TREND AND PROGRESS OF BANKING IN INDIA

DURING THE YEAR 1962

...AL REPORT UNDER SECTION 3...
...E BANKING COMPANIES ACT, 1949

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CHAPTER I

THE BANKING SITUATION IN 1962

1962 was another year of marked progress in banks' operations which showed further expansion in resources, credit and investments. Deposits maintained a high rate of growth which enabled banks not only to meet the increased demands for credit from industry and commerce arising during the year but also to add to their gilt-edged portfolios. Banks were, on the whole, able to maintain their liquidity at the level reached in 1961 in spite of some reduction in their cash reserves. As the year 1962 drew to a close, however, the effects of the emergency, following the developments on the country's northern borders began to impinge upon the economic and banking scene, and the trends were undergoing distinct shifts.

2. In the context of the steady pressure on prices during the year, a sharper edge was given to the policy of overall restraint pursued by the Bank. The introduction in July 1962 of the four-tier system of lending rates marked yet another stage in the evolution of the Bank's monetary policy. The higher establishment costs following the implementation of the Award of the National Tribunal, among other factors, led to growing operational costs in the banking industry.

3. In the institutional sphere, the process of consolidation of the banking system was continued. The Deposit Insurance Corporation was established on January 1, 1962. Legislation was also enacted to strengthen the capital funds and safeguard the liquidity position of banks. Special attention was paid to the problem of export finance in order to assist this vital sector of the economy.

4. The declaration of the state of emergency in October 1962 following the unprovoked aggression by China on India's northern borders raised the problem of gearing the economy to defence requirements and holding the price line at the same time. This entailed a reassessment of the Bank's policies, particularly in regard to borrowings by banks, and of directing the flow of credit to meet the needs of defence, essential civilian production and exports. The year thus closed on a note of caution in the context of the readjustments required to meet the new challenge.

Sources and Uses of Funds

5. A synoptic view of the operations of scheduled banks during 1962 on the basis of the changes in sources and uses of funds is provided in Table 1.

TABLE 1

Changes in Sources and Uses of Scheduled Banks' Funds

(In crores of rupees)

	1962	1961
I. Sources		
(a) Increase in paid-up capital and reserves § ...	6·5†	1.3†
(b) Increase in deposits (excluding P. L. 480) ...	232·8§	167·8*
(c) Increase in borrowings from Reserve Bank of India $	2·0	—
(d) Inflow of funds from abroad**	4·8	—
(e) Reduction in cash and balances with Reserve Bank of India§	23·1	13·6‡
(f) Reduction in investments (excluding P.L.480)§	—	—
Total ...	269·2	182·7

Note: Figures in this Report are based on the returns submitted by banks on Form XIII of the Banking Companies Act, 1949, except where otherwise indicated.

Changes in Sources and Uses of Scheduled Banks' Funds—(*contd.*)

(In crores of rupees)

II. Uses		
(*a*) Reduction of borrowings from Reserve Bank of India$	—	42·8
(*b*) Outflow of funds abroad**	—	8·2
(*c*) Increase in bank credit	146·5§	105·9*
(*d*) Increase in cash and balances with Reserve Bank of India§	—	7·4
(*e*) Increase in investments (excluding P.L.480)§	114·3	50·0
Total ...	260·8	214·3
III. Errors and Omissions	—8·4	+31·6

§Based on Form XIII.

*Revised

$Based on weekly returns of scheduled banks.

** Based on Exchange Control data of authorised dealers' claims on and liabilities to non-residents in foreign currencies and rupees; rupee balances of non-resident individuals and firms with authorised dealers are excluded.

† Relates to Indian scheduled banks. ‡ Represents impounded reserves released in January 1961.

It will be observed that deposit mobilisation in 1962 was much higher than in 1961. There was also a sizeable increase in the banks' paid-up capital and reserves unlike in the previous year. In relation to the total increase in their resources, the net increase in banks' borrowings from the Reserve Bank was negligible. At the same time, cash reserves were drawn upon to a much larger extent than in 1961. Unlike in the previous year when banks had reduced their liabilities abroad, there was a small increase in their foreign liabilities in 1962. Credit extension and additions to the investment portfolio were the two major directions in which the available resources were used in 1962. These trends are discussed in detail below†.

Trends in Credit

6. The pace of credit expansion in 1962 was faster than in the previous year and reflected the sustained tempo of the economy. But, there were marked differences in certain respects as compared to 1961 stemming from the change in the pattern of growth as well as the special situation that arose in the later part of the year. The year opened with the rising tempo of the busy season of 1961-62, bank credit rising by Rs. 144 crores in the months of January to April 1962 as compared to Rs. 129 crores in the corresponding period of 1961. The busy season of 1961-62 not only recorded a somewhat larger expansion (Rs. 204 crores) than the busy season of 1960-61 (Rs. 199 crores) but was also prolonged into the first week of May when bank credit touched its peak of Rs. 1437 crores, and the credit ratio 73.2 per cent which compared with Rs. 1320 crores and 72.5 per cent, respectively, at the peak of the previous busy season reached in the last week of March 1961*. The pressure of the rising demand for credit against non-seasonal securities continued in the slack season with the result that contraction amounted to much less than in 1961 (Rs. 34 crores as against

† For figures relating to principal assets and liabilities of scheduled banks, see Table 2.

* Based on weekly returns of scheduled banks.

TABLE 2

Principal Liabilities and Assets of Scheduled Banks

(In crores of rupees)

As on last Friday of December	No. of Reporting Banks	Demand Deposits (excluding inter-bank deposits)	Time Deposits (excluding inter-bank deposits)	Aggregate Deposits	Aggregate Deposits (excluding P. L. 480/665 funds)	Borrowings from the Reserve Bank	Cash in hand & balances with the Reserve Bank	Percentage of (7) to (4)	Total Bank Credit*	Percentage of (9) to (4)	Investments in Government Securities †	Investments in Others	Total Investments (11 + 12)	Percentage of (13) to (4)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1955 ...	89	571·8	403·9	975·7	975·7	30·0	100·2	10·3	593·6	60·8 *(60·8)*	382·8	30·2	413·0	42·3
1956 ...	89	603·4	449·1	1052·5	1048·6	79·1	90·5	8·6	744·9	70·8 *(71·0)*	364·2	30·6	394·8	37·5
1957 ...	91	658·9	638·7	1297·5	1171·1	23·6	107·6	8·3	819·5	63·2 *(70·0)*	432·9	50·8	483·7	37·3
1958 ...	93	649·8	866·4	1516·2	1312·3	11·0	119·4	7·9	830·6	54·8 *(63·3)*	637·0	54·9	691·9	45·6
1959 ...	94	668·9	1097·9	1766·8	1475·3	11·8	113·9	6·4	921·9	52·2 *(62·5)*	787·4	67·6	855·0	48·4
1960 ...	93	721·0	1086·4	1807·3	1577·2	61·5	162·0	9·0	1130·0	62·5 *(71·6)*	630·3	63·4	693·7	38·4
1961 ...	82	732·6	1102·1	1834·7	1696·5	18·7	155·8	8·5	1277·0	69·6 *(75·3)*	577·0	74·8	651·8	35·5
1962 ...	79	816·9	1222·0	2038·9	1929·3	20·7	132·7	6·5	1421·8	69·7 *(73·7)*	646·2	91·3	737·5	36·2

Notes: 1. Figures are based on Form XIII of the Banking Companies Act, except those in column (6) which are based on the weekly returns submitted by scheduled banks to the Reserve Bank in terms of section 42(2) of the Reserve Bank of India Act.

2. Figures for December 1961 and 1962 are on a revised basis and consequently these data are not strictly comparable with those for the earlier years.

3. Figures in brackets indicate percentages to aggregate deposits excluding P. L. 480 and 665 funds.

* Includes inland and such foreign import bills as are accounted through bills purchased and discounted account upto December 1960 and all bills accounted through bills purchased and discounted account thereafter.

† Includes Treasury bills and Treasury deposit receipts.

Rs. 78 crores). In the closing two months of the year, which heralded the busy season of 1962-63, there were uncertainties following the declaration of emergency and the consequent modifications in the credit policy of the Bank. Ceilings were placed on the normal borrowings of banks from the Reserve Bank and the banks were asked to examine their portfolios carefully with a view to reducing certain types of advances. These two months (November—December 1962) witnessed an expansion of only Rs. 36 crores as compared with Rs. 54 crores in November—December 1961. For the year as a whole, the expansion of credit in 1962 amounted to Rs. 146 crores or 11.5 per cent as compared with Rs. 106 crores or 9 per cent in 1961. The expansion was the third largest on record since 1950.

7. The variations in the level of scheduled banks' advances against certain important types of securities are shown in the Table below :

TABLE 3

Variations in Scheduled Banks' Credit against Selected Securities*

(In crores of rupees)

Year	Foodgrains	Industrial Raw Materials	Manufactured Goods (including sugar and gur)	Assets of Industrial Concerns	Shares and Debentures of Joint Stock Companies
1961	+ 5·9	− 8·1	+73·3	+17·5	+10·2
1962	+ 5·5	+ 9·3	+64·6	+ 8·9	+ 6·0

* Based on Fortnightly Survey of Bank Advances.

Advances against industrial raw materials recorded an increase in 1962 as against a decline in 1961, whereas those against manufactured goods (including sugar and gur) showed a smaller increase than in the previous year. The rise in advances against foodgrains, on the other hand, was about the same, though the seasonal swings were somewhat wider than in 1961. Most of the increase in advances against foodgrains over the year was accounted for by wheat (Rs. 4.4 crores) the output of which attained a record level of 11.8 million tons in the 1961-62 agricultural season. Credit expansion against this commodity was facilitated by the removal of the credit control in May 1961; there was in particular a sharp rise of Rs. 7.1 crores in the 1962 slack season as against a rise of only Rs. 1.5 crores in the 1961 slack season (vide Table 4). As regards paddy and rice, although there was no net change over the year, the seasonal expansion in advances against this item, facilitated by the higher ceilings permitted in terms of the February 1962 directive, was somewhat larger (Rs. 14.6 crores) than in the 1960-61 busy season (Rs. 11 crores). A good part of the increase could also be attributed to the increase in advances against warehouse receipts covering this commodity as such advances were exempt from control.

TABLE 4

Seasonal Trends in Bank Credit

(Security-wise classification)

(In crores of rupees)

Security	Busy season		Slack season		Calendar Year		Outstanding as on December 28, 1962
	1960-61	1961-62	1961	1962	1961	1962	
Seasonal Advances	*+168·0*	*+126·9*	*−117·4*	*−121·3*	*+ 16·8*	*+ 6·6*	*251·2*
Paddy and Rice	+ 11·0	+ 14·6	− 10·2	− 13·2	+ 2·9	—	10·1
Wheat	− 0·8	− 1·4	+ 1·5	+ 7·1	+ 2·0	+ 4·4	8·8
Other Foodgrains	+ 0·4	+ 1·0	+ 0·8	+ 1·0	+ 1·0	+ 1·1	7·9
Sugar and Gur	+ 64·8	+ 35·8	− 28·7	− 48·5	+ 17·7	− 9·0	56·3
Groundnut	+ 10·3	+ 12·9	− 10·5	− 10·7	− 2·0	+ 1·7	10·8
Cotton and Kapas	+ 53·4	+ 33·1	− 42·3	− 40·2	− 4·3	− 1·0	62·4
Raw Jute	+ 8·2	+ 12·1	− 8·7	− 4·0	− 2·3	+ 9·7	26·9
Tea	− 6·7	− 2·7	+ 7·3	+ 5·8	+ 2·7	+ 1·7	37·2
Non-Seasonal Advances	*+ 30·8*	*+ 53·0*	*+ 35·6*	*+ 61·7*	*+ 92·9*	*+101·1*	*970·1*
Cotton Textiles	− 2·0	+ 4·4	+ 7·0	+ 9·4	+ 7·6	+ 17·8	136·1
Jute Textiles	− 2·2	+ 5·4	− 1·9	+ 2·0	—	+ 6.2	28·8
Iron & Steel and Engineering Goods	+ 4·1	+ 2·6	+ 18·9	+ 9·8	+ 25·6	+ 16·0	195·7
Shares and Debentures of Joint Stock Companies	+ 9·6	+ 10·5	− 1·5	+ 1·3	+ 10·2	+ 6·0	114·7
Government & Other Trustee Securities	− 9·5	− 6·6	− 5·6	+ 6·2	− 9·5	− 0·6	33·7
Gold & Silver Bullion & Ornaments	+ 2·1	+ 2·9	− 6·4	+ 2·8	+ 9·4	− 10·5	30·2
Total Secured Advances	*+198·7*	*+179·9*	*− 81·9*	*− 59·6*	*+109·7*	*+107·7*	*1221·3*
Unsecured Advances	*− 0·1*	*+ 12·9*	*+ 7·3*	*+ 16·8*	*− 5·0*	*+ 27·0*	*199·1*

Source : Fortnightly Survey of Bank Advances.

8. The swing in advances against industrial raw materials from a decline in credit in 1961 to a rise in 1962 was attributable mainly to advances against raw jute and partly to those against groundnuts. Advances against raw jute recorded a larger expansion in the 1961-62 busy season than in the previous busy season (Rs. 12.1 crores against Rs. 8.2 crores), whereas the slack season contraction was smaller (Rs. 4 crores against Rs. 8.7 crores), with the result that there was a net rise in the advances against this commodity of Rs. 9.7 crores in contrast to a decline of Rs. 2.3 crores in 1961. Notwithstanding a sharp decline in raw jute prices, the pressure of the record output of raw jute and mesta (80 lakh bales as against 52 lakh bales) and larger stocks were mainly responsible for the increase in advances. In groundnuts also there was a net increase in advances of Rs. 1.7 crores over the year, which contrasted with a net reduction of Rs. 2 crores in 1961; the permitted level of advances against this commodity had been raised by 5 per cent in February 1962 in view of the increase in output in the 1961-62 season. As regards cotton and kapas, there was a drastic fall in internal output in the 1961-62 season and with a slight increase in textile output in 1962, the cotton stocks with industry ran down to much lower levels than in the previous year. The seasonal expansion in advances against this commodity was much smaller than in the 1960-61 busy season (Rs. 33 crores as against Rs. 53 crores), while the contraction in the slack season (Rs. 40 crores) exceeded the expansion in the busy season; over the year, advances against cotton showed a net decline of Rs. 1 crore.

9. Taking manufactured goods, there was a decline (Rs. 9 crores) in advances against sugar and gur, which contrasted with a substantial rise (Rs. 18 crores) in 1961. The net decline in advances resulted from restraint on output placed by Government, as well as larger despatches from sugar mills in view of the higher level of domestic consumption and exports; in the busy season the stocks carried by industry rose by one-third less than in the 1960-61 season. Advances against cotton and jute textiles, on the other hand, registered substantial increases in 1962, the former rising by Rs. 17.8 crores and the latter by Rs. 6.2 crores, whereas in 1961 advances against cotton textiles had risen by Rs. 7.6 crores and those against jute textiles had not shown any net change. The increase in bank advances against cotton textiles in 1962 was entirely on account of advances to mills, which rose by as much as Rs. 18.8 crores, there being a fall of Rs. 1.0 crore in advances to the trade; towards the close of the year, as a result of the uncertainties created by the Chinese aggression, there was a fall in offtake by the trade from mills leading to accumulation of stocks of cloth with mills. As regards jute textiles, in the context of the plentiful supply of raw jute and the removal of restrictions on the working of jute mills, the output of jute goods registered a sharp increase of 26 per cent in the first ten months of 1962 over the corresponding period of 1961. Bank advances against the security of iron and steel and engineering goods and against assets of industrial concerns recorded smaller increases in 1962 (Rs. 16 crores and Rs. 9 crores) than in 1961 (Rs. 26 crores and Rs. 18 crores). This was probably associated with a decline in stocks in certain types of iron and steel and engineering products with the industry during the year and the slowing down of expansion plans in some lines.

