	19,210 (7.8)	21,649 (9.1)	729 (23.5)	799 (23.2)	577 (37.6)	661 (35.4)	2,842 (49.1)	3,582 (45.3)	361 (44.4)	274 (41.7)	1,271 (48.0)	876 (48.9)	20,148 (8.1)	22,584 (9.4)	4,842 (42.0)	5,257 (40.0)
2. Non-viable units	2,23,336 (91.0)	2,13,804 (89.8)	2,256 (72.8)	2,507 (72.8)	724 (47.1)	828 (44.3)	1,810 (31.3)	2,168 (27.4)	262 (32.2)	234 (35.6)	430 (16.3)	372 (20.8)	2,24,322 (90.5)	2,14,866 (89.3)	4,496 (39.0)	5,047 (38.4)
3. Viability not decided	3,029 (1.2)	2,723 (1.1)	116 (3.7)	137 (4.0)	235 (15.3)	378 (20.3)	1,134 (19.6)	2,151 (27.3)	190 (23.4)	149 (22.7)	945 (35.7)	542 (30.3)	3,454 (1.4)	3,250 (1.3)	2,195 (19.0)	2,830 (21.5)
4. Total	2,45,575	2,38,176	3,101	3,443	1,536	1,867	5,786	7,901	813	657	2,646	1,790	2,47,924	2,40,700	11,533	13,134
5. Units under nursing Programme	13,289	12,218	559	582	401	453	2,104	2,584	218	156	726	486	13,908	12,827	3,389	3,652
5 as percentage of 1	69.2	56.4	76.5	72.8	69.5	68.5	74.0	72.1	60.4	56.9	57.1	55.5	69.0	56.8	70.0	69.5

Note : Figures in brackets are percentages to total.

Appendix Table II.7 : Region/State/Union Territory-wise Distribution of Commercial Bank Branches

Region/State/ Union Territory	Number of Branches as at the end of			Number of branches opened during				Average population (in '000) per bank branch as at the end of		
	June 1969	June 1993	June 1994	July 92 to June 93	of which: at un-banked centres	July 93 to June 94	of which: at un-banked centres	June 1969	June 1993	June 1994
1	2	3	4	5	6	7	8	9	10	11
NORTHERN REGION	**1,253**	**9,383**	**9,475**	**130**	**30**	**84**	**4**	**46**	**11**	**11**
Haryana	172	1,303	1,314	27	9	9	1	56	13	13
Himachal Pradesh	42	747	753	11	10	5	-	80	7	7
Jammu & Kashmir	35	786	787	1	1	2	1	124	10	10
Punjab	346	2,188	2,208	40	1	19	–	38	9	9
Rajasthan	364	3,104	3,143	36	9	37	2	68	14	14
Chandigarh	20	114	115	5	–	2	–	7	6	6
Delhi	274	1,141	1,155	10	–	10	–	10	8	8
NORTH-EASTERN REGION	**90**	**1,875**	**1,883**	**8**	**3**	**11**	**2**	**203**	**17**	**17**
Arunachal Pradesh	–	68	68	–	–	5	1	–	13	13
Assam	74	1,219	1,223	1	–	3	1	193	19	18
Manipur	2	85	85	–	–	–	–	510	22	22
Meghalaya	7	176	179	3	2	2	–	137	10	10
Mizoram	–	76	76	1	1	–	–	–	9	9
Nagaland	2	71	71	1	–	–	–	250	17	17
Tripura	5	180	181	2	–	1	–	300	15	15
EASTERN REGION	**878**	**11,313**	**11,365**	**67**	**18**	**44**	**4**	**135**	**17**	**17**
Bihar	273	4,889	4,905	21	5	15	1	200	18	18
Orissa	100	2,121	2,137	16	4	11	1	211	15	15
Sikkim	–	39	40	7	5	1	–	–	11	10
West Bengal	504	4,235	4,253	20	4	16	2	85	16	16
Andaman & Nicobar Islands	1	29	30	3	–	1	–	82	10	9
CENTRAL REGION	**1,090**	**12,985**	**13,025**	**106**	**24**	**38**	**2**	**115**	**16**	**16**
Madhya Pradesh	343	4,407	4,418	41	7	13	1	116	15	15
Uttar Pradesh	747	8,578	8,607	65	17	25	1	114	16	16
WESTERN REGION	**1,955**	**9,353**	**9,433**	**103**	**27**	**65**	**1**	**38**	**13**	**13**
Goa	85+	259	263	3	–	4	–	8	5	4
Gujarat	752	3,417	3,450	40	18	28	–	34	12	12
Maharashtra	1,118	5,660	5,703	60	9	33	1	43	14	14
Dadra & Nagar Haveli	–	7	7	–	–	–	–	–	20	20
Daman & Diu	–	10	10	–	–	–	–	–	10	10
SOUTHERN REGION	**2,996**	**16,339**	**16,561**	**178**	**28**	**175**	**16**	**44**	**12**	**12**
Andhra Pradesh	567	4,676	4,750	46	18	60	7	74	14	14
Karnataka	756	4,328	4,350	41	1	21	–	37	10	10
Kerala	601	2,893	2,955	44	2	50	2	34	10	10
Tamil Nadu	1,060	4,362	4,426	45	7	44	7	37	13	13
Lakshadweep	–	8	8	–	–	–	–	–	6	6
Pondicherry	12	72	72	2	–	–	–	31	11	11
ALL INDIA	**8,262**	**61,248**	**61,742**	**592**	**130**	**417 ***	**29**	**64**	**14**	**14**

\+ Includes 'Daman and Diu'.