10. Advances against shares and debentures of joint stock companies, gold and silver bullion and ornaments and unsecured advances showed substantial increases during the greater part of 1962. Following the proclamation of the emergency and the request made to banks by the Governor of the Reserve Bank to consider recalling in suitable cases these advances, there was a sizeable decline in their level. For the year as a whole, advances against gold and silver bullion and ornaments recorded a fall of Rs. 10.5 crores as against a rise of Rs. 9.4 crores in 1961, and those against shares and debentures a smaller rise of Rs. 6 crores as compared to a rise of Rs. 10.2 crores in 1961. Advances against Government securities were stable over the year notwithstanding an expansion (Rs. 15 crores in August), associated with the floatation of State loans which was larger than the last year's expansion (Rs. 10 crores in September 1961). Unsecured advances, however, showed a net rise of Rs. 27 crores during 1962 as against a decline of Rs. 5 crores in 1961, this being mainly a sequel to the withdrawal of the control on clean advances in October 1961.

Growth in Deposits*

11. Deposit growth during 1962 set up an all-time record, surpassing the previous year's record increase by a substantial margin. Deposits rose during the year by Rs. 233 crores or 13.7 per cent as compared to Rs. 168† crores or 11.0 per cent in 1961 (vide Table 5). Several factors contributed to the faster rate of deposit growth. In the first place, the rate of deficit financing in the financial year 1962-63 was higher than in 1961-62. Secondly, the measures taken in 1961 to strengthen the banking structure by the compulsory merger of sub-standard units with sound banks and the setting up of the Deposit Insurance Corporation in January 1962 helped to increase public confidence in the banking system. This was further reinforced during the year by two important amendments to the Banking Companies Act, designed to strengthen the liquidity and capital funds of banks. Thirdly, the raising by banks of their interest rates on time deposits under the revised Inter-Bank Agreement in March 1961 influenced the choice of individuals in placing their funds, especially in fixed and savings deposits. The process was aided by the initiation by banks of an intensified drive for deposit mobilisation through extension of ancillary services to customers and more intensive publicity campaigns. Lastly, branch expansion proceeded apace, though the increase in the number of offices of scheduled banks at 226 was smaller as compared to 246 in 1961.

12. Of the total increase in deposits of Rs. 233 crores in 1962, demand deposits accounted for Rs. 84 crores and time deposits for Rs. 149 crores; in 1961 demand deposits had risen by Rs. 47 crores and time deposits by Rs. 121 crores. The share of time deposits in total deposits rose further from 56.8 per cent in 1961 to 57.7 per cent, that of demand deposits declining correspondingly from 43.2 per cent to 42.3 per cent. The sharper rise in time deposits in recent years is mainly attributable to the higher rates of interest offered by banks on time deposits. Savings deposits, on which the maximum rate of interest was raised from 2½ to 3 per

* Figures are exclusive of P. L. 480/665 Funds.
† Revised.

cent in the March 1961 Inter-Bank Agreement, recorded a greater increase (Rs. 57 crores in 1962 as against Rs. 45 crores in 1961). Their share in total deposits rose from 19.0 per cent to 19.7 per cent.

Borrowings from the Reserve Bank of India

13. Both as a result of the satisfactory growth in deposits and the operation of the tier-rate system of lending by the Bank, scheduled banks reduced their recourse to the Reserve Bank in 1962. Scheduled banks' borrowings from the Reserve Bank touched a maximum of Rs. 66 crores in March 1962, which was much below the maximum of Rs. 95 crores touched in March 1961. Not only this, the bulk of the amount borrowed was repaid even before the termination of the busy season, so that at the beginning of the slack season of 1962 borrowings stood at Rs. 12.65 crores as against Rs. 38.16 crores a year before. During the 1962 slack season, borrowings from the Reserve Bank showed only a nominal decline of Rs. 3 crores as compared to Rs. 32 crores in the corresponding period of 1961. With the commencement of the 1962-63 busy season, there was renewed resort to the Bank in December, but despite this, outstanding borrowings at the end of 1962 at Rs. 20.7 crores were only slightly higher than a year ago.

TABLE 5

Demand and Time Deposits of Scheduled Banks

(Excluding P.L. 480 and 665 deposits)

(In crores of rupees)

As on last Friday of December	Demand Deposits (Excluding inter-bank deposits) Amount	Annual Variation Amount	Annual Variation %	Time Deposits (Excluding inter-bank deposits) Amount	Annual Variation Amount	Annual Variation %	Total Deposits (Excluding inter-bank deposits) Amount	Annual Variation Amount	Annual Variation %
1958 ...	649·8 (49·5)	− 9·1	− 1·4	662·5 (50·5)	+150·3	+29·3	1312·3	+141·2	+12·1
1959 ...	668·9 (45·3)	+19·1	+ 2·9	806·4 (54·7)	+143·9	+21·7	1475·3	+163·0	+12·4
1960 ...	721·0 (45·7)	+52·1	+ 7·8	856·3 (54·3)	+ 49·9	+ 6·2	1577·2	+101·9	+ 6·9
1961 ...	732·6 (43·2)	+47·1*	+ 6·9*	963·9 (56·8)	+120·7*	+14·3*	1696·5	+167·8*	+11·0*
1962 ...	816·9 (42·3)	+84·3	+11·5	1112·4 (57·7)	+148·5	+15·4	1929·3	+232·3	+13·7

Note :— Data for December 1961 and 1962 are on a revised basis and consequently these data are not strictly comparable with those for the earlier years. Figures in brackets are percentages to total deposits.

*Figures represent the variation between December 1960 data collected under Section 42 of the Reserve Bank of India Act and December 1961 data collected under Form XIII under the Banking Companies Act.

14. Another noteworthy feature of banks' borrowings from the Reserve Bank was the larger proportion of borrowings against usance bills in 1962 than in 1961. Thus, as on March 16, 1962 when scheduled banks' borrowings from the Reserve Bank touched the maximum level during the year, borrowings against usance bills formed 72 per cent of the total borrowings as compared to 48 per cent, as on March 31, 1961. This is indicative of the anxiety of banks to avoid pressure on the liquidity position by recourse to the Bill Market Scheme for meeting the seasonal credit requirements rather than the collateral of Government securities.

Banking Funds from Abroad

15. In the busy season of 1961-62 (November 1961—April 1962), banks brought in short-term funds from abroad to a much larger extent (Rs. 12.7 crores) than in the preceding busy season (Rs. 6.7 crores). The outflow of funds (Rs. 17.4 crores) in the slack season of 1962 (May-October) was also slightly smaller than in the 1961 slack season (Rs. 18.2 crores). In part, both the larger inflow in the busy season and the smaller outflow in the slack season were due to the progressive reduction in the British Bank rate from 7 per cent in July 1961 to 4½ per cent in April 1962. a contributory factor being the tightening of the Reserve Bank's lending facilities to banks by the introduction of the four-tier system in July 1962. Also, in the first two months of the 1962-63 busy season (November-December 1962), in the context of the slower growth of deposits, banks brought in funds to the tune of Rs. 14 crores as against Rs. 4 crores in the period November-December 1961, though the expansion in credit was much smaller (Rs. 36 crores) as compared to the previous year (Rs. 54 crores). The net inflow of foreign funds for the year as a whole amounted to Rs. 4.8 crores, which contrasted with the net outflow of Rs. 8.2 crores in 1961.

Inter-Bank Call Money Rate

16. In view of the comfortable resources position of scheduled banks, the money market conditions were generally less stringent in 1962 than in 1961, although on a few days reflecting exceptional pressures, the inter-bank call money rate was quoted higher than in 1961. In the busy season of 1961-62 the inter-bank call money rate at Bombay touched a peak level of 5.55 per cent in the last week of March 1962, as against the previous year's peak of 5.33 per cent reached in March 1961; the peak rate at Calcutta was lower than the level reached in 1961 (vide Table 6). Except for occasional spells of firmness e.g. in September following new loan floatations by State Governments, and in October following the issue of bonds by the Industrial Finance Corporation, the money market ruled distinctly easy during the greater part of the 1962 slack season, with the inter-bank call money rate in Bombay slipping down early in August to 1/2 per cent, or nearly 1½ percentage points below the lowest level touched in the 1961 slack season. The market turned tight with the advent of the busy season in November and the demand for funds for subscriptions to the debenture issue of the Oil India Ltd., as well as the issue of the 4¼ per cent Defence Bonds by the Central Government. As a consequence, the inter-bank call money rate both at Bombay and Calcutta advanced by the end of the year to 4.78 per cent as compared to 4.42 per cent and 4.73 per cent, respectively, a year ago.

TABLE 6

Call Money Rates in Bombay and Calcutta

I. **Busy Season Peak—**

1959-60		1960-61		1961-62	
Bombay	Calcutta	Bombay	Calcutta	Bombay	Calcutta
3-1/2 4-1/8	3-3/4 3-7/8	5·33	5·69	5·55	5·51
(April 29, 1960)	(April 1, 1960)	(March 31, 1961)	(April 7, 1961)	(March 30, 1962)	(March 30, 1962)

II. **Slack Season Low—**

1960		1961		1962	
Bombay	Calcutta	Bombay	Calcutta	Bombay	Calcutta
3.50 (May 6)	3.69 (May 6)	2.00 (August 4, 25 & Sept. 1)	1·83 (Sept. 1)	0·54 (August 3)	0·78 (July 27)

III. **Last week of December—**

1960		1961		1962	
Bombay	Calcutta	Bombay	Calcutta	Bombay	Calcutta
4·61	4·75	4·42	4·73	4·78	4·78
(December 30)		(December 29)		(December 28)	

Credit Policy

17. The objective of Reserve Bank's credit policy continued to be one of adequate financing of economic growth in an atmosphere of reasonable stability. This indicated the need for general restraint in face of a steady pressure on prices and the smaller contraction in bank credit in the 1962 slack season. This need was further reinforced towards the close of the year by the gearing of the economy to defence requirements. The system of slab rates of lending, which was made more restrictive, was the chief instrument of credit control used by the Bank during the year. Early in the year, selective credit controls were liberalised in keeping with the supply and price situation in the controlled commodities.

Changes in General Credit Control

18. As the slack season of 1962 progressed, it became evident that the level of credit was tending to be high and that the rate of the slack season contraction in credit was somewhat inadequate. The price level began rising at a rapid rate, as a result of the rise in prices of food articles. Between end-March and end-June 1962, the index number of wholesale prices rose by 5.0 per cent, that of food articles rising by 7.8 per cent. This had happened in the context of a slight fall (1.4 per cent) in the output of foodgrains in 1961-62. The rise in advances against certain commodities like wheat and other foodgrains and oilseeds and against shares, in particular, was fairly rapid. In this context, it seemed desirable to accelerate the seasonal credit contraction which tended to be slow in the early part of the slack season. With this end in view as well

as to enable banks to achieve a greater measure of self-reliance in the ensuing busy season, the Bank modified its three-tier system of lending rates in July 1962. Effective July 2, 1962, the basic quota of each scheduled bank for borrowing at the Bank rate was reduced by one-half to 25 per cent of the average statutory reserves of the bank in the preceding quarter. Borrowings equal to another 25 per cent of the average statutory reserves were to be charged a rate of 1 per cent above Bank rate, those above 50 per cent but upto 100 per cent of the average statutory reserves, a rate of 2 per cent above the Bank rate and those exceeding the average statutory reserves a rate of 2.5 per cent above the Bank rate. The new four-tier structure of lending rates was designed to raise the average lending rate of the Reserve Bank by about 1/2 per cent or more, the increase being broadly in consonance with the higher yields on Central Government loans issued in July 1962.

19. The net contraction of credit during the 1962 slack season was much smaller (Rs. 34 crores) than in the 1961 slack season (Rs. 78 crores). The outbreak of hostilities with China coupled with the inflationary implications of a possible scaling-up of the rate of deficit-financing consequent on increased defence expenditure emphasised the need for resilience in credit policy. It was in this context that on the eve of the 1962-63 busy season, for the first time, a normal limit equal to a bank's average statutory reserves during the previous quarter (i.e. the balances required to be maintained with the Reserve Bank of India by a bank in terms of Section 42(1) of the Reserve Bank of India Act, 1934) was set on the total amount which a bank could borrow from the Reserve Bank. Borrowing upto 25 per cent of the statutory reserves was to be charged at 4 per cent, another 25 per cent at 5 per cent and the remaining 50 per cent at 6 per cent. It was indicated, however, that the Bank would permit borrowing beyond this limit when it considered the grant of such assistance justified, after making an assessment of the applicant bank's overall position, and that such special accommodation would be at a higher rate of interest.

20. This policy was clarified by the Governor of the Reserve Bank at a Conference of the representatives of leading banks on November 8, 1962 and in a circular letter addressed to scheduled banks on November 10, 1962. It was explained to them that the revised system of quotas and lending rates announced on October 31, 1962 would be operated in a flexible manner and banks were asked to furnish details of their requirements of finance from the Bank during the busy season. To avoid an overextended position, banks were directed to readjust their advances portfolios, to refuse advances which were likely to be utilised for purposes of hoarding and speculation and to consider recalling in suitable cases advances against gold and shares and unsecured advances. Subsequently, the Bank granted appropriate permissible limits of borrowing to banks which applied for additional limits, after taking into account their past borrowings from the Reserve Bank, their general character of working and pattern of assets and liabilities with special reference to lending for defence production, essential industries and exports as well as the demands of particular industries such as cotton textiles and tea. All

borrowings in excess of the basic quota (equivalent to a bank's average statutory reserves during the previous quarter) were charged a higher rate of 6½ per cent.

21. The modifications in the system of slab rates and the gradual raising of the cost of borrowing for industry and trade as well as for government and quasi-government institutions brought to the fore the question of adjusting the Bank rate, in line with the prevailing rates in the money and capital markets. The Reserve Bank, therefore, decided to raise the Bank rate by 1/2 per cent to 4½ per cent, effective from the close of business on January 2, 1963. Simultaneously, the three-tier system of borrowing quotas and lending rates introduced on October 31, 1962 was simplified into a two-tier system, by merging the first two slabs. Banks were permitted to borrow a sum equal to 50 per cent of the statutory reserves at the Bank rate and the remaining 50 per cent at 6 per cent; any assistance rendered by the Bank beyond this level was to be charged a higher rate. Table 7 shows at a glance the changes introduced in the slab rate system and borrowing quotas since its introduction in October 1960.

22. The Bank's policy of granting additional credit limits to banks at the Bank rate for lending to certain preferred sectors like small-scale industries and co-operatives, introduced in December 1961, was continued in 1962 with some modifications. At the time when the scheme of fixing an overall limit to a bank's borrowings from the Reserve Bank was announced in October 1962, banks were also informed that while they could continue to borrow these additional amounts at the Bank rate, their quotas in the next higher slab or slabs would stand reduced to the extent of such additions. In the January 1963 revision of the slab rates and quota system, the concessional element was retained. Advances to small-scale industries and co-operative institutions were allowed as an additional quota at Bank rate but the quota at 6 per cent was reduced by the corresponding amount. With effect from March 23, 1963, the additional quota at the Bank rate available to a bank in respect of such lending will be in addition to its overall borrowing limit. As regards export finance, a scheme under Section 17(3) (A) of the Reserve Bank of India Act was introduced with effect from the same date, whereby banks would be able to borrow against outstanding usance export bills in their portfolios on the security of their demand promissory notes at a slightly lower cost inasmuch as they would be able to avoid the stamp duty charges of 0.2 per cent under the Bill Market Scheme (for details see paragraph 66).

Changes in Selective Credit Control

23. The changes in selective credit controls during the year related to advances against shares, paddy and rice and groundnuts. In January 1962, in the context of a fairly stable level of bank advances against shares and the adoption by the stock exchanges of a system of uniform and automatic margins in December 1961, the minimum margin requirement for advances against ordinary shares of joint stock companies was reduced from 50 per cent to 40 per cent. On February 28, 1962, the ceiling limits in respect of advances against paddy and rice and groundnut, for each two-month period commencing from March 1962, were raised to 105 per cent of the levels permitted to be maintained in the period March 1961-February 1962.

This action was taken in view of the relative stability of rice prices and the anticipated larger output of paddy and rice and groundnut in the 1961-62 agricultural season, although in the event output of paddy and rice turned out to be more or less the same as in 1960-61. On April 19, 1962, to enable integral oil expeller mills to purchase and store groundnuts for extracting deoiled groundnut cake for export, banks were also permitted to extend to such mills additional credit facilities in excess of the ceiling limits upto 25 per cent of the f.o.b. value of their actual exports of groundnut cake in the corresponding period of 1961-62 (March-February). By a directive issued on May 10, 1962, the permissible limits of advances by banks against paddy and rice in respect of the Orissa State for the period May 1962-February 1963 were also enhanced, in view of the expansion in capacity of rice mills in Orissa in recent years and the consequent rise in demand for bank credit.

Open Market Operations*

24. The Bank's open market policy continued to be in line with the general credit policy of restraint of inflationary credit expansion. Over the year, the Bank's open market operations resulted in net sales of securities of Rs. 16.7 crores, as against net purchases of Rs.6.0 crores in 1961. Even during the 1961-62 busy season, the Bank made net sales of securities for Rs.7.9 crores, and in the 1962 slack season the amounts of net sales aggregated Rs. 19.6 crores; these operations compared with net sales of Rs. 1.5 crores in the 1960-61 busy season and net purchases of Rs. 6.3 crores in the 1961 slack season. However, in the first two months of the 1962-63 busy season, when the full impact of the October 31 directive was being felt, the Bank effected net purchases of securities for Rs. 9.6 crores mainly from banks, with a view to enabling them to meet the credit needs of the busy season.

Appraisal of Credit Policy

25. Since September 1960, the Reserve Bank has endeavoured to exercise general restraint on excessive credit expansion by banks and a pruning down of the less urgent demands through the slab system of lending rates which raises the cost of Reserve Bank credit to a scheduled bank progressively with increase in its borrowing from it. Within this general framework, use has also been made of selective credit controls to regulate the flow of bank credit in those sectors where it was likely to give rise to undesirable price movements. In September 1960, the Bank had also directed the scheduled banks to increase their lending rates. The emphasis on the cost of credit would appear to have resulted in reducing the banks' dependence on the Reserve Bank and in encouraging them to find more resources of their own by way of deposits, share capital and internal resources. Thus, the average outstanding level of scheduled banks' borrowings from the Reserve Bank fell progressively from Rs.38.4 crores in 1960 to Rs.28.2 crores in 1961 and to Rs. 16.6 crores in 1962. The ratio of increase in borrowings from the Reserve Bank to expansion of credit has declined in the two successive busy seasons from 14.9 per cent in 1959-60 to 10.9 per cent in 1960-61 and to 3 per cent in 1961-62. During the year under review, banks showed great

* Figures exclude securities purchased from the State Bank in connection with P. L. 480/665 transactions.

TABLE 7

Changes made in the Reserve Bank's Slab Rate System of Lending to Scheduled Banks since its Introduction on October 1, 1960

With effect from	PERMISSIBLE BORROWINGS AT						
	4·0 per cent		4·5 per cent		5·0 per cent	6·0 per cent	6·5 per cent
	Basic Quota 1	Additional Quota 2	Basic Quota 3	Additional Quota 4	5	6	7
October 1, 1960 ...	50 per cent of average statutory reserves*				50 per cent of average statutory reserves*	Borrowings in excess of 100 per cent of average statutory reserves*	
January 1, 1962 ...	„	Additional amount related to a bank's lending to small-scale industries and co-operatives			„	„	
July 2, 1962 ...	25 per cent of average statutory reserves*	„			25 per cent of average statutory reserves*	50 per cent of average statutory reserves*	Borrowings in excess of 100 per cent of average statutory reserves*
October 31, 1962 ...	„	„			25 per cent of average statutory reserves* less additional quota under Column 2	50 per cent of average statutory reserves* if the additional quota (Col. 2) exceeded the quota at 5 per cent (Col. 5), the excess if any being deducted from the quota at 6 per cent	Borrowings in excess of 100 per cent of average statutory reserves* granted by the Bank after a review of individual cases

January 3, 1963 § ...	50 per cent of average statutory reserves*	Additional amount related to a bank's lending to small-scale industries and co-operatives	50 per cent of average statutory reserves* less additional quota under Column 4	Special accommodation granted at higher rates after a detailed assessment of an individual bank's position
March 23, 1963 ...	„	Additional amount related (i) to a bank's lending to small-scale industries and co-operatives and (ii) its holdings of eligible usance export bills drawn in Indian rupees	50 per cent of average statutory reserves*	„

* Average of the reserves maintained by each bank under Section 42(1) of the Reserve Bank of India Act during the preceding quarter.

§ With the change in Bank rate from 4·0 per cent to 4·5 per cent effective January 3, 1963, the rate charged by the Reserve Bank on the basic quota was raised to 4·5 per cent.

eagerness in repaying their obligations to the Bank and in April, the closing month of the busy season, the outstanding amount declined from the peak level of Rs.66 crores reached in March to Rs.13 crores. Virtually the entire amount was repaid by the end of June.

26. Banks levered up the rates of interest charged by them to their customers, the average rate on advances having risen from 5.8 per cent in the first half of 1960 to 6.4 per cent in the first half of 1962. As will be seen from Table 8, over 54 per cent of the advances of selected scheduled banks at the end of December 1962 were at rates higher than 6 per cent as compared to 49 per cent at the end of December 1961 and only 18 per cent at the end of September 1960 (i.e. prior to the directive to banks to

TABLE 8

Advances of Selected Scheduled Banks at various Rates of Interest

(In crores of rupees)

Rates of Interest	Last Friday of September 1960		Last Friday of December 1961		Last Friday of September 1962		Last Friday of December 1962	
	Amount	% to Total	Amount	% to Total	Amount	% to Total	Amount	% to Total
Upto 2 per cent ...	3·60	0·4	3·42	0·4	5·66	0·6	4·80	0·5
Above 2% and upto 3% ...	0·29	—	1·54	0·2	7·66	0·8	2·16	0·2
Above 3% and upto 4% ...	46·20	5·9	2·37	0·3	10·41	1·1	1·23	0·1
Above 4% and upto 5% ...	199·67	25·4	110·43	12·5	100·29	10·4	124·13	12·4
Above 5% and upto 6% ...	397·67	50·6	334·10	37·8	324·97	33·8	329·10	32·9
Above 6% and upto 7% ...	120·16	15·2	310·34	35·2	364·21	37·9	377·93	37·8
Over 7 per cent ...	20·16	2·5	119·98	13·6	148·44	15·4	159·54	16·0
Total ...	787·75	100·0	882·18	100·0	961·64	100·0	998·89	100·0

Note:—End-September 1960 has been taken as a suitable basis for comparison in view of the Reserve Bank's directive to scheduled banks to adhere to a minimum lending rate of 5 per cent and to raise their average lending rate by not less than one-half per cent effective October 1, 1960.

raise their lending rates). In the result, the rate of increase in the average level of bank credit has slowed down from 14.1 per cent in 1961 to 10.6 per cent in 1962.* It may also be mentioned that, effective January 1, 1963, the 42 signatory banks to the All-India Inter-Bank Agreement on Minimum Rate of Interest on Advances, have fixed their minimum lending rate on advances at 6 per cent, and the margin between the Reserve Bank rate and the minimum rate on advances at not less than 2 per cent. Following the announcement of increase in Bank rate on January 2, 1963, the minimum rate on advances was raised to 6½ per cent.

27. The success of the policy of moral suasion and the spirit of co-operation displayed by banks were evidenced in the reduction in credit to the sectors indicated to them in the Governor's circular letter of November 10, 1962. Advances against shares to stock brokers were brought down from Rs. 12.3 crores to Rs. 10.8 crores. Advances against gold and gold ornaments and unsecured advances were reduced by Rs. 11 crores each in the two closing months of the year.

28. In the field of selective credit controls, the liberalisation of control over bank advances against paddy and rice, groundnuts and shares was followed by a somewhat rapid rise in advances against these securities. The rapid increase in advances against foodgrains (excluding wheat) appeared to have been due chiefly to exemption of advances against warehouse receipts from the purview of selective credit controls both in respect of ceilings and margins. This exemption was granted with a view to encouraging the development of warehousing and the use of warehouse receipts as security for bank advances. With the development of warehouses in recent years, advances against warehouse receipts for paddy and rice have shown a steady increase. From Rs. 37 lakhs at the end of January 1960, these advances had risen to Rs. 4.62 crores at the peak of the 1961-62 busy season in March 1962; their share in total advances against paddy and rice rose from 3.3 per cent to 21.6 per cent and at the end of December 1962, it was 23.6 per cent. A similar increase was noticed in the case of advances against warehouse receipts covering other foodgrains (excluding wheat). In view of their increasing importance, it was necessary to bring advances against warehouse receipts within the purview of overall ceiling limits, if selective credit control was not to be rendered ineffective; accordingly, in the directives issued in January and March 1963 the exemption from permissible ceiling limits in respect of advances against warehouse receipts covering stocks of paddy and rice and other foodgrains (excluding wheat), respectively, was withdrawn. However, a certain degree of preference was retained in regard to these advances by prescribing the margin for such advances at 25 per cent as compared with 35 per cent for other advances. As regards wheat, advances against which were freed from control in May 1961, there was a pronounced increase, amounting to Rs. 7.1 crores in the 1961 slack season. But in view of the general stability in the prices of wheat, it was not felt necessary to reintroduce control. Partly as a result of the relaxation of the minimum margin requirement for advances against shares, advances against shares recorded a rise in the first half of the year, but in the latter half there was a decline, the net increase

* Based on weekly returns of scheduled banks.

over the year being smaller (Rs. 5 crores) than in 1961 (Rs. 7 crores). Unsecured advances, the restrictions on which were removed in October 1961, rose sharply by Rs. 38 crores between December 1961 and October 1962, but thereafter there was sizeable reduction, as stated earlier. Between December 1961 and December 1962, the share of clean advances in total bank credit increased from 13.4 per cent to 14.0 per cent, but this was much below the level of about 17 per cent in February 1960 (i.e. prior to the imposition of control on these advances in March 1960).

29. The selective credit controls exercised by the Bank were, by and large, effective in keeping down the volume of bank advances during the year. Although the overall level of advances of scheduled banks against paddy and rice was higher in 1962 than in 1961, owing to an increase in permitted levels coupled with a sharp increase in advances against warehouse receipts, the adjusted level of advances (i.e. excluding those exempted from the purview of credit control) generally remained well within the ceiling limits. The peak level of adjusted advances against paddy and rice at Rs. 13.10 crores was reached in March-April 1962, this being roughly 27 per cent below the permitted level for the period. Advances against 'other foodgrains'* too generally remained within the ceiling limits. The peak level of adjusted advances against 'other foodgrains'* at Rs. 6.08 crores was touched in May-June 1962—a level which was about 14 per cent less than the permitted level for the period. As regards groundnuts, advances against this commodity were also maintained generally within permitted levels, though in view of the increase in the output of groundnuts in the 1961-1962 season, the adjusted level of groundnut advances was generally higher than in 1961; the peak level of such advances at Rs. 13.1 crores in January-February 1962 formed 89 per cent of the permitted level for the period (vide Table 9).

30. In the cotton textile industry, the problem was one of ensuring a larger credit supply by banks to textile mills to finance the industry's accumulation of cloth stocks consequent on a falling off in offtake. The matter was discussed by the authorities of the Reserve Bank with representatives of leading banks at a meeting held in Bombay on November 27, 1962 at which the Reserve Bank assured banks that it would extend financial assistance to banks over and above the stipulated ceilings to the extent required on account of the grant by them of enlarged credit facilities to textile mills. In pursuance of this assurance, additional credit limits were sanctioned to those banks which approached the Reserve Bank in this connection. At the end of December 1962, outstanding advances of banks against cotton textiles (including yarn) were appreciably higher at Rs. 136 crores as compared to Rs. 118 crores a year before. Following the Chinese attack, a section of the tea industry in Assam became apprehensive about continued free flow of finance during the ensuing 1963-64 season. To remove any possible apprehension on the part of banks, the provisions of the Emergency Risks Insurance (Factories) Act were extended to cover emergency risk insurance of the standing tea crops, which substantially improved the situation.

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* Excluding wheat.

TABLE 9

Permitted and adjusted levels of advances of Scheduled Banks in respect of Foodgrains and Groundnut

(In lakhs of Rupees)

Period	Paddy and Rice			Other Foodgrains (excluding Wheat)			Groundnuts		
	Adjusted level*	Permitted level	Excess(+) or short-fall(—)	Adjusted level*	Permitted level	Excess(+) or short-fall(—)	Adjusted level†	Permitted level	Excess (+) or short-fall(—)
1961									
January	7,43	8,84	—1,41	2,04	2,78	— 74	12,81	12,64	+ 17
February	9,80	12,79	—2,99	1,72	2,47	— 75	13,40	15,45	—2,05
March-April ††	11,80	17,06	—5,26	2,27	3,76	—1,49	11,28	13,90	—2,62
May—June	9,94	13,29	—3,35	5,11	7,00	—1,89	6,36	9,62	—3,26
July—August	6,81	6,96	— 15	5,07	5,53	— 46	2,74	4,74	—2,00
September—October ...	3,54	3,79	— 25	3,07	3,10	— 3	80	1,86	—1,06
November—December ...	3,83	5,36	—1,53	2,19	2,58	— 39	4,07	5,09	—1,02
1962									
Jan.—February	9,95	12,47	—2,52	2,44	3,12	— 68	13,13	14,83	—1,70
March—April	13,10	18,07	—4,97	2,27	3,78	—1,51	12,13	15,10	—2,97
May—June	11,64	14,67	—3,03	6,08	7,05	— 97	8,25	10,57	—2,32
July—August	7,69	8,04	— 35	5,34	5,57	— 23	4,76	5,32	— 56
September—October ...	4,19	4,70	— 51	3,48	3,24	+ 24	2,13	1,97	+ 16
November—December ...	4,79	6,43	—1,64	2,61	2,61	—	4,69	5,82	—1,13

Note :—Figures of adjusted and permitted levels for paddy and rice and other foodgrains shown in this statement differ from those given in statement 13 in the last year's Report, because the excess in respect of 'new offices' has been taken into account in working out the adjusted levels in the present statement whereas in the last year's statement, the adjusted and permitted levels of 'new offices' were included in the respective columns.