* The difference between increase in number of branches as on June 30, 1993 and June 30, 1994 as against number of branches opened, is due to late receipt of intimation of branches opened prior to June 30, 1993.

Note : Average population (in '000) per bank branch is based on 1991 mid-year population data.

Appendix Table II.8 : Bank Group-wise/Population Group-wise Distribution of Commercial Bank Branches in India

Bank Group	No. of Banks#	No. of Branches as on									
		June 30, 1993@					June 30, 1994@				
		Rural	Semi-urban	Urban	Metropolitan/ Port-town	Total	Rural	Semi-urban	Urban	Metropolitan/ Port-town	Total
1	2	3	4	5	6	7	8	9	10	11	12
State Bank of India	1	4,447	2,185	1,220	824	8,676	4,460	2,194	1,235	833	8,722
		(51.3)	(25.2)	(14.0)	(9.5)	(100.0)	(51.1)	(25.2)	(14.2)	(9.5)	(100.0)
Associate Banks of SBI	7	1,524	1,209	662	439	3,834	1,529	1,243	684	448	3,904
		(39.7)	(31.5)	(17.3)	(11.5)	(100.0)	(39.2)	(31.8)	(17.5)	(11.5)	(100.0)
Nationalised Banks	19	14,689	5,836	5,316	4,292	30,133	14,709	5,971	5,388	4,337	30,405
		(48.7)	(19.4)	(17.6)	(14.3)	(100.0)	(48.4)	(19.6)	(17.7)	(14.3)	(100.0)
Private Banks	24	1,270	1,260	794	563	3,887	1,271	1,330	816	570	3,987
		(32.7)	(32.4)	(20.4)	(14.5)	(100.0)	(31.8)	(33.4)	(20.5)	(14.3)	(100.0)
Foreign Banks	23	–	2	9	130	141	–	2	11	133	146
			(1.4)	(6.4)	(92.2)	(100.0)		(1.4)	(7.5)	(91.1)	(100.0)
Non-Scheduled Banks	3	20	16	12	–	48	20	16	12	–	48
		(41.7)	(33.3)	(25.0)		(100.0)	(41.7)	(33.3)	(25.0)		(100.0)
Regional Rural Banks	196	13,456	922	147	4	14,529	13,415	960	151	4	14,530
		(92.6)	(6.4)	(1.0)	..	(100.0)	(92.3)	(6.6)	(1.1)	..	(100.0)
Total	273	35,406	11,430	8,160	6,252	61,248	35,404	11,716	8,297	6,325	61,742
		(57.8)	(18.7)	(13.3)	(10.2)	(100.0)	(57.3)	(19.0)	(13.4)	(10.3)	(100.0)

\# As on March 31, 1994.
@ Population group-wise classification of branches as per 1981 Census.
.. Negligible
Note: Figures in brackets indicate percentage to total in each group.

APPENDIX Table II.9 : Region/State-wise Number of RRBs, their Branches, Deposits, Advances, etc.
(As at the end of September 1993)

(Amounts in Rs. lakh)

Name of the State/ Region	No.of RRBs	No.of Districts covered	No.of branches	Deposits	Advances Amount (Outstanding): Agricultural Advances	Advances Amount (Outstanding): Non-Agricultural Advances	Advances Amount (Outstanding): Total Advances	Overdue Advances	CD Ratio (%)	NABARD Refinance Amount (Outstanding): Schematic	NABARD Refinance Amount (Outstanding): Non-Schematic	NABARD Refinance Amount (Outstanding): Total
1	2	3	4	5	6	7	8	9	10	11	12	13
NORTHERN REGION	**28**	**74**	**1,960**	**1,02,124.41**	**24,313.01**	**24,179.10**	**48,492.11**	**18,699.25**	**47**	**6,633.77**	**5,557.73**	**12,191.50**
Haryana	4	15	291	20,028.90	7,110.26	7,522.10	14,632.36	6,470.71	73	1,364.00	1,660.71	3,024.71
Himachal Pradesh	2	4	129	10,644.98	639.25	2,017.12	2,656.37	445.31	25	31.60	475.72	507.32
Jammu & Kashmir	3	12	269	10,523.17	1,506.84	2,131.74	3,638.58	1,102.53	35	47.96	636.67	684.63
Punjab	5	12	201	12,500.30	4,785.40	2,919.40	7,704.80	2,523.03	62	1,095.80	1,159.73	2,255.53
Rajasthan	14	31	1,070	48,427.06	10,271.26	9,588.74	19,860.00	8,157.67	41	4,094.41	1,624.90	5,719.31
NORTH-EASTERN REGION	**11**	**53**	**652**	**31,161.16**	**7,647.24**	**13,817.37**	**21,464.61**	**13,394.51**	**69**	**2,696.18**	**3,992.24**	**6,688.42**
Arunachal Pradesh	1	5	19	522.22	77.67	84.62	162.29	39.71	31	53.72	0.00	53.72
Assam	5	23	404	17,740.03	5,023.18	7,318.40	12,341.58	6,286.47	70	979.37	2,771.21	3,750.58
Manipur	1	8	29	342.41	136.51	206.53	343.04	254.02	100	117.39	57.82	175.21
Meghalaya	1	4	51	3,901.94	538.71	170.51	709.22	341.00	18	37.18	240.93	278.11
Mizoram	1	3	51	1,661.18	191.32	369.21	560.53	124.11	34	92.17	52.17	144.34
Nagaland	1	7	8	116.45	24.00	43.70	67.70	53.73	58	11.95	20.57	32.52
Tripura	1	3	90	6,876.93	1,655.85	5,624.40	7,280.25	6,295.47	106	1,404.40	849.54	2,253.94
EASTERN REGION	**40**	**83**	**3,576**	**1,82,414.11**	**36,839.30**	**66,539.69**	**1,03,378.99**	**37,502.97**	**57**	**13,344.73**	**15,982.72**	**29,327.45**
Bihar	22	47	1,892	93,840.28	16,100.90	31,991.20	48,092.10	20,620.75	51	4,883.30	5,661.90	10,545.20
Orissa	9	18	820	30,457.95	11,467.42	13,032.91	24,500.33	5,948.12	80	4,946.30	6,468.57	11,414.87
West Bengal	9	18	864	58,115.88	9,270.98	21,515.58	30,786.56	10,934.10	53	3,515.13	3,852.25	7,367.38
CENTRAL REGION	**64**	**105**	**4,659**	**2,58,143.89**	**60,857.05**	**63,417.21**	**1,24,274.26**	**37,794.51**	**48**	**21,838.27**	**18,090.77**	**39,929.04**
Madhya Pradesh	24	44	1,604	48,253.30	16,835.03	15,024.62	31,859.65	11,929.34	66	6,084.69	2,225.82	8,310.51
Uttar Pradesh	40	61	3,055	2,09,890.59	44,022.02	48,392.59	92,414.61	25,865.17	44	15,753.58	15,864.95	31,618.53
WESTERN REGION	**19**	**34**	**1,021**	**31,625.73**	**17,327.95**	**8,069.14**	**25,397.09**	**9,334.31**	**80**	**2,193.59**	**7,422.44**	**9,616.03**
Gujarat	9	17	430	15,625.88	6,721.97	2,184.74	8,906.71	2,330.67	57	1,267.15	2,808.91	4,076.06
Maharashtra	10	17	591	15,999.85	10,605.98	5,884.40	16,490.38	7,003.65	103	926.44	4,613.53	5,539.97
SOUTHERN REGION	**34**	**56**	**2,678**	**1,28,330.42**	**85,278.99**	**59,945.98**	**1,45,224.97**	**46,757.87**	**113**	**15,713.11**	**35,674.66**	**51,387.77**
Andhra Pradesh	16	23	1,126	55,916.04	40,203.95	22,195.82	62,399.77	20,444.27	112	6,372.79	14,996.72	21,369.51
Karnataka	13	20	1,075	45,745.50	29,670.74	21,373.67	51,044.41	18,221.24	112	6,452.87	11,238.56	17,691.43
Kerala	2	6	269	18,378.02	11,408.00	12,303.00	23,711.00	5,617.00	129	2,029.00	7,640.00	9,669.00
Tamil Nadu	3	7	208	8,290.86	3,996.30	4,073.49	8,069.79	2,475.36	97	858.45	1,799.38	2,657.83
ALL INDIA	**196**	**405**	**14,546**	**7,33,799.72**	**2,32,263.54**	**2,35,968.49**	**4,68,232.03**	**1,63,483.41**	**64**	**62,419.65**	**86,720.56**	**1,49,140.21**

Source : NABARD

Appendix Table II.10 : Working Results of All Scheduled Commercial Banks for the years 1992-93 and 1993-94

(Amounts in Rs. crore)

Particulars	1992-93	1993-94*	Variation of Column(3) over (2)	
			Actual	Percentage
1	2	3	4	5
A. Income (i+ii)	41,977.00 (100.00)	40,668.43 (100.00)	-1,308.57	-3.12
i) Interest income	37,488.00 (89.31)	35,160.89 (86.46)	-2,327.11	-6.21
ii) Other income	4,489.00 (10.69)	5,507.54 (13.54)	1,018.54	22.69
B. Expenditure (i+ii+iii)	46,127.00 (100.00)	44,390.11 (100.00)	-1,736.89	-3.77
i) Interest expended	27,836.00 (60.35)	24,954.36 (56.21)	-2,881.64	-10.35
ii) Other operating expenses	10,248.00 (22.22)	10,694.81 (24.09)	446.81	4.36
iii) Provisions and contingencies	8,043.00 (17.43)	8,740.94 (19.70)	697.94	8.68
C. Profit				
i) Operating Profit	3,893.00	5,019.26	1,126.26	28.93
ii) Net Profit	-4,150.00	-3,721.68	428.32	10.32
D. Working Funds	3,85,742.00	4,05,543.42	19,801.42	5.13
E. Ratios				
i) Operating Profit to Working Funds	1.01	1.24	-	-
ii) Net Profit to Working Funds	-1.08	-0.92	-	-

* Consists of 68 banks.

Note: Figures in brackets are percentage shares to the respective total.

Appendix Table II.11 : Working Results of Public Sector Banks for the years 1992-93 and 1993-94

(Amounts in Rs. crore)

Particulars	1992-93	1993-94*	Variation of Column(3) over (2)	
			Actual	Percentage
1	2	3	4	5
A. Income (i+ii)	36,089.00 (100.00)	34,687.33 (100.00)	–1,401.67	–3.88
i) Interest income	32,111.00 (88.98)	30,187.81 (87.03)	–1,923.19	–5.99
ii) Other income	3,978.00 (11.02)	4,499.52 (12.97)	521.52	13.11
B. Expenditure (i+ii+iii)	39,457.00 (100.00)	39,110.83 (100.00)	–346.17	–0.88
i) Interest expended	24,112.00 (61.11)	21,922.58 (56.05)	–2,189.42	–9.08
ii) Other operating expenses	8,908.00 (22.58)	9,356.15 (23.92)	448.15	5.03
iii) Provisions & contingencies	6,437.00 (16.31)	7,832.10 (20.03)	1,395.10	21.67
C. Profit				
i) Operating Profit	3,069.00	3,408.60	339.60	11.07
ii) Net Profit	–3,368.00	–4,423.50	–1,055.50	–31.34
D. Working Funds	3,36,181.00	3,53,473.70	17,292.70	5.14
E. Ratios				
i) Operating Profit to Working Funds	0.91	0.96	–	–
ii) Net Profit to Working Funds	–1.00	–1.25	–	–

* Excluding Punjab National Bank.