* Excluding advances which are exempted from the purview of the directives. The exempted categories of advances in respect of foodgrains are those granted (*i*) against demand documentary bills covering movement of foodgrains, (*ii*) against warehouse receipts issue dby the Central and State Warehousing Corporations, (*iii*) to co-operative marketing and processing societies and (*iv*) to State Governments for facilitating the procurement programmes.

††Ceiling limits were made applicable on a two-month basis from March 1961.

† Adjusted for exempted categories i.e. demand documentary bills covering movement of groundnuts and advances granted against warehouse receipts issued by the Central and State Warehousing Corporations.

31. In the context of a continuous decline in the liquidity ratio of banks in recent years and the need to safeguard the soundness of the banking system, the problem of liquidity of the banking system has assumed significance. The liquidity ratio* of scheduled banks (excluding the State Bank of India) has shown a sizeable decline from about 43 per cent in 1950 to 33.7 per cent in 1960. In 1961, the ratio rose somewhat to 34.3 per cent, but in 1962 it moved down to 33.3 per cent (vide Table 10). While this formed the general level of liquidity for scheduled banks as a whole, the actual liquidity ratio in the case of some banks operating on a high credit-deposits ratio was much below the general level. With the rapid development of the economy envisaged in the Third and subsequent plans, there will be a substantial growth in bank credit to trade and industry, leading to a further pressure on bank liquidity. It was, therefore, essential that an adequate share of the resources that banks would be acquiring should be utilised towards strengthening their liquidity in the interest of safeguarding the soundness of the banking system. With this end in view, the existing legal provisions were amended in terms of which the minimum ratio of liquid assets to total demand and time liabilities required to be maintained in India has been raised from 20 per cent to 28 per cent (comprising 3 per cent of the statutory cash reserves and 25 per cent of other liquid assets). Banks are required to comply with this requirement on the expiry of two years from the commencement (September 16, 1962) of the Banking Companies (Amendment) Act, 1962 i.e. from September 16, 1964 (For details see paragraph 42).

Liquidity of the Banking System

TABLE 10

Liquid Assets of Scheduled Banks*

(In crores of rupees)

As on the last Friday of	Total Demand & Time Liabilities	Cash in hand and Balances with Reserve Bank of India	Unencumbered Approved Securities	Other Liquid Assets	Total Liquid Assets	Liquidity Ratio (Ratio of 6 to 2)
1	2	3	4	5	6	7
1960	1307·7	112·1	308·1	20·3	440·6	33·7
1961	1509·1	114·5	379·6	23·6	517·7	34·3
1962	1680·8	109·4	430·5	19·7	559·5	33·3

* Figures are based on Form X and are exclusive of the State Bank of India.

32. In 1962, although the banking system on the whole maintained its liquidity, the pattern changed somewhat. Excluding investments on account of P.L.480 and 665 funds, banks added to their Government security holdings Rs. 97.8 crores (or 22.3 per cent) as compared to Rs. 38.6 crores (or 9.6 per cent) during 1961. This was the second largest net addition to banks' investment portfolios since 1950, the largest being in 1958 (Rs. 127 crores). There was not only a smaller liquidation of Government securities in the 1961-62 busy season than in the previous one (Rs. 20 crores against Rs. 45 crores), but also a larger acquisition in the 1962 slack season as compared to the 1961 slack season (Rs. 118 crores against Rs. 101 crores). The ratio of investments in Government securities to deposits reached a maximum of 30.2 per cent

* The ratio of cash, gold and unencumbered approved securities (valued at a price not exceeding the current market price) to the total of time and demand liabilities in India.

in 1962 as compared to 28.8 per cent in 1961. Despite a decline in Government security holdings in November and December 1962—partly on account of the transfer of P.L.480 and 665 funds from the State Bank of India to the Reserve Bank, the ratio of investments in Government securities to deposits stood higher at 27.8 per cent at the end of 1962 as compared to 25.9 per cent a year before. The maturity pattern of investments in Government securities showed a further shift towards short and medium-dated securities as compared to long-dated securities. Between March 31, 1961 and March 31, 1962, the share of the shorts and mediums in total holdings of Government securities of banks, which had increased from 83.8 per cent in 1960 to 85.9 per cent in 1961, recorded a further increase to 86.9 per cent (vide Table 11).

TABLE 11

Maturity-wise Investments in Government Securities of Indian Offices of Scheduled Banks

(In crores of rupees)

No. of Reporting Banks	March 31, 1960 91		March 31, 1961 85		March 31, 1962 81	
	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total
I. Treasury Bills ...	49·1	6·7	28·1	4·8	71·2	11·4
II. Securities Maturing*						
1. Below 5 years ...	258·7	35·0	256·8	44·3	228·8	36·7
2. Between 5 and 10 years	310·5	42·1	213·5	36·8	242·4	38·8
3. Between 10 years and 15 years ...	86·4	11·7	62·8	10·8	62·3	10·0
4. Over 15 years ...	33·2	4·5	19·2	3·3	19·7	3.1
Total of I & II ...	737·9	100·0	580·4	100·0	624·4	100·0

* Face Value.

33. In contrast to the marked step-up in holdings of Government securities by banks, the cash reserves of banks were drawn down by Rs. 23 crores in 1962 as compared to Rs. 6 crores in 1961. As a result, the cash ratio dropped from 8.5 per cent at the end of 1961 to 6.5 per cent at the end of 1962, touching a low point of 5.7 per cent in the last week of November 1962. In recent years, with the ever-increasing demand for funds and the ready access to the Bank in times of pressure, banks have been progressively working on a lower cash base. In 1962, the Reserve Bank of India Act was amended under which the reserve requirements were fixed at 3 per cent of aggregate demand and time liabilities with effect from September 15, 1962, in place of 5 per cent of demand and 2 per cent of time liabilities in force till then. This meant in effect a lowering of the reserve requirements from an average of 3.25 per cent to 3 per cent and reinforced the trend towards a lower cash ratio.

34. Although the liquidity ratio for scheduled banks as a whole remains at a comfortable level, the higher legal liquid assets ratio, which will come into force on September 16, 1964, would call for corrective action on the part of some banks which operate on an over-extended credit-deposit ratio. It is observed that at the end of 1962, out of 80 scheduled banks, there were 16 scheduled banks with a liquidity ratio of less than 28 per cent†—which is the minimum level that will come into

† Comprising statutory cash balances maintained with the Reserve Bank in terms of Section 42(1) of the Reserve Bank of India Act, equivalent to 3 per cent of their demand and time liabilities, and other liquid assets equivalent to 25 per cent of their demand and time liabilities as laid down in Section 24 of the Banking Companies Act, 1949.

force in September 1964. In order to be able to comply with the requirements of law, it would be necessary for the banks concerned to invest a sizeable proportion of deposit accruals in approved securities as well as to effect suitable changes in the current pattern of assets.

Problem of Interest Rates in Relation to Costs in the Banking Industry

35. For some years past, the banking industry has been confronted with the problem of rising costs owing to the rapid expansion of branches and the increase in establishment expenses resulting from the periodical awards of the Industrial Tribunals/Commissions and the raising of interest rates paid by banks on deposits from the public. In particular, the stepping up by banks of the rates of interest on certain categories of fixed and savings deposits and the rapid growth that has taken place in these deposits have tended to increase the incidence of interest costs; between 1958 and 1962, it may be noted, the proportion of time deposits to total deposits with scheduled banks has risen from 50.5 per cent to 57.7 per cent.

36. Developments in 1962 have further aggravated the problem of costs. The Award of the Desai Tribunal‡ raised on an average the establishment expenses of Indian scheduled banks by about 10–12 per cent, over and above the annual increase arising from the appointment of additional staff, annual increments etc. With the establishment of the Deposit Insurance Corporation on January 1, 1962, banks are required to pay insurance premium to the Corporation at the rate of 1/20 of one per cent on their total deposits (excluding Government and inter-bank deposits). The introduction in 1962 of free remittance facilities upto specified limits by several banks has added to the cost of servicing bank accounts. Banks have also had to bear the increase in the corporation tax which was raised from 45 per cent to 50 per cent for Indian companies in the 1962-63 Budget. The banks have to face the problem of how best to maintain the profitability of the banking industry in the face of rising costs.

TABLE 12

Margin between Advances and Deposit Rates of Scheduled Banks

(Per cent per annum)

Year	Average rate of Interest earned on advances	Average rate of Interest paid on deposits	Spread between (2) & (3)
1	2	3	4
1957	5·44	1·94	3·50
1958	5·59	2·25	3·34
1959	5·64	2·19	3·45
1960	5·89	2·01	3·88
1961	6·33	2·12	4·21
1962	6·41*	2·27*	4·14*

* Relate to the period January-June.

37. In this connection, some of the measures taken by banks in recent years to meet the problem may be noted. In the first place, banks have fixed the ceiling levels

‡ A brief summary of the Award is given in Chapter II.

for deposit rates in terms of the All-India Inter-Bank Agreement on Maximum Deposit Rates. At the same time, they have succeeded in widening the spread between the average deposit rates and the lending rates by progressively raising their lending rates. Data on average lending rates for the second half of 1962 are not available, but it is likely that the average rate on advances rose further during the period, as some banks were reported to have stepped up their lending rates following the introduction of the four-tier system by the Reserve Bank in July 1962†.

38. Despite the measures taken by banks, the increase in their earnings seems more or less to have been absorbed by the increase in their establishment and interest charges. Data on bank profits for the year 1962 are not yet available for all banking companies. The published statistics on bank profits confirm the general impression that bank profits after taxation have not recorded any increase in 1962. Available data for 32 Indian scheduled banks (each with total deposits of Rs. 5 crores and above as on December 31, 1962 on the basis of their balance sheets) indicate that the balance of profit after taxation has declined from Rs. 11.2 crores in 1961 to Rs. 10.7 crores in 1962 or by 4.5 per cent (vide Table 13).

39. To the extent banks succeed in mobilising deposits further they will be able to improve their profitability. Branch expansion programmes have an important role to play in this matter. At the same time it will be necessary for banks to give greater attention to ways and means of increasing the quality of their services and improving efficiency all round.

TABLE 13

Earnings and Expenses of Thirty-two Larger Indian Scheduled Banks §§

(In crores of rupees)

	1961	*1962*
I. Total Earnings §	89·0	103·9
i) Interest and discount §	69·8	82·3
ii) Other earnings	19·2	21·6
II. Total Expenses	77·7	93·2
i) Interest paid on deposits and borrowings ...	36·8	43·9
ii) Establishment expenses	30·2	36·0
iii) Other expenses	10·7	13·3
III. Balance of profit as shown in the profit and loss account	11·2	10·7

§§ Banks each with deposits of Rs. 5 crores and above as on December 31, 1962 whose balance sheets were available have been included; corresponding figures for 1961 relate to these banks only and are therefore not comparable with the figures given in the earlier Report.

§ Since most of the banks provided for taxation by deducting tax liability from income, the figures have been uniformly adjusted for all banks by deducting provision for taxes from income.

† Mention may also be made here of two further measures which took effect from January 1, 1963, namely, (*i*) the abolition of payment of interest on current accounts by banks which are signatories to the All-India Inter-Bank Agreement on Deposit Rates and (*ii*) the fixation of the minimum rate of interest on advances (subject to certain exemptions) at 6 per cent, and the margin between the Reserve Bank rate and the minimum rate of advances at not less than 2 per cent; with the raising of the Bank rate from 4 to 4½ per cent, effective from the close of business of January 2, 1963, then minimum rate on advances was raised to 6½ per cent.

CHAPTER II

DEVELOPMENTS IN BANKING LEGISLATION AND ORGANISATION

40. Further progress was made during the year in strengthening the banking system. The Deposit Insurance Corporation, the legislation for the establishment of which was enacted in 1961, was set up on January 1, 1962. The process of consolidation of the banking structure through mergers and amalgamations, and the policy in regard to branch licensing designed to facilitate the spread of banking in semi-urban and rural areas were continued. Legislation was enacted to strengthen the capital funds and liquidity position of banks and to enable provision of export credit by the Reserve Bank for periods upto 180 days instead of 90 days as hitherto. A scheme whereby the Refinance Corporation for Industry would refinance export credits granted by banks and other credit institutions for periods ranging from six months to five years was also finalised and brought into force on January 1, 1963.

Banking Legislation

41. The imperative need for building up capital funds of banks was emphasised in last year's Report. The Banking Companies Act was amended to secure this. Before the amendment, Indian banks were required to transfer to reserves not less than 20 per cent of their balance of profit until the reserves together with the share premium amount equalled the paid-up capital, while no such provision was applicable to foreign banks. In terms of the amendment now made, a banking company incorporated in India is required to continue transferring each year to its reserve fund, even after it equals the paid-up capital, a sum equivalent to not less than 20 per cent of the profit as disclosed in the profit and loss account and before any dividend is declared. Banking companies incorporated outside India are required to deposit with the Reserve Bank of India an amount calculated at 20 per cent of the annual profits in respect of all business transacted through their branches in India. The Central Government has, however, been empowered, on the recommendation of the Reserve Bank, and having regard to the adequacy of the paid-up capital and reserves in relation to deposit liabilities in the case of Indian banks and the adequacy of amounts deposited in relation to deposit liabilities in India in the case of foreign banks, to exempt them from transferring 20 per cent of their profits for a specified period. The Amendment Act also raised the limit of minimum paid-up capital in the case of an Indian banking company commencing banking business to Rs. 5 lakhs, as against the previous lowest minimum capital requirement of Rs. 50,000, which was fixed in 1936 and which in the light of the subsequent changes that have taken place was considered to be too low. The Banking Companies (Amendment) Act, 1962, incorporating these changes, came into force on September 16, 1962.