Note: Figures in brackets are percentage shares to the respective total.

Appendix Table II.12 : Working Results of State Bank of India and its Associates for the years 1992-93 and 1993-94

(Amounts in Rs. crore)

Particulars	1992-93	1993-94	Variation of Column (3) over (2)	
			Actual	Percentage
1	2	3	4	5
A. Income (i+ii)	13,963.00 (100.00)	13,908.56 (100.00)	-54.44	-0.39
i) Interest income	12,166.00 (87.13)	11,900.85 (85.56)	-265.15	-2.18
ii) Other income	1,797.00 (12.87)	2,007.71 (14.44)	210.71	11.73
B. Expenditure (i+ii+iii)	13,683.00 (100.00)	13,552.53 (100.00)	-130.47	-0.95
i) Interest expended	8,416.00 (61.50)	8,119.27 (59.91)	-296.73	-3.53
ii) Other operating expenses	3,283.00 (24.00)	3,753.90 (27.70)	470.90	14.34
iii) Provisions & contingencies	1,984.00 (14.50)	1,679.36 (12.39)	-304.64	-15.35
C. Profit				
i) Operating Profit	2,264.00	2,035.39	-228.61	-10.10
ii) Net Profit	280.00	356.03	76.03	27.15
D. Working Funds	1,24,567.00	1,40,917.26	16,350.26	13.13
E. Ratios				
i) Operating Profit to Working Funds	1.82	1.44	–	–
ii) Net Profit to Working Funds	0.22	0.25	–	–

Note : Figures in brackets are percentage shares to the respective total.

Appendix Table II.13 : Working Results of Nationalised Banks for the years 1992-93 and 1993-94

(Amounts in Rs. crore)

Particulars	1992-93	1993-94*	Variation of Column(3) over (2)	
			Actual	Percentage
1	2	3	4	5
A. Income (i+ii)	22,126.00 (100.00)	20,778.77 (100.00)	-1,347.23	-6.09
i) Interest income	19,945.00 (90.14)	18,286.96 (88.01)	-1,658.04	-8.31
ii) Other income	2,181.00 (9.86)	2,491.81 (11.99)	310.81	14.25
B. Expenditure (i+ii+iii)	25,774.00 (100.00)	25,558.30 (100.00)	-215.70	-0.84
i) Interest expended	15,696.00 (60.90)	13,803.31 (54.01)	-1,892.69	-12.06
ii) Other operating expenses	5,625.00 (21.82)	5,602.25 (21.92)	-22.75	-0.40
iii) Provisions and contingencies	4,453.00 (17.28)	6,152.74 (24.07)	1,699.74	38.17
C. Profit				
i) Operating Profit	805.00	1,373.21	568.21	70.59
ii) Net Profit	-3,648.00	-4,779.53	-1,131.53	-31.02
D. Working Funds	2,11,614.00	2,12,556.44	942.44	0.45
E. Ratios				
i) Operating Profit to Working Funds	0.38	0.65	–	–
ii) Net Profit to Working Funds	-1.72	-2.25	–	–

* Excluding Punjab National Bank.

Note: Figures in brackets are percentage shares to the respective total.

Appendix Table II.14 : Working Results of Foreign Banks for the years 1992-93 and 1993-94

(Amounts in Rs. crore)

Particulars	1992-93	1993-94	Variation of Column(3) over (2)	
			Actual	Percentage
1	2	3	4	5
A. Income (i+ii)	4,009.00 (100.00)	4,084.75 (100.00)	75.75	1.89
i) Interest income	3,700.00 (92.29)	3,341.42 (81.80)	-358.58	-9.69
ii) Other income	309.00 (7.71)	743.33 (18.20)	434.33	140.56
B. Expenditure (i+ii+iii)	4,851.00 (100.00)	3,510.94 (100.00)	-1,340.06	-27.62
i) Interest expended	2,570.00 (52.98)	1,938.62 (55.22)	-631.38	-24.57
ii) Other operating expenses	858.00 (17.69)	884.55 (25.20)	26.55	3.09
iii) Provisions and contingencies	1,423.00 (29.33)	687.77 (19.58)	-735.23	-51.67
C. Profit				
i) Operating Profit	581.00	1,261.58	680.58	117.14
ii) Net Profit	-842.00	573.81	1,415.81	168.15
D. Working Funds	31,678.00	33,418.17	1,740.17	5.49
E. Ratios				
i) Operating Profit to Working Funds	1.83	3.78	–	–
ii) Net Profit to Working Funds	-2.66	1.72	–	–

Note: Figures in brackets are percentage shares to the respective total.

Appendix Table II.15 : Working Results of Indian Private Sector Banks for the years 1992-93 and 1993-94

(Amounts in Rs. crore)

Particulars	1992-93	1993-94*	Variation of Column(3) over (2)	
			Actual	Percentage
1	2	3	4	5
A. Income (i+ii)	1,879.00 (100.00)	1,896.35 (100.00)	17.35	0.92
i) Interest income	1,677.00 (89.25)	1,631.66 (86.04)	–45.34	–2.70
ii) Other income	202.00 (10.75)	264.69 (13.96)	62.69	31.03
B. Expenditure (i+ii+iii)	1,819.00 (100.00)	1,768.34 (100.00)	–50.66	–2.79
i) Interest expended	1,154.00 (63.44)	1,093.16 (61.82)	–60.84	–5.27
ii) Other operating expenses	482.00 (26.50)	454.11 (25.68)	–27.89	–5.79
iii) Provisions and contingencies	183.00 (10.06)	221.07 (12.50)	38.07	20.80
C. Profit				
i) Operating Profit	243.00	349.08	106.08	43.65
ii) Net Profit	60.00	128.01	68.01	113.35
D. Working Funds	17,883.00	18,651.55	768.55	4.30
E. Ratios				
i) Operating Profit to Working Funds	1.36	1.87	–	–
ii) Net Profit to Working Funds	0.34	0.69	–	–

Note : Figures in brackets are percentage shares to the respective total.