42. As regards the minimum amount of liquid assets to be maintained by banking companies in India (vide paragraph 31), Section 24 of the Banking Companies Act, 1949 was also amended by the Banking Companies (Amendment) Act, 1962. The amendment provides that all banks should maintain at the close of business on any day a minimum amount of liquid assets* equal to not less than 25 per cent of their total demand and time liabilities in India, exclusive of the balances maintained under

Section 42 of the Reserve Bank of India Act by scheduled banks, and cash or bank balances maintained under Section 18 of the Banking Companies Act by non-scheduled banks. Banking companies are required to comply with this stipulation after the expiry of two years from the date of commencement of the Banking Companies (Amendment) Act, 1962. When this requirement becomes operative in September 1964, the overall minimum liquidity ratio will be 28 per cent (made up of 3 per cent of cash reserves and 25 per cent of other liquid assets) as against the present minimum of 20 per cent. Simultaneously, Section 42 (1) of the Reserve Bank of India Act was also amended so as to require scheduled banks to maintain with the Reserve Bank an average daily balance of 3 per cent of their total time and demand liabilities in India as against the previous requirement of 5 per cent of demand and 2 per cent of time liabilities†. The Reserve Bank has been empowered to vary the cash ratio between 3 per cent and 15 per cent of demand and time liabilities. This replaced the existing provision which enabled the Bank to raise the statutory balance to a maximum level of 8 per cent and 20 per cent of time and demand liabilities, respectively. Non-scheduled banks were brought in line with scheduled banks, except in regard to variation of cash reserves, by an amendment to Section 18 of the Banking Companies Act so as to require them to maintain with themselves or in current account with the Reserve Bank or its agencies, cash or balances to the extent of 3 per cent of their total demand and time liabilities in India, as against 5 per cent of demand and 2 per cent of time liabilities hitherto. By virtue of the power to vary the cash reserves of scheduled banks with the Reserve Bank from 3 per cent to 15 per cent, their overall liquidity ratio may be raised to a maximum of 40 per cent. In the case of non-scheduled banks, however, since the cash or balances required to be maintained under Section 18 of the Banking Companies Act cannot be varied by the Reserve Bank, the overall liquidity ratio will remain at 28 per cent. The effect of the amendment is to split up the overall liquidity requirement of scheduled banks into (i) statutory balances maintained with the Reserve Bank and (ii) other liquid assets including unencumbered approved securities. This segregation was considered necessary to minimise the impact on security holdings of banks of any action to raise the reserve requirements intended to restrict bank credit by ensuring that with every increase in reserve requirements the overall liquidity requirement was also correspondingly raised.

43. Other amendments covered in the Banking Companies (Amendment) Act, 1962 included (1) an amendment to Section 22 which enables the Reserve Bank to refuse a licence or to cancel the licence already granted to any bank incorporated outside India, if it appears to the Bank that the functioning of such a bank in India will not be in public interest, (ii) an amendment to Section 35B which has made the provisos of Sections 309(3) and 387 of the Companies Act, 1956 inapplicable to banking companies so that it is no longer necessary for them to obtain permission of the Government of India for payment of remuneration to the Chief Executive Officer

* Comprising till money, gold, excess over statutory reserves, balances with the State Bank and with notified banks, and unencumbered approved securities.

† As a result of the change, which became effective on September 16, 1962, the statutory minimum balances with the Reserve Bank were reduced to Rs. 65·8 crores during the week ended September 21, 1962, thus freeing about Rs. 6 crores of the cash reserves.

or other directors and (iii) an amendment to Section 51 which makes the provisions of Section 35A relating to issue of directives by the Reserve Bank to banking companies in general applicable to the State Bank of India and its Subsidiaries, and also provides that Sections 37 and 44B relating to suspension of business and sanctioning of schemes of arrangement with creditors or shareholders shall not apply to these banks.

44. Mention may also be made here of the amendment made during the year to the Reserve Bank of India Act, which empowered the Reserve Bank to collect credit information from banks and notified financial institutions and to furnish such information in a consolidated form to any bank or notified financial institution, which applies for it*.

Progress of Mergers

45. The failure of two scheduled banks in 1960 had underlined the need to strengthen the financial position of banking units, with a view to reinforcing the confidence of depositors in the banking system. To this end, statutory powers for the compulsory merger of banks were acquired in September 1960, which provided for the grant by the Central Government, on an application from the Reserve Bank, of a moratorium in respect of a banking company and also authorised the Bank to formulate, with the approval of the Central Government, schemes of reconstruction and amalgamation of banks. The Central Government, on the application of the Bank, granted moratorium to one bank during 1962 under Section 45 of the Banking Companies Act, bringing the total number of banks to which moratorium was granted to 39; the deposits of these banks amounted to Rs. 19.34 crores. Of the 39 banks which were granted moratorium till the end of 1962, 31 banks have since been amalgamated with other banks. Among these, the depositors of 20 banks were given credit for the full amount of their deposits in the books of the transferee banks, while those of 10 banks received credits, inclusive of preferential payment to each depositor of the sum standing to his credit or Rs. 250 whichever was less, in proportion to the amount of the readily realisable assets (varying from 37 to 84 per cent).

46. Under the schemes of amalgamation sanctioned in terms of Section 45 of the Banking Companies Act, the surplus, if any, remaining with the transferee banks after meeting the claims of the depositors in full is required to be distributed among the shareholders of the transferor banks on a *pro rata* basis. During 1962, the transferee banks started making *pro rata* payments in the case of five transferor** banks.

Voluntary Amalgamations and Transfer of Assets and Liabilities

47. There were voluntary amalgamations under Section 44A of the Banking Companies Act in the case of three banks and transfer of assets and liabilities in respect of four banks during the year. The Presidency Industrial Bank Ltd., voluntarily amalgamated with the Bank of Karad Ltd., the Gadodia Bank Ltd., with the Bank of India Ltd., and the South India Commercial Bank Ltd., with the Bank of

*The full text of the various amendments to the Banking Companies Act and the Reserve Bank of India Act is given in Appendix V and VII.

** (1) Moolky Bank Ltd. Mulky, (2) Satara Swadeshi Commercial Bank Ltd. Satara City, (3) Phaltan Bank Ltd. Phaltan, (4) Jodhpur Commercial Bank Ltd. Jodhpur, (5) Karur Mercantile Bank Ltd. Karur.

Madura Ltd. Of the four banks which transferred their assets and liabilities, three banks, *viz.*, the Hindu Bank Karur, Ltd., the Salem Ammapet Sengundar Bank Ltd., and the Kerala Service Bank Ltd., transferred their assets and liabilities to the Canara Industrial and Banking Syndicate Ltd., while the remaining bank, *viz.* the Surat Banking Corporation (Private) Ltd., transferred its assets and liabilities to the Bank of Baroda Ltd. One more bank, *viz.*, the Citizens' Bank Ltd., also agreed to transfer its assets and liabilities to the Canara Industrial and Banking Syndicate Ltd., during the year.

Mergers with the State Bank of India and its Subsidiaries

48. The process of integration, on a voluntary basis, of certain minor State-associated banks with the State Bank of India and its Subsidiaries was carried a step further during the year under review. In terms of the schemes sanctioned by the Union Government, the State Bank of India acquired during the year the business of the Bhor State Bank Ltd., and the State Bank of Indore that of the Bank of Dewas Ltd. Thus, of the nine minor State-associated banks considered suitable for merger with the State Bank of India and its Subsidiaries, the State Bank of India has so far taken over the business of five banks and the State Bank of Indore of one bank. Schemes for the merger of the remaining three banks were in various stages of progress at the end of 1962; while the draft scheme of merger of the Bank of Aundh Ltd. with the State Bank of India as finalised by the two banks was forwarded to Central Government for sanction, negotiations were being carried on by the State Bank of Mysore and the State Bank of Indore for acquiring the business of the Ramdurg Bank Ltd. and the Dewas Senior Bank Ltd., respectively.

49. During the year, the Central Government sanctioned a scheme under Section 38 of the State Bank of India (Subsidiary Banks) Act, 1959, in terms of which the State Bank of Bikaner took over the assets and liabilities of the State Bank of Jaipur with effect from January 1, 1963. This was done with a view to effecting organisational and operational improvements and economies by coordinating the banking services rendered by the two banks. On amalgamation, the State Bank of Bikaner has been renamed as the State Bank of Bikaner and Jaipur. With this merger, the number of Subsidiaries of the State Bank of India has been reduced from eight to seven.

Working of the Deposit Insurance Corporation

50. The Deposit Insurance Corporation, to which a detailed reference was made in the last Report, was set up on January 1, 1962. In accordance with Section 14 of the Deposit Insurance Corporation Act, 1961, the Corporation sent intimations of registration to 293 existing banks as on January 1, 1962. Subsequently, the intimations were withdrawn in the case of six banks which had ceased to function as banking companies prior to the establishment of the Corporation. During the year, the registration of eleven banks was cancelled consequent on the occurrence of one or other of the events, enumerated in Section 13 of the Act. At the end of December 1962, the number of insured banks stood at 276. As on the last Friday of September 1962—the latest date for which data are available—the total number of deposit accounts with insured banks was 77 lakhs, of which 59.8 lakhs or 77.6 per cent comprising balances not exceeding Rs. 1,500, was fully insured by the Corporation. An analysis of deposit accounts according to the size

of insured banks indicates that the insurance cover is relatively greater in the case of the smaller banks than in the case of the larger banks; thus, whereas the proportion of deposit accounts fully insured by the Corporation was 71.9 per cent in the case of banks with deposits exceeding Rs. 100 crores, it was 86.7 per cent in the case of banks with deposits of Rs. 1 crore or less. One scheme of amalgamation of a bank sanctioned by the Central Government under Section 45 of the Banking Companies Act, 1949, which involved a claim on the Corporation came into force in August 1962. The cancellation of licence by the Reserve Bank of the Bank of China for carrying on banking business in India and the subsequent order of the Calcutta High Court on the application of the Reserve Bank for the liquidation of the bank also resulted in a claim on the Corporation. The claims were still under consideration at the end of the year.

All-India Inter-Bank Agreement on Maximum Rates of Interest on Deposits

51. The All-India Inter-Bank Agreement on Maximum Rates of Interest on Deposits was revised, with effect from June 1, 1962. While the standard rates fixed under this Agreement in March 1961 continue unchanged, certain categories of banks were allowed to quote rates on term deposits higher than the standard rates. For this purpose, the 38 signatory banks have been divided into four categories. Indian banks with deposits exceeding Rs.50 crores and all foreign banks would continue to quote standard rates. Indian banks with deposits exceeding Rs.25 crores but not exceeding Rs. 50 crores were allowed to quote 1/8 per cent in excess of the standard rates; they were allowed to quote only the standard rates before. Banks with deposits exceeding Rs.10 crores but not exceeding Rs.25 crores were allowed to continue quoting 1/4 per cent more than the standard rates. Subsidiaries of the State Bank, which were till then allowed to quote $\frac{1}{4}$ per cent over the standard rates if there was a decline in their deposits, are now allowed to pay 1/8 per cent in excess of the standard rates; they might, at their discretion, pay an additional 1/8 per cent, if there is another bank of the same category operating in their area or in order to prevent or counteract a decline in their deposits. Banks with deposits of Rs. 10 crores and less were free to offer any rates of interest they chose. It was provided in the Agreement that the higher rates allowed for medium-sized banks would be revised, if the rates were found to affect adversely the interests of the larger banks. The revised Agreement will be binding on the signatory banks upto March 31, 1964, after which they may withdraw from it by giving six months' notice.

52. The Agreement was further revised, with effect from January 1, 1963, so as to abolish the payment of interest on current deposits other than charity accounts; interest on charity accounts may be paid at not more than 1 per cent per annum.

All-India Inter-Bank Agreement on Minimum Rate of Interest on Advances

53. All the banks participating in the Deposit Interest Rates Agreement and four other banks also concluded an Agreement on Minimum Rate of Interest on Advances, which came into force on January 1, 1963. The salient features of this Agreement are : (1) the minimum rate of interest on all types of advances other than certain exempted categories would be 6 per cent per annum; however, the margin between the Reserve

Bank of India rate and the minimum rate of interest on advances would not be less than 2 per cent per annum and (2) the interest rate would be effective for a period of not less than six months at a time, but might be revised during such period by the Executive Committee according to changes in the Reserve Bank of India rate. The Agreement would be binding on all participating banks upto December 31, 1963 and would continue to be binding after December 31, 1963 on all participating banks except those which might withdraw from the Agreement by giving six months' notice.

Branch Expansion

54. The pace of branch expansion, which had slowed down in 1961, showed renewed acceleration in 1962. The number of new offices opened by commercial banks which had declined from 289 in 1960 to 200 in 1961, rose to 211 in 1962. The aggregate number of offices of both scheduled and non-scheduled banks increased during the year by 160 (to 5271), as compared to only 84 in 1961. Among scheduled banks, in spite of the large increase in the number of offices opened and the considerably smaller number of existing offices closed, the increase in the number of offices was smaller (226) than in 1961 (246), due to the smaller number (40 as against 118 in 1961) of offices taken over by them as a result of amalgamations, mergers etc. While the number of offices opened by commercial banks was larger than in 1961, it may be noted that branch expansion in 1962 was smaller than in 1960 and much smaller than in 1959 (340) which holds the record for post-war years. Although since 1954, commercial banks have opened a total of 2026 new offices or an average of 225 per annum, this growth has not been commensurate with the needs of the situation. There are still as many as 1018* towns out of a total number of 2690 in the country (according to the 1961 census), which are not served by any office of the commercial banks.

55. There was, therefore, urgent need, in public interest, for the provision of banking facilities in areas not served by any commercial bank. It was felt that opening of new branches in such areas as also in suburban areas would not only assist further mobilisation of deposits but also provide better service to the community, if done in a properly coordinated manner. With this end in view, while considering applications for opening new offices received from banks, special stress is now laid on the provision of banking facilities at unbanked centres combined with such other places where banking facilities can be further expanded with advantage.

56. During the year, banking companies were granted permission to open new offices at 82 centres, which were not served by any bank, as compared to 69 in 1961. The number of offices actually opened at places which were not served by any banking office earlier was 47 in 1962 as against 58 in 1961. Of these, the State Bank of India accounted for 21 offices. During the year, 51 offices (116 in 1961) were closed, of which 20 belonged to scheduled banks.

* At the end of 1960, the total number of towns without banking facilities, based on the 1951 census, was stated to be 1400 in the Report for 1960. The difference in the number of unbanked towns follows mainly from the change in the basis of classification of towns adopted in the 1961 census.

TABLE 14

Variations in the Number of Offices‡ of Scheduled and Non-Scheduled Banks in 1961 and 1962

	Scheduled Banks 1961	Scheduled Banks 1962	Non-Scheduled Banks 1961	Non-Scheduled Banks 1962	All Banks 1961	All Banks 1962
1. New Offices opened ...	+199 (+ 46)§	+206 (+ 52)§	+ 1	+ 5	+200	+211
2. Changes due to amalgamations, mergers, transfer of assets and liabilities and inclusions in and exclusions from the Second Schedule to the Reserve Bank of India Act, 1934...	+118 (+ 6)@	+ 40 (+ 4)†	—118	— 40	—	—
3. Existing Offices closed ...	— 71 (— 6)	— 20 (—)	— 45	— 31	—116	— 51
4. Overall Variation ...	+246 (+ 46)	+226 (+ 56)	—162	— 66	+ 84	+160

Note : Data for 1962 are provisional. Figures in brackets relate to State Bank of India.

‡ Figures exclude administrative, seasonal, temporary and non-banking offices in the case of scheduled banks. In the case of non-scheduled banks, offices of non-reporting banks and banks which have been refused a licence but have not been deleted from the list of banking companies have been included.

@ These offices were taken over by the State Bank of India from the Bank of Baghelkhand.

† These offices were taken over by the State Bank of India from the Unity Bank Ltd. and the Bhor State Bank Ltd.

§ This includes not only branches, but also pay offices, sub-pay offices and sub-offices newly opened during the year. The figure of 25 new branches opened by the State Bank of India, mentioned in paragraph 57, includes new branches and the conversion of pay office, sub-pay offices and sub-offices into full-fledged branches, but excludes new pay offices, sub-pay offices and sub-offices.

Branch Expansion of the State Bank of India and its Subsidiaries

57. It will be recalled that a sub-committee of the Central Board of Directors of the State Bank of India had recommended that the State Bank and its subsidiaries should open 300 branches in the rural and semi-urban areas during the quinquennium, July 1960 to June 1965. It was subsequently decided that, of the 300 branches, the State Bank would open 145 branches and its Subsidiaries 155 branches. In 1962, the State Bank opened 25 branches under the second phase of the branch expansion programme, as against 12 branches opened in 1961; out of the 145 branches, the Bank has already opened 50 branches in the two and a half years ended December 1962. In the first phase of its branch expansion programme covering the five year period July 1955 to June 1960, the Bank had opened a total of 416 branches. The pace of branch expansion has since been slowed down, in pursuance of the recommendations of the above-mentioned committee, in order to complete the various arrangements concerning recruitment and training and to consolidate the results of the previous expansion programme. In addition, during 1962, the Bank also opened 8 branches outside the expansion programme, following its policy of opening more branches in metropolitan cities and towns. Since July 1960, the State Bank's Subsidiaries have opened 106 branches, of which 42 branches were

opened during the year. The total number of offices of the State Bank of India and its Subsidiaries stood at 1,002 and 519, respectively at the end of December 1962.

Indian Banks' Business Abroad

58. During 1962, two Indian banks opened five additional offices outside India, namely, two offices in East Africa, and one each in the United Kingdom, Nigeria and Mauritius, while one bank closed an office in Pakistan. In consequence, the number of offices of Indian banks abroad increased from 100 as on December 31, 1961 to 104 as on December 31, 1962. The business handled by these banks, as indicated by their total liabilities abroad, rose from Rs. 106 crores at the end of 1961 to Rs. 125 crores at the end of 1962 in contrast to a decline in 1961. The rise in 1962 occurred in Aden, British East Africa, Hong Kong, Japan, Malaya, Singapore, Thailand, the U.K. and Fiji Islands. There was, however, a decline in business in Burma, Ceylon and Pakistan. The rise in total liabilities was mainly on account of deposits, which recorded an impressive rise of Rs. 14 crores over the 1961 level (Rs. 77 crores); the increase in deposits was particularly marked in East Africa, Hong Kong, Japan and the U.K. On the assets side, loans and advances rose by Rs. 2.5 crores (to Rs. 37 crores), and investments by Rs. 1.3 crores (to Rs. 25 crores), as against a fractional rise of Rs. 14 lakhs and a decline of Rs. 1.3 crores, respectively, in 1961. Liquid assets,* which had declined by Rs. 4.3 crores in 1961, rose by Rs. 2.2 crores (to Rs. 35.8 crores) in 1962. In view of the rise in deposits, the ratio of liquid assets to total deposits, however, declined from 43 per cent at the end of 1961 to 39 per cent at the end of 1962.‡

Clearing Houses

59. Further progress was made during the year in widening the clearing house facilities, as part of the larger programme of extension of banking facilities in the country. In pursuance of a suggestion made in December 1960 by the Reserve Bank to establish more clearing houses, the State Bank and its Subsidiaries established during the year clearing houses at nine centres, thus bringing the total number of clearing houses functioning in the country at the end of December 1962 to 72, of which 7 were managed by the Reserve Bank, 54 by the State Bank of India, 10 by the Subsidiaries of the State Bank and 1 by a commercial bank. The post office savings banks were also enrolled as sub-members of the clearing houses at all the seven centres where the clearing houses are being managed by the Reserve Bank, and at 32 centres where they are being managed by the State Bank of India. Another development was the amendment of the rules of the clearing houses managed by the State Bank and its Subsidiaries to provide for the admission of all non-scheduled banks, whether licensed or unlicensed, as sub-members; prior to the amendment of the rules, unlicensed non-scheduled banks were not permitted to become sub-members of the clearing house.

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* Comprising cash on hand, balances with central banks and with other banks in current accounts, money at call, and bills purchased and discounted.

‡ An event affecting the business of Indian banks abroad was the nationalisation of banks in Burma, effective February 23, 1963. As on this date, five Indian banks had 7 offices operating in Burma, with total deposits amounting to a little less than Rs. 10 crores, and advances (mostly in the form of trade bills) of Rs. 2 crores.

60. During 1962, the Central Warehousing Corporation established 22 warehouses and the 14 State Warehousing Corporations 134 warehouses; the total number of warehouses set up by the Central Warehousing Corporation at the end of the year was 72 and by State Warehousing Corporotion 421. Advances granted by scheduled banks against the security of warehouse receipts issued by the Central and State Warehousing Corporations also recorded a sharp rise; the outstanding advances rose from Rs. 4.8 crores at the end of December 1961 to Rs. 7.9 crores at the end of December 1962, the peak level touched in the 1961-62 busy season being Rs. 10.8 crores as compared to Rs. 5.7 crores in the previous busy season. In view of this sharp increase, advances against warehouse receipts, which were excluded from the purview of the Reserve Bank's selective credit controls against foodgrains have since been brought within the framework of control while retaining their preferential character (vide paragraph 28).

Warehousing Facilities

61. Reference has been made in Chapter I to the preferential treatment accorded by the Reserve Bank to scheduled banks in respect of borrowings for financing their advances to small-scale industries and co-operative institutions, with a view to providing an incentive to banks to increase their lending to these sectors. By a circular issued in December 1961, the Reserve Bank granted additional quotas to individual banks to enable them to borrow at Bank rate amounts equivalent to the increase in their average lendings to small-scale industries and co-operative institutions in the first half of 1961 over the corresponding period of 1960. The incentive scheme, which was brought into force from January 1, 1962, as an experimental measure, showed encouraging results during the first six months of its operation. Scheduled banks' advances to small-scale industries, which had amounted to Rs. 32.08 crores at the end of December 1961, increased to Rs. 34.59 crores at the end of June 1962; the State Bank of India and its Subsidiaries together accounted for Rs. 17.64 crores or 51 per cent of the total. At the end of June 1962, the number of accounts of small-scale industrial units with scheduled banks was over 13,000 and the average amount of advance per account Rs. 26,500, the corresponding figures as at the end of June 1961 being 11,900 and Rs. 22,770. Scheduled banks' advances to co-operative institutions also recorded an increase; the outstanding amount at the end of June 1962 was Rs. 10.62 crores as against Rs. 9.97 crores at the end of December 1961, the State Bank and its Subsidiaries accounting for almost the whole (98 per cent) of this amount. Scheduled banks' advances to small-scale industries and co-operative institutions formed 3.1 per cent of their total advances at the end of June 1962, as compared to 2.5 per cent at the end of June 1960. The incentive scheme has been continued, with some modifications. For the period January-June 1963, the Reserve Bank has granted additional quotas for Rs. 10 crores to 44 scheduled banks for borrowings at the Bank rate. These quotas have been based on the average of increases over two corresponding half years. Each bank has been assigned an additional quota for the first half of 1963, equivalent to the average of increases recorded by the bank in (i) January-June 1961 over January-June 1960 and (ii) January-June 1962 over January-June 1961, provided that the amount was not less than Rs. 1 lakh.

Scheduled Banks' Loans to Small-scale Industries and Co-operative Institutions

62. The Credit Guarantee Scheme for small-scale industries, which was initiated by the Government of India on an experimental basis in July 1960, completed two years of working on June 30, 1962. As stipulated in the Scheme, a comprehensive review of its working was prepared by the Reserve Bank and forwarded to Government for decision in regard to the continuance or otherwise of the Scheme. On the basis of the recommendations contained in the review, the Government of India have placed the Scheme on a permanent basis on the existing terms and conditions, with effect from January 1, 1963, and have also extended its area of operation from 52 districts to cover the entire country. The Reserve Bank of India, which is the Guarantee Organisation under the Scheme, will continue to administer the Scheme, as hitherto. During 1962, guarantees were issued in respect of 2146 applications for Rs. 8.16 crores as against 1569 applications for Rs. 5.15 crores in 1961. Since its inception upto the end of 1962, the Guarantee Organisation had received 4266 applications for guarantee for sums aggregating Rs. 16.26 crores, against which guarantees were issued in respect of 3887 applications for a total amount of Rs. 13.95 crores. The guarantee under the Scheme was invoked in respect of five advances and the Guarantee Organisation paid its share of Rs. 25,808 on account of the default of borrowers. Although the bulk of the applications continued to emanate from the State Bank of India, which had been operating a scheme of liberalised credit for small-scale industries and had decided to bring all its advances to such industries under the guarantee cover there was evidence of greater interest on the part of other credit institutions to participate in the Scheme and enlarge their advances to small-scale industries during the year under review; thus as many as 31 other credit institutions from all parts of the country had applied for guarantees under the Scheme up to the end of 1962 as against 19 till the end of 1961.

Credit Guarantee Scheme for Small-scale Industries

63. The Bank initiated early in April 1962 a survey of medium-term loans granted by banks to industry. Under this survey, banks were requested to supply data, as on April 27, 1962, not only in regard to formal term loans (i.e. those granted for periods exceeding one year), but also credit which was short-term in nature, but in respect of which there was a specific understanding, either formal or informal, between the bank and the customer that it would be renewed beyond one year or that repayment of the loan, either in part or in lump sum, would take place after one year. Preliminary data relating to 43 banks (including all Indian banks with deposits of Rs. 25 crores and over) indicate that outstanding medium-term credit to industry amounted to Rs. 78.6 crores as on April 27, 1962, which formed about 14 per cent of their total outstanding credit to industry. Of this amount, formal term loans amounted to about Rs. 45.6 crores and the balance represented short-term credit rolled over for periods exceeding one year.

Medium-term Credit to Industry

64. Mention may be made here of the facilities for medium-term credit to small-scale industries provided by the State Bank of India. In 1960, the State Bank had finalised a Scheme for granting reasonable amounts of medium-term advances upto 7 years to small-scale units, which were obtaining their working capital

needs from the bank, to meet the cost of modernisation and expansion. During 1962, the bank extended the scope of such financing to the units which did not avail themselves of short-term advances earlier. The bank also introduced during the year an Instalment Credit Scheme, which has been designed to finance purchases of equipment or machinery by small and medium sized businesses engaged in approved manufacturing operations, such as those connected with defence requirements. The maximum amount for each advance would be normally limited to Rs. 5 lakhs and the loan will be repayable in regular monthly, quarterly or half-yearly instalments spread over a period of 5 years.

Refinance Corporation for Industry

65. During 1962, the activities of the Refinance Corporation, which extends refinance facilities, among other financial institutions, to 56 commercial banks, continued to expand. The Corporation sanctioned 73 applications for Rs. 10.63 crores, as against 59 applications for Rs. 10.71 crores in 1961, the total amount disbursed rising from Rs. 4.71 crores to Rs. 7.96 crores. Since its inception in June 1958, the Corporation received 202 applications for Rs. 33.85 crores, and the amount sanctioned was Rs. 27.12 crores, of which Rs. 14.92 crores were disbursed, the total amount of loans outstanding at the end of 1962 being Rs. 13.56 crores. Among the steps taken by the Corporation to enlarge the scope of its working included the extension of refinancing facilities to (i) loans made jointly by two or more banks or a bank and term lending institution, provided such loans are eligible under the refinance scheme, (ii) loans made to small-scale industries upto a period of 10 years if they are guaranteed under the Credit Guarantee Scheme upto the maximum permissible period and (iii) the medium-term portion (i.e. instalments repayable within 7 to 10 years) of long-term loans. The Corporation has also offered to provide refinancing facilities to banks extending term finance to mining units to enable them to utilise the World Bank Loan of $ 35 million for the expansion of coal mining in the private sector. The Corporation's Scheme for refinancing medium-term export credits extended by banks is referred to in paragraph 68.

Developments in Export Finance

66. In October 1958, the Reserve Bank had extended the Bill Market Scheme to export bills, with a view to enabling banks to extend credit facilities to exporters on a more liberal basis. Under this Scheme, banks had to lodge not only their demand promissory notes, but also usance promissory notes drawn by exporters as security with the Reserve Bank. The exporters were, however, reluctant to execute usance promissory notes as required by the Bank, after having tendered to banks for purposes of negotiation, documentary export bills, which banks sent abroad for acceptance and collection. The Study Group on Export Finance, informally constituted by the Ministry of Commerce and Industry, Government of India in 1960, which examined this problem, had recommended that the Bank might consider the desirability of extending loans against usance export bills on the security of only the promissory note of the scheduled bank, instead of against the promissory notes of both the scheduled bank and the exporter. The Study Group had also recommended that, in view of the change that had taken place in the post-war years in the method of invoicing exports, the currency

of export bills eligible for purchase, sale and rediscount in terms of the Reserve Bank of India Act should be extended from 90 days to 180 days.

67. In pursuance of these recommendations, Section 17 of the Reserve Bank of India Act, 1934 was amended in September 1962, enabling the Reserve Bank to purchase and re-discount export bills maturing within 180 days and to lend against eligible usance promissory notes arising out of *bona fide* commercial or trade transactions relating to the export of goods from India and maturing within 180 days. A new sub-section, viz. Section 17(3A) was also incorporated in the Reserve Bank of India Act, 1934 empowering the Reserve Bank to make advances to any scheduled bank against its promissory notes repayable on demand or on the expiry of fixed periods not exceeding 180 days, provided a declaration in writing is furnished by it that it holds and will, so long as any part of such loans and advances remains unpaid, continue to hold eligible export bills of a value not less than the amount of such loans or advances outstanding for the time being. Consequent on this amendment, the Bank introduced an 'Export Bills Credit Scheme', which was brought into force on March 23, 1963. Under the Scheme, advances will be made by the Reserve Bank, in terms of Section 17(3)(A) of the Reserve Bank of India Act, to eligible scheduled banks against their promissory notes repayable on demand and upon their declarations of holdings of eligible usance export bills drawn in foreign currencies or Indian rupees and purchased/negotiated/discounted by them. The main features of the Scheme are that (i) it has the effect of widening the range of the collateral against which scheduled banks could borrow from the Reserve Bank inasmuch as they could now borrow against the declaration of outstanding usance export bills, (ii) scheduled banks will be able to borrow against usance export bills on the security of their demand promissory notes at a slightly lower cost as they need not incur the stamp duty charges of 0.2 per cent payable under the Bill Market Scheme, and (iii) loans by the Reserve Bank against rupee export bills will be made at the Bank rate and will be treated as *additional* to the basic quota of the bank concerned for borrowing at the Bank Rate as well as *additional* to the overall borrowing quota of the bank; such loans will however, be granted on the condition that, *inter alia*, the borrowing bank agrees to charge commission, interest or discount on the usance rupee export bills at a rate not exceeding 1½ per cent over the Bank rate. The immediate effect of the scheme was to reduce the rate charged by authorised dealers on rupee export bills from 6-1/2 per cent to 6 per cent.* This facility of borrowing from the Reserve Bank additional amounts at the Bank rate against rupee export bills will be in force initially for a period of about six months upto the end of September 1963.