* Consists of 19 banks (excluding Benares State Bank Ltd., Catholic Syrian Bank Ltd., Dhanalaxmi Bank Ltd., J & K Bank Ltd., Lord Krishna Bank Ltd., Nedungadi Bank Ltd. and Punjab Co-op. Bank Ltd.).

Appendix Table III.1 : Progress of Co-operative Credit Movement in India

(Amounts in Rs. crore)

Type of Institution	Items	1991-92*	1992-93*
1	2	3	4
(a) State Co-operative Banks (SCBs)	Number	28 (25)	28 (25)
	Owned Funds	1,125	1,336
	Deposits	7,321	8,595
	Borrowings from RBI/NABARD	2,780	3,471
	Of which for :		
	Short-term agricultural purposes	2,562	3,233
	Working capital	13,349	14,202
	Loans issued	7,685	8,260
	Loans outstanding	7,381	7,247
	Loans overdue	1,042	919
	% of overdues to :		
	(i) Loans outstanding	14.1	12.7
	(ii) Demand	21.4	16.2
(b) Central Co-operative Banks (CCBs)#	Number	351 (347)	354 (351)
	Owned Funds	1,888	2,307
	Deposits	11,010	13,302
	Borrowings	6,021	6,446
	Working capital	20,115	23,394
	Loans issued	14,226	13,575
	Loans outstanding	12,593	14,693
	Loans overdue	3,402	3,664
	% of overdues to :		
	(i) Loans outstanding	27.0	24.9
	(ii) Demand	40.5	42.9
(c) State/Central Land Development Banks (SLDBs)	Number	19 (18)	19 (18)
	Owned Funds	635	722
	Borrowings	3,975	5,340
	Working Capital	5,223	6,205
	Loans issued	867	1,106
	Loans outstanding	4,174	4,677
	Loans overdue @	910	933
	% of overdues to :		
	(i) Loans outstanding	21.8	19.9
	(ii) Demand	57.1	53.7

(Contd.)

Appendix Table III.1 : Progress of Co-operative Credit Movement in India *(Concld.)*

(Amounts in Rs. crore)

Type of Institution	Items	1991-92*	1992-93*
1	2	3	4
(d) Primary Agricultural Credit Societies (PACS)##	Number (000's)	83	83
	Membership (000's)	86,759	86,183
	Owned Funds	1,885	2,006
	Deposits	1,605	1,863
	Borrowings	7,751	7,811
	Total Loans issued	4,973	6,401
	Total Loans outstanding	7,539	9,116
	Total Loans overdue	2,875	3,189
	Working capital	12,141	12,577
	% of overdues to :		
	(i) Loans outstanding	38.1	35.0
	(ii) Demand	39.2	42.0
(e) Primary Co-operative Banks (PCBs)**	Number	1,401	1,399
	Owned Funds	1,766	2,224
	Deposits	11,108	13,531
	Borrowings	556	565
	Loans outstanding	8,713	10,132

* Provisional (July-June).
** (April-March).
\# Include three CCBs in J & K, related data for which are not available.
\## Include Large-Size Adivasi Multi-Purpose Societies (LAMPS) and Farmers' Service Societies (FSS).
@ Include interest overdue.
Note: Figures in brackets are reporting banks/societies.
Source: NABARD and Reserve Bank of India.

Appendix Table IV.1: Financial Assets of Banks and Financial Institutions
(As at the end of March)

(Amounts in Rs. crore)

Institutions	1981	1988	1989	1990	1991	1992	1993
1	2	3	4	5	6	7	8
I. Banks (1+2+3)*	**46,987**	**1,47,186**	**1,76,461**	**2,05,513**	**2,32,786**	**2,71,915**	**3,12,983**
1. All Scheduled Commercial Banks**	44,622	1,40,747	1,68,480	1,96,377	2,22,613	2,59,902	2,99,509
2. Non-Scheduled Commercial Banks***	9	36	53	60	77	86	91
All Commercial Banks (1+2)	**44,631**	**1,40,783**	**1,68,533**	**1,96,437**	**2,22,690**	**2,59,988**	**2,99,600**
3. State Co-operative Banks+	2,356	6,403	7,928	9,076	10,096	11,927	13,383
II. Financial Institutions++	**16,650**	**66,828**	**83,651**	**1,02,184**	**1,22,650**	**1,57,761**	**1,82,116**
4. Term-lending Institutions# (All-India)	6,143	31,239	37,874	44,941	52,054	65,185	74,495
5. State Level Institutions@	1,733	6,241	7,204	7,899	10,043	11,523	12,576
6. Investment Institutions$	8,534	28,037	36,980	47,694	58,566	78,699	92,146
7. Other Institutions~	240	1,311	1,593	1,650	1,987	2,354	2,899
III. Aggregate (I+II)	**63,637**	**2,14,014**	**2,60,112**	**3,07,697**	**3,55,436**	**4,29,676**	**4,95,099**
IV. Percentage Share:							
a) I to III	73.8	68.8	67.8	66.8	65.5	63.3	63.2
b) II to III	26.2	31.2	32.2	33.2	34.5	36.7	36.8

* Include the following items: (i)cash in hand and balances with the Reserve Bank, (ii) assets with the banking system,(iii)investments,(iv)bank credit (all loans, cash credits, overdrafts and bills purchased and discounted) and (v)dues from banks.