68. Another recommendation of the Study Group on Export Finance was that the Refinance Corporation for Industry should extend refinancing facilities to medium-term export credits with a view to stepping up exports of capital and engineering

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* The discount rate on sterling usance bills drawn for periods not exceeding 90 days has since been fixed at 5¼ percent by the Foreign Exchange Dealers' Association consequent on the change in the U.K. Bank rate to 4 percent on January 3, 1963.

goods. Pursuant to this recommendation, the Corporation drew up a Scheme for refinancing of medium-term export credits for periods exceeding 6 months but not exceeding 5 years, which came into force from January 1, 1963. Under the Scheme, while the facility will be ordinarily extended to exports of capital and engineering goods included in the list approved by the Corporation, the Corporation will consider extending the facility to other goods also, where the Exchange Control Department of the Bank agrees to the receipt of sale proceeds within the specified period exceeding six months and upto 5 years initially. The refinancing facilities will be available to banks which are authorised dealers in foreign exchange and otherwise eligible for such facilities from the Corporation. The exporters should be in the private sector and may be manufacturers, recognised export houses or other exporters of standing. The Scheme also provides for refinancing of pre-shipment credit, where it is combined with post-shipment credit. The total period of credit, excluding the period of pre-shipment credit, should not be less than six months or more than five years, and the exporters should obtain the necessary exemption under Rule 6 of the Foreign Exchange Regulation Rules, 1952. The minimum amount of a loan in respect of which refinance may be sought has, for the time being, been fixed at Rs. 1 lakh and the total amount of export credit refinance to any one exporter at not exceeding Rs. 50 lakhs. Exports should be against firm contracts and ordinarily covered by an appropriate policy of the Export Risks Insurance Corporation, Ltd. The rate of interest at which refinancing facilities will be made available to banks has, for the time being, been fixed at 5 per cent which is ½ per cent lower than the general rate at which refinancing facilities are made available under the Corporation's scheme for refinancing industrial loans.

69. In accordance with another recommendation of the Study Group, the State Bank of India Act, 1955 was amended during the year so as to enable the State Bank of India to grant medium-term credits against exports for periods not exceeding seven years. So far as the Subsidiaries of the State Bank are concerned, these banks are already permitted to grant such credits, with the approval of the Reserve Bank of India, under the State Bank of India (Subsidiary Banks) Act, 1959.

Collection and Furnishing of Credit Information

70. Banks in India do not normally exchange information with one another regarding credit facilities sanctioned by them to their constituents. In the absence of information regarding the aggregate amount of credit obtained by a constituent from all banking companies, it could be possible for a constituent to obtain financial accommodation from a number of banks to an extent not warranted by his means or repaying capacity. To enable the banks to ensure that the grant of credit to individual parties was not excessive or beyond the safety limit, it was considered desirable to provide a machinery to pool the information relating to the total banking commitments of their constituents. With this end in view, the Reserve Bank of India Act, 1934 was amended during the year so as to empower the Reserve Bank to collect credit information from individual banks and notified financial institutions and to supply to them on application the relative information in a consolidated form. Under the newly-introduced Section 45C(1) of the Reserve Bank of India Act, all scheduled and non-scheduled banks have been directed to submit to the Reserve Bank quarterly statements relating to credit information.

in respect of secured limits of Rs. 5 lakhs and above and unsecured limits of Rs. 1 lakh and above, beginning from the quarters ended September and December 1962, respectively.

Bankers Training College

71. The Reserve Bank continued to sponsor appropriate training courses for the different categories of bank personnel. The Bankers Training College, which was set up in 1954 for imparting training in practical banking to the supervisory staff of commercial banks, conducted 4 senior courses, 4 intermediate courses and 1 industrial finance course during the year. In addition, the College also introduced in September 1962 a special course in "Foreign Exchange" of about six weeks' duration, in pursuance of one of the suggestions made at the Seminar organised by the College in June 1961, with a view to imparting specialized training in foreign exchange. The total number of candidates who have received training in the College since its inception in all the above courses is 1320. The training facilities at the College, which were hitherto available only to commercial banks and State Financial Corporations, were also extended to the apex and central co-operative banks from May 1962 to enable their officers to receive adequate training in commercial banking.

Seminars for Executives of Banks

72. As a further step in promoting sound banking techniques and procedures, the Reserve Bank of India initiated a programme of seminars for chief executives of banks, the first seminar being held in Madras in March 1963 for the chief executives of small banks in the Southern region. The chief executives of 29 banks mostly with deposits up to Rs. 1 crore participated. The seminar provided a forum for the chief executives of the banks to exchange views among themselves and with the officers of the Reserve Bank and some of the bigger commercial banks on subjects of common interest. The seminar discussed a variety of subjects such as steps to be taken for mobilising savings of the people in semi-urban and rural areas, procedures, techniques and safeguards adopted by banks in their investment and lending operations, internal controls and inspections, legal provisions concerning the working of banks and their relationship with the Reserve Bank. Emphasis was laid on reorientation of procedures and techniques so as to achieve the necessary measure of strength and viability and give to small banks a progressive outlook. The officials of the Reserve Bank also held discussions with the chief executives of the banks regarding specific difficulties faced by them in the management of their respective banks.

Employer-Employee Relations in Banking Industry

73. The National Industrial Tribunal (Bank Disputes) constituted by the Government of India in March 1960, with Shri K. T. Desai as the Presiding Officer, gave its Awards during the year. The Awards* related to the disputes between 68 commercial banks and their workmen and the Reserve Bank of India and its workmen. The terms of reference of the Tribunal covered, *inter alia* categorisation of banks and areas, scales of pay and allowances, superannuation benefits, medical aid, hours of work, and

* For detailed summaries of the Awards, see Reserve Bank of India Bulletins for August, October and November 1962.

overtime etc. Besides, the Tribunal also gave an Award on the dispute between certain banking companies and their workmen on the question of bonus, which was referred to the Tribunal by the Government of India in September 1960.

74. The Award relating to the scales of pay and allowances, retirement benefits etc., of commercial bank employees was published by the Government of India on June 30, 1962. Briefly, the Award classified commercial banks into 3 categories (excluding 6 banks which are in the excepted list with separate scales of pay) and areas in which banks have their offices into 3 classes. The Tribunal has fixed different scales of pay for banks according to their category and area of operation, with 1949 as the base year. The dearness allowance is linked to changes in the All-India Working-Class Consumer Price Index (Base:1949=100), while the house rent allowance is related to the population of cities and towns at which the banks have their offices. The Tribunal has also granted leave fare concession to workmen in 'A' class banks and their families once in every three years, for rest and recuperation. The Award was given retrospective effect from January 1, 1962 in regard to categorisation of banks and areas, scales of pay and method of adjustment therein, dearness and some other specified allowances, provident fund, pension and gratuity. In respect of all other matters, the Award became effective from July 31, 1962. The Award applies only to employees who are workmen within the meaning of the definition of 'workmen' in Section 2(s) of the Industrial Disputes Act, 1947, and for so long as they remain workmen.

75. The Award relating to bonus to workmen of certain banking companies was published on July 21, 1962. The Tribunal has stated that from the terms of reference, it was clear that the dispute was in connection with profit bonus. In laying down the principles of profit bonus, the Tribunal has stated that such bonus is not to be regarded either as an *ex-gratia* payment or as a deferred wage. The Tribunal has directed that for the purpose of bonus the profit of each unit of the banking industry should be considered independently and each year should be taken as a separate self-sufficient unit. The available surplus out of which bonus is to be paid would be arrived at after certain deductions for prior charges have been made from the adjusted profits.

76. The Award relating to the wage dispute between the Reserve Bank of India and its workmen was published on September 29, 1962. Broadly, the Tribunal has adopted the same principles for fixation of scales of pay as in the case of the Award relating to the wage dispute between commercial banks and their workmen. The Tribunal has classified the different centres where the Bank has its offices into two classes, viz., (1) higher pay centres and (2) other than higher pay centres, and fixed different scales of pay for each. The Tribunal has also adopted the same basis as in the other Award for the payment of dearness allowance and house rent allowance. The Award came into force from January 1, 1962 in respect of scales of pay and method of adjustment in scales of pay, special pay, officiating pay, dearness allowance, house rent allowance, provident fund, pension and gratuity. In respect of all other matters,

the Award became effective from October 30, 1962. All employees of the Bank working in a supervisory capacity (including those who are in receipt of wages not exceeding Rs. 500 per month) are excluded from the operation of the Award. After the publication of the Award, the employees of the Reserve Bank of India filed a petition before the Supreme Court seeking leave to appeal on a number of issues decided by the Tribunal. The Supreme Court has granted the leave asked for but the hearings have not yet commenced.

CHAPTER III

THE PERSPECTIVE

77. In the last two years, banking in India has made impressive advance. Deposits have shown a high rate of increase which, even allowing for the role played by deficit financing, is indicative of a degree of success in banks' efforts at deposit mobilisation. Branch expansion programmes have played a notable part in it. The process of weeding out inefficient and uneconomic units and merging the weaker units with stronger ones has also helped to strengthen the banking structure. The introduction of a scheme of deposit insurance has given a measure of protection to the depositors which may be expected to sustain and increase public confidence in the banking system.

78. The accelerated growth in deposits referred to has, however, not been adequate to enable the banking system to meet all the demands for bank credit comfortably, and the credit-deposit ratio has steadily tended to rise. The average for the banking system during 1962 was 70 per cent and the peak 73 per cent. For some individual banks the figures have been much higher, ranging above 80 per cent. Correspondingly, the proportion of liquid or near liquid assets has declined. This decline has occurred in face of the higher liquidity requirements prescribed under legislation recently enacted, due to come into effect from September 1964. The problem of phasing conformity to the liquidity goals is thus thrown into relief and will pose special difficulty for certain banks with over-extended resources positions.

79. The onset of the emergency has, for the present, heightened the acuteness of the problem. On the one hand, deposit growth has slowed down somewhat while, on the other, the pressure on banks for credit has increased. A major explanation of the current pressure on the banking system lies in the magnitude and complexity of the adjustments which the economy has to undergo to gear itself to a substantially higher defence effort while maintaining the rate of development. In this process Government has inevitably to claim a larger share of the total resources available for consumption and investment in the economy. Patterns of income distribution, consumption, savings and investment have to undergo significant changes. In the initial phase, which is what the country is currently in, the flow of savings to the banking system has been reduced as a part of it has been diverted to Government through various contributions such as to the National Defence Fund and the Defence Bonds. As the tempo of defence and other expenditure rises, the liquidity position of banks and the flow of deposits should improve. The situation, however, will call for a review of banks' policies and efforts at deposit mobilisation, as the problem of channelling the widely dispersed savings occasioned by the pattern and scale of public expenditure during the phase ahead will present new facets. There is also the need for banks to so orient their credit policies that while adequate finance is assured for defence and defence-related and developmental activities, demand for less essential purposes is curtailed.

80. The recent introduction of gold control by the Government should also assist in diverting fresh funds from investment in gold and gold ornaments into more fruitful channels, and bank deposits should claim their due share of these. A properly planned policy of branch expansion can go a long way in increasing bank deposits at this juncture. This calls in particular for extension of banking facilities to the unbanked areas of the country. In such areas, intensive drives through imaginative publicity which is responsive to particular local requirements would pay good dividends. For, the ability to attract deposits is intimately linked up with the range and efficiency of services offered, which have to be adapted with increasing ingenuity and resourcefulness to cater to the customers' needs.

ANNEXURE TO CHAPTER II

Particulars of action taken by the Bank in the discharge of its obligations under the Banking Companies Act, 1949.

Bank Inspections

In accordance with its policy of periodical inspections, the Reserve Bank of India continued to carry out inspections of banks. During the year, 53 scheduled banks and 132* non-scheduled banks were inspected under Section 35 of the Banking Companies Act, 1949.

Seventy banks were called upon to submit their representations, if any, in regard to the directions proposed to be issued to them for compliance. In addition, one bank was asked to send its representation against the proposed refusal of a licence to it.

Scheme of Arrangement

In August 1962, The Himalya Bank Ltd., Palanpur, working under a scheme of arrangement, applied to the High Court for modifications in certain clauses of the scheme and the modifications were sanctioned by the High Court on October 12, 1962.

Liquidation

During the year, seven banks (comprising one scheduled and six non-scheduled banks) went into liquidation. Of these, three† were ordered to be wound up by the Court on the applications filed by the Reserve Bank under Section 38(3) of the Banking Companies Act, 1949, while the remaining four‡ went into voluntary liquidation, after obtaining a certificate from the Bank under Section 44(1) of the Banking Companies Act, 1949.

The scheduled bank which was ordered to be wound up during the year was the Bank of China. This bank, which has its head office in Peking in the People's Republic of China, opened its first place of business in India at Calcutta in July 1941 and was included in the Second Schedule to the Reserve Bank of India Act, 1934 in August 1941. It had also an office in Bombay. In view of the act of aggression on Indian territories, committed by the People's Republic of China in October 1962 the Reserve Bank was satisfied that the continuance of the bank was prejudicial to the interests of the depositors and further that the carrying on of banking business by the bank in India would not be in the public interest. On November 2, 1962, therefore, the licence granted to the bank under the provisions of Section 22(1) of the Banking Companies Act, 1949, was cancelled in terms of Section 22(4) of the Act. On the same date, the Reserve Bank filed an application in the Calcutta High Court

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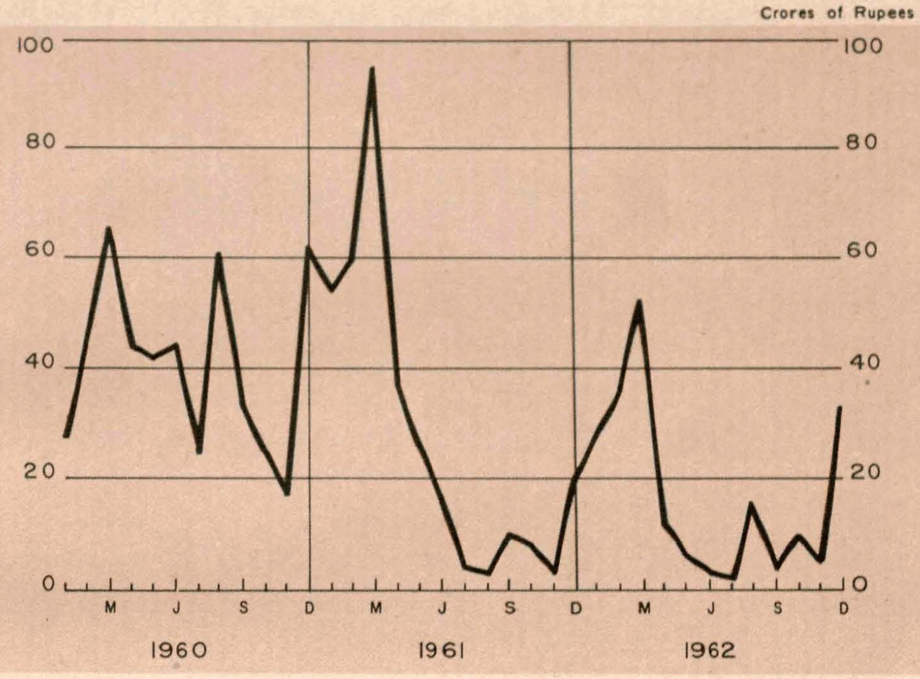
* Including 2 banks inspected for the purpose of issuing a certificate under Section 44 (1) of the Banking Companies Act, 1949.

† (1) Bank and Stores Ltd., Purnea (2) Bank of China and (3) Central Banking Corporation of Travancore Ltd., Alleppey.