** As per returns under Section 42 of the RBI Act,1934. The data since 1989 are in respect of Last Reporting Friday of March.

*** As per returns under Section 27 of the Banking Regulation Act,1949. The data are in respect of Last Friday of March.

\+ As per returns from Rural Planning and Credit Department, RBI. The data since 1989 are in respect of Last Reporting Friday of March.

++ Figures pertain to the accounting year of the respective financial institution.

\# Term lending institutions include NABARD, ICICI, IDBI, IFCI, IRBI, Exim Bank and NHB since 1989. The NHB position as at end–June.

@ State level institutions include SFCs and SIDCs.

$ Investment institutions include UTI, LIC and GIC and its subsidiaries.

~ Other institutions include DICGC and ECGC.

Appendix Table IV.2: Total Financial Assets of Financial Institutions

(Amounts in Rs. crore)

Institutions	As at the end of						
	1980-81	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
1	2	3	4	5	6	7	8
A. All India Term Lending Institutions							
1. IDBI	3,098.6	13,922.3	17,053.9	20,317.9	22,700.8	27,967.9	30,919.0
2. NABARD@	1,635.1	8,776.4	10,363.8	11,771.7	12,664.4	14,466.1	15,680.3
3. ICICI	727.9	3,652.8	4,500.1	5,603.9	7,083.8	9,134.5	11,950.6
4. IFCI	589.1	3,105.7	3,707.3	4,477.6	5,834.5	7,514.5	9,187.8
5. Exim Bank	–	1,276.0	1,478.4	1,715.9	1,983.7	2,457.5	2,684.6
6. IRBI	92.4	505.6	589.8	694.0	818.2	984.9	1,070.0
7. NHB	–	–	181.1	360.3	968.6	2,659.3	3,002.9
Total of A (1 to 7)	**6,143.1**	**31,238.8**	**37,874.4**	**44,941.3**	**52,054.0**	**65,184.7**	**74,495.2**
B. State Level Institutions							
8. SFCs	1,073.6	3,910.9	4,657.0	5,494.2	6,406.1	7,383.0	7,943.0
9. SIDCs	659.5	2,329.6	2,547.2	2,404.9	3,636.9	4,140.1	4,632.8
Total of B (8 + 9)	**1,733.1**	**6,240.5**	**7,204.2**	**7,899.1**	**10,043.0**	**11,523.1**	**12,575.8**
C. Investment Institutions							
10. LIC	6,814.9	17,086.9	20,118.0	23,988.4	29,040.0	35,410.9	41,836.7
11. GIC and its subsidiaries	1,198.9	3,735.5	4,418.8	5,284.6	6,361.6	7,952.6	8,731.3
12. UTI	520.6	7,214.6	12,443.1	18,421.2	23,163.7	35,336.2	41,578.0
Total of C (10 to 12)	**8,534.4**	**28,037.0**	**36,979.9**	**47,694.2**	**58,565.3**	**78,699.7**	**92,146.0**
D. Other Institutions							
13. DICGC	200.3	1,168.9	1,377.5	1,423.1	1,743.5	2,038.4	2,519.9
14. ECGC	39.5	142.3	215.3	226.9	243.8	315.4	379.5
Total of D (13 + 14)	**239.8**	**1,311.2**	**1,592.8**	**1,650.0**	**1,987.3**	**2,353.8**	**2,899.4**
Grand Total(A+B+C+D)	**16,650.4**	**66,827.5**	**83,651.3**	**1,02,184.6**	**1,22,649.6**	**1,57,761.3**	**1,82,116.4**

@ Data for 1980-81 pertain to ARDC as NABARD was formed only during 1982.

Note: Data pertain to the accounting year of the respective financial institution.

Appendix Table IV.4 : Financial Assistance Sanctioned and Disbursed by All Financial Institutions
(Year:April-March)

(Amounts in Rs. crore)

Institutions	Loans*				Underwriting and Direct Subscription				Others				Total			
	1992-93		1993-94		1992-93		1993-94		1992-93		1993-94		1992-93		1993-94	
	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
A. All India Development Banks	**@18,550.8**	**13,815.2**	**26,059.9**	**16,374.8**	**2,400.5**	**244.2**	**4,111.8**	**1,390.2**	**734.9**	**333.8**	**1,186.2**	**748.4**	**21,686.2**	**14,393.2**	**31,357.9 (44.6)**	**18,513.5 (28.6)**
(1 to 6)	**@@16,560.2**	**12,472.9**	**24,218.6**	**15,089.0**	**2,400.5**	**244.2**	**4,111.8**	**1,390.2**	**734.9**	**333.8**	**1,186.2**	**748.4**	**19,695.6**	**13,050.9**	**29,516.6 (49.9)**	**17,227.7 (32.0)**
1.IDBI	8,432.2	6,562.8	11,439.2	7,381.5	976.8	40.3	1,585.4	585.2	209.0	65.4	170.6	103.9	9,618.0	6,668.5	13,195.2 (37.2)	8,070.6 (21.0)
	@8,293.2	6,423.8	11,439.2	7,381.5	976.8	40.3	1,585.4	585.2	209.0	65.4	170.6	103.9	9,479.0	6,529.5	13,195.2 (39.2)	8,070.6 (23.6)
	@@7,692.9	5,936.1	10,891.0	6,988.3	976.8	40.3	1,585.4	585.2	209.0	65.4	170.6	103.9	8,878.7	6,041.8	12,647.0 (42.4)	7,677.4 (27.1)
2.IFCI	2,096.1	1,659.2	3,256.2	1,983.7	270.0	44.8	618.4	157.6	105.7	28.5	106.1	21.8	2,471.8	1,732.5	3,980.7 (61.0)	2,163.1 (24.9)
3.ICICI	4,386.5	2,997.9	6,550.9	3,451.2	1,044.5	142.3	1,518.9	561.1	340.8	175.0	634.0	400.9	5,771.8	3,315.2	8,703.8 (50.8)	4,413.3 (33.1)
4.SIDBI	@2,857.1	2,113.2	3,117.1	2,465.7	-	-	-	-	51.3	32.6	237.0	205.6	2,908.4	2,145.8	3,354.1 (15.3)	2,671.3 (24.5)
	@@1,466.8	1,258.6	1,824.0	1,573.1	-	-	-	-	51.3	32.6	237.0	205.6	1,518.1	1,291.2	2,061.0 (35.8)	1,778.7 (37.8)
5.IRBI	287.7	173.1	341.6	175.0	-	-	63.7	7.0	6.6	10.8	20.5	6.6	294.3	183.9	425.8 (44.7)	188.6 (2.6)
6.SCICI	630.2	448.0	1,354.9	917.7	109.2	16.8	325.4	79.3	21.5	21.5	18.0	9.6	760.9	486.3	1,698.3 (123.2)	1,006.6 (107.0)
B. Specialised Financial Institutions (7 to 9)	**123.8**	**73.0**	**144.5**	**86.9**	**32.0**	**18.1**	**50.5**	**28.4**	**3.8**	**1.8**	**3.1**	**1.9**	**159.6**	**92.9**	**198.1 (24.1)**	**117.2 (26.2)**
7.RCTC	6.6	6.8	5.9	6.0	4.6	3.4	2.3	2.9	-	-	-	-	11.2	10.2	8.2 (-26.8)	8.9 (-12.7)
8.TDICI	7.8	8.4	5.6	4.2	15.6	14.5	25.2	25.3	-	-	-	-	23.4	22.9	30.8 (31.6)	29.5 (28.8)
9.TFCI	109.4	57.8	133.0	76.7	11.8	0.2	23.0	0.2	3.8	1.8	3.1	1.9	125.0	59.8	159.1 (27.3)	78.8 (31.8)

(Contd.)

Appendix Table IV.4 : Financial Assistance Sanctioned and Disbursed by All Financial Institutions *(Concld.)*
(Year:April-March)

(Amounts in Rs. crore)

Institutions	Loans*				Underwriting and Direct Subscription				Others				Total			
	1992-93		1993-94		1992-93		1993-94		1992-93		1993-94		1992-93		1993-94	
	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
C. Investment Institutions (10 to 12)	**5,177.6**	**3,992.8**	**2,798.7**	**2,541.4**	**5,376.3**	**3,511.4**	**6,784.0**	**4,200.5**	**2,047.5**	**1,896.6**	**1,182.0**	**1,134.9**	**12,601.4**	**9,400.8**	**10,764.7 (-14.6)**	**7,876.8 (-16.2)**
	@4,527.6	3,542.8	2,598.7	2,341.4	5,376.3	3,511.4	6,784.0	4,200.5	850.0	657.0	507.0	459.9	10,753.9	7,711.2	9,889.7 (-8.0)	7,001.8 (-9.2)
10. UTI	4,022.8	3,177.3	2,277.9	1,958.0	4,232.0	2,395.5	4,817.1	3,519.5	2,047.5	1,896.6	1,182.0	1,134.9	10,302.3	7,469.4	8,277.0 (-19.7)	6,612.4 (-11.5)
	@4,022.8	3,177.3	2,277.9	1,958.0	4,232.0	2,395.5	4,817.1	3,519.5	850.0	657.0	507.0	459.9	9,104.8	6,229.8	7,602.0 (-16.5)	5,937.4 (-4.7)
11. LIC	943.7	638.6	366.0	346.0	796.1	756.8	1,297.7	448.1	-	-	-	-	1,739.8	1,395.4	1,663.7 (-4.4)	794.1 (-43.1)
	@293.7	188.6	166.0	146.0	796.1	756.8	1,297.7	448.1	-	-	-	-	1,089.8	945.4	1,463.7 (34.3)	594.1 (-37.2)
12. GIC	211.1	176.9	154.8	237.4	348.2	359.1	669.2	232.9	-	-	-	-	559.3	536.0	824.0 (47.3)	470.3 (-12.3)
D. Total Assistance by All-India Financial Institutions (A@+B+C@)	**23,202.2**	**17,431.0**	**28,803.1**	**18,803.1**	**7,808.8**	**3,773.7**	**10,946.3**	**5,619.1**	**1,588.7**	**992.6**	**1,696.3**	**1,210.2**	**32,599.7**	**22,197.3**	**41,445.7 (27.1)**	**25,632.5 (15.5)**
E. State-level Institutions (13 and 14)	**2,878.6**	**2,166.8**	**2,731.0**	**2,180.5**	**104.9**	**79.1**	**111.7**	**99.2**	**4.9**	**6.2**	**2.9**	**3.2**	**2,988.4**	**2,252.1**	**2,845.6 (-4.8)**	**2,282.9 (1.4)**
13. SFCs	2,010.5	1,546.2	1,906.5	1,563.7	0.9	6.3	-	1.4	3.9	4.9	2.9	2.9	2,015.3	1,557.4	1,909.4 (-5.3)	1,568.0 (0.7)
14. SIDCs	868.1	620.6	824.5	616.8	104.0	72.8	111.7	97.8	1.0	1.3	-	0.3	973.1	694.7	936.2 (-3.8)	714.9 (2.9)
F. Total Assistance by All-Financial Institutions (A@@+B+C@+E)	**24,090.2**	**18,255.5**	**29,692.8**	**19,697.9**	**7,913.7**	**3,852.8**	**11,058.0**	**5,718.3**	**1,593.6**	**998.8**	**1,699.2**	**1,213.4**	**33,597.5**	**23,107.1**	**42,450.0 (26.3)**	**26,629.6 (15.2)**

* Loans include rupee loans, foreign currency loans and guarantees.
S Sanction D Disbursements
@ Data are adjusted for inter-institutional (all-India) flows.
@@ Data are adjusted for inter-institutional (all-India and State level) flows.

Notes :
1. Data for 1993-94 are provisional.
2. Data have been adjusted for inter-institutional flows. This involves adjustment in regard to loans and subscription to shares and bonds of financial institutions by IDBI, IDBI/SIDBI's refinance assistance to SFCs and SIDCs and seed capital/equity type assistance and assistance by way of New Debt Instrument, term loans given by LIC and special deposits of UTI to IDBI, IFCI and ICICI.
3. Others include leasing in case of IDBI, IFCI, ICICI, SIDBI, SCICI and TFCI: leasing, hire purchase assistance and equipment finance in case of IRBI: and special deposits by UTI.
4. Figures in brackets indicate percentage variation over the preceding year.
5. SIDBI's assistance excludes short-term bills.

Appendix Table IV.3 : RBI Assistance to Financial Institutions (July-June)

(Amounts in Rs. crore)

Type of Assistance	1992-93		1993-94		Period (Years)	Rate of Interest (per cent per annum)	Amount Outstanding as on June 30, 1994
	S	U	S	U			
1	2	3	4	5	6	7	8
A. Long Term Credit [NIC(LTO)Fund]							
1. IDBI	–	–	–	–	15	–	3,236.0
2. SIDBI	155.0	155.0	185.8	177.0	15	8	1,180.8
3. Exim Bank	–	–	–	–	15	9	877.0
4. IRBI	–	–	–	–	15	8	170.0
B. Long Term Credit [NHC(LTO)Fund]							
1. NHB	–	–	–	–	20	8	175.0
C. Medium/Short Term Credit							
1. IDBI	400.0	400.0	–	–	5	14	360.0
2. SFCs	100.1	*	94.2	*	1	Bank Rate	9.4

* Ad-hoc borrowing limits utilised from time to time as per requirements.

S = Sanctioned U = Utilised

Appendix Table IV.5 : Resource Mobilisation by Mutual Funds

(Amounts in Rs. crore)

Year (April-March)	Public Sector Mutual Funds					Private Sector Mutual Funds	Grand Total (6+7)
	Subsidiaries of Banks	Subsidiaries of Financial Institutions	Sub-Total (2+3)	Unit Trust of India	Total (4+5)		
1	2	3	4	5	6	7	8
1987-88	250.29	-	250.29	1,767.60	2,017.89	-	2,017.89
1988-89	319.74	-	319.74	3,464.00	3,783.74	-	3,783.74
1989-90	899.07	315.25	1,214.32	5,490.90	6,705.22	-	6,705.22
1990-91	2,175.94	603.54	2,779.48	3,198.80	5,978.28	-	5,978.28
1991-92	2,304.40	427.06	2,731.46	8,685.40	11,416.86	-	11,416.86
1992-93	1,203.99	756.81	1,960.80	11,057.00	13,017.80	-	13,017.80
1993-94 *	147.51	249.00	396.51	9,297.00	9,693.51	1,551.34	11,244.85

* Provisional.

Note: Data for UTI represent net sales with premium for the period July-June; data for 1987-88 and 1988-89 represent net sales at face value. In respect of data for 1992-93 and 1993-94, the period is April-March.

Source : Respective Mutual Funds.

Appendix Table IV.6 : Deposits with Non-Banking Companies

(As at the end of March)

(Amounts in Rs. crore)

Category	1991-92				1992-93*			
	No. of Reporting Companies	Regulated Deposits	Exempted Deposits	Total Deposits (3+4)	No. of Reporting Companies	Regulated Deposits	Exempted Deposits	Total Deposits (7+8)
1	2	3	4	5	6	7	8	9
Aggregate Deposits	11,318 (100.0)	9,234.5 (100.0)	1,21,618.9 (100.0)	1,30,853.4 (100.0)	11,461 (100.0)	11,235.8 (100.0)	1,48,537.0 (100.0)	1,59,772.8 (100.0)
Of which: held by								
1. Non-Financial Companies	2,355 (20.8)	4,672.4 (50.6)	84,529.2 (69.5)	89,201.6 (68.2)	2,325 (20.3)	4,773.5 (42.5)	1,06,412.8 (71.6)	1,11,186.3 (69.6)
2. Financial Companies	7,556 (66.8)	2,823.5 (30.6)	35,400.6 (29.1)	38,224.1 (29.2)	7,740 (67.5)	4,337.4 (38.6)	40,057.1 (27.0)	44,394.5 (27.8)
3. Misc. Non-Banking and Residuary Non-Banking Companies	1,407 (12.4)	1,738.6 (18.8)	1,689.1 (1.4)	3,427.7 (2.6)	1,396 (12.2)	2,124.9 (18.9)	2,067.1 (1.4)	4,192.0 (2.6)

* Provisional data

Note: Figures in parentheses are percentages to total.