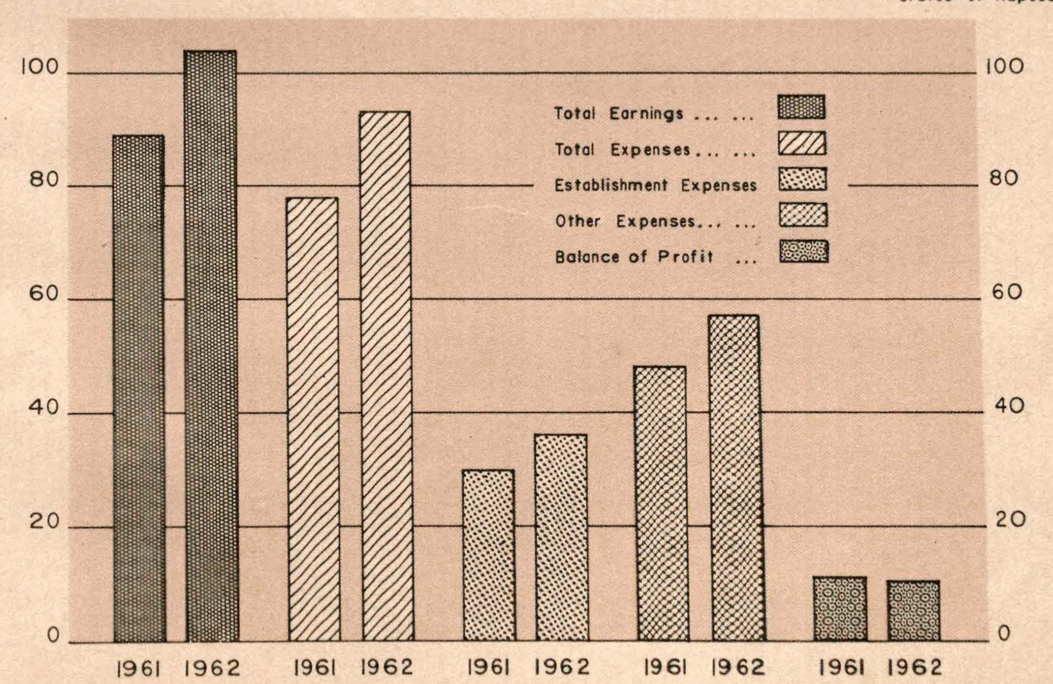
‡ (1) Sringeri Sri Sarada Bank Ltd., Sringeri. (2) Bank of Chittoor Ltd., Chittoor. (3) Kannivadi Bank Ltd., Dindigul (4) Shri Dwarkanathar Bank Ltd., Salem.

GRAPH 1 AND 2

MONTH-END OUTSTANDING ADVANCES OF RESERVE BANK OF INDIA TO SCHEDULED BANKS

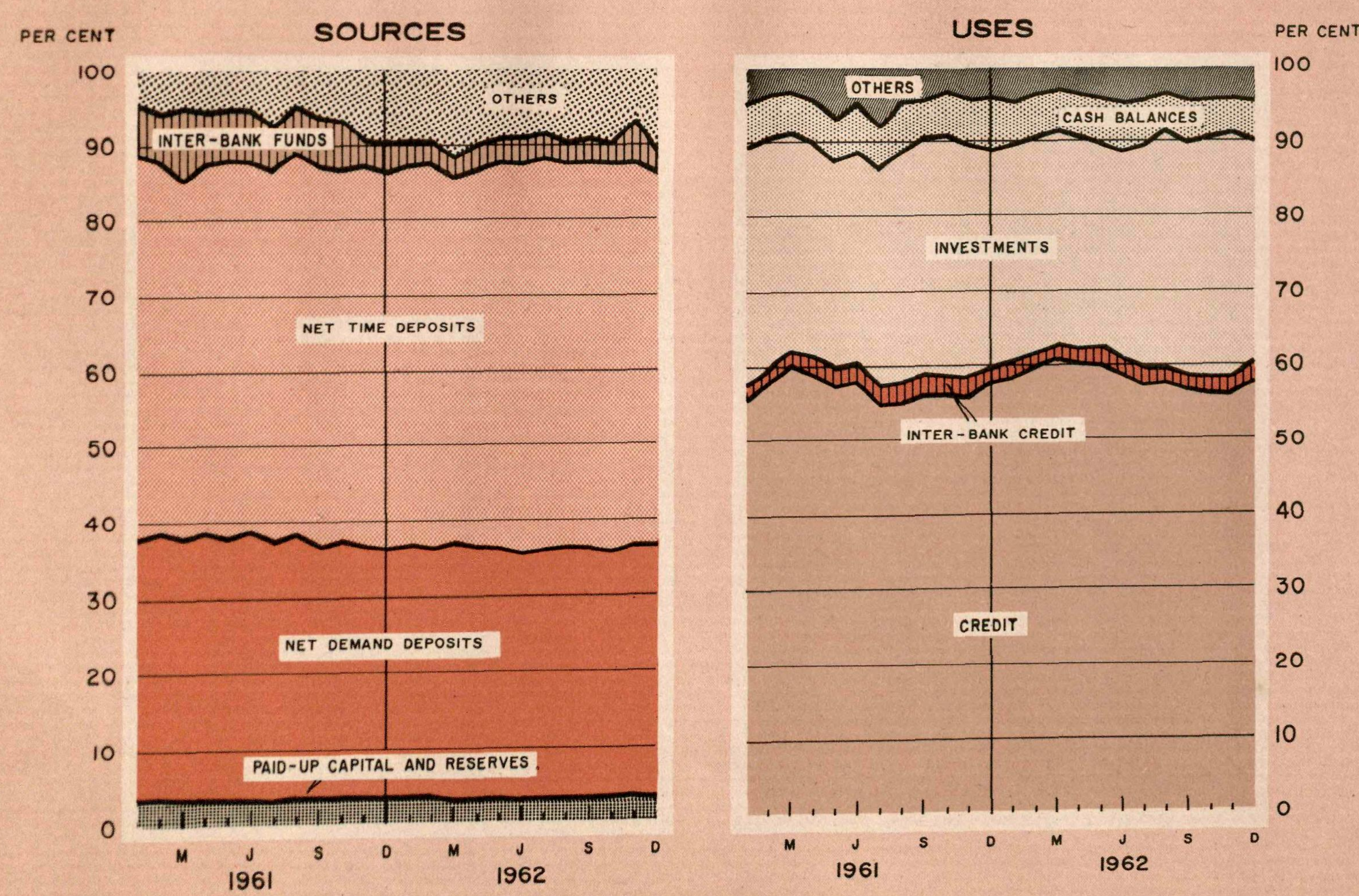


EARNINGS AND EXPENSES OF THIRTY-TWO LARGER INDIAN SCHEDULED BANKS



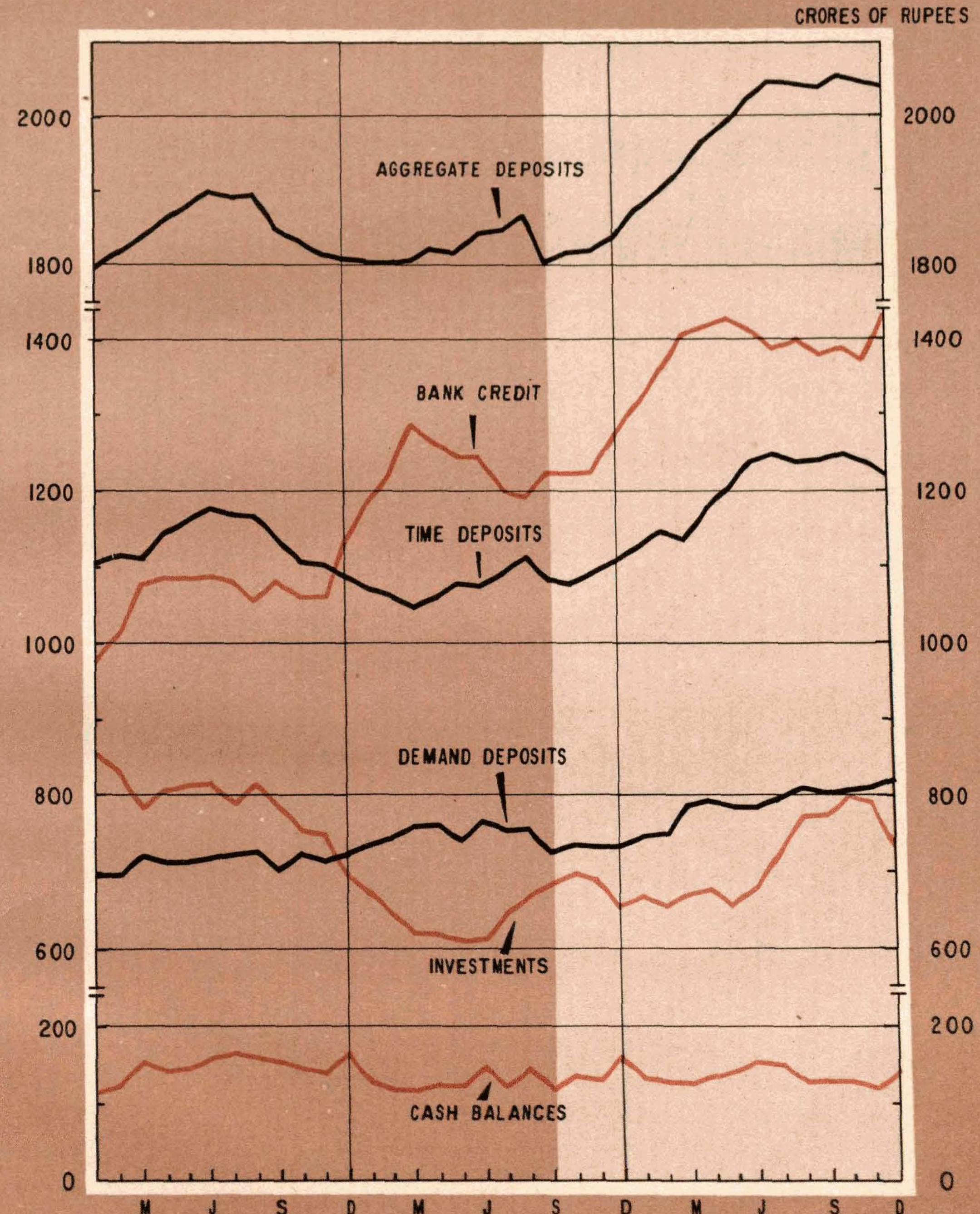
GRAPH 3

SOURCES AND USES OF FUNDS — SCHEDULED BANKS



GRAPH 4

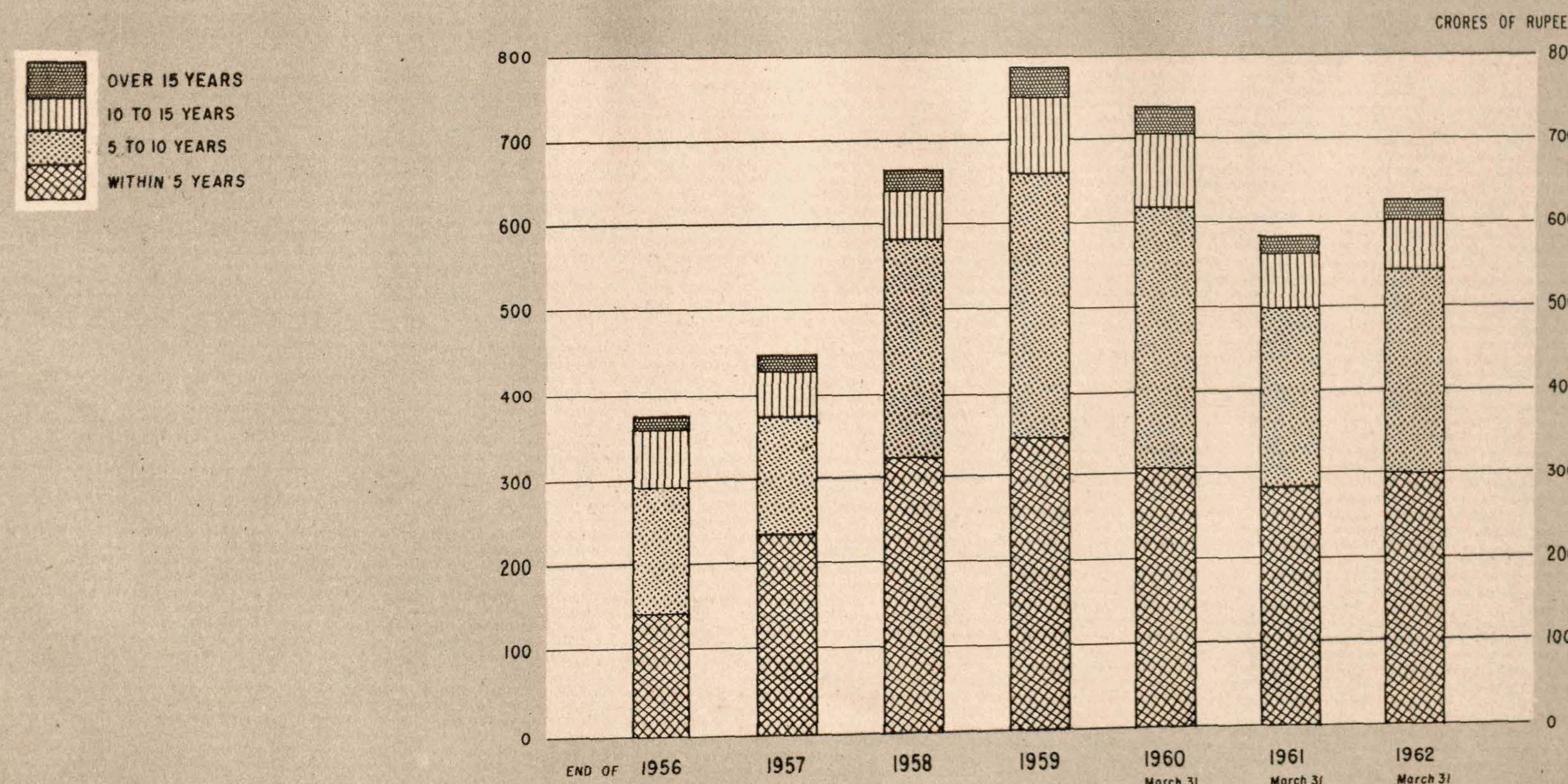
PRINCIPAL LIABILITIES AND ASSETS OF SCHEDULED BANKS



Data from September 1961 are not comparable with earlier years.

GRAPH 5

MATURITY DISTRIBUTION OF INVESTMENTS OF SCHEDULED BANKS IN GOVERNMENT SECURITIES



for the winding up of the bank under Section 38 of the above Act when the Court passed an interim order appointing the Official Liquidator attached to the Court as the provisional Liquidator of the bank. On December 10, 1962, the Court passed the final order for the winding up of the bank and appointed the Official Liquidator as the Liquidator.

During the year, 697 returns under Section 45R of the Banking Companies Act, 1949, were submitted by the liquidators of 157 banking companies. The returns were scrutinised with a view to ensuring that there were no inconsistencies in them, that the legal requirements were complied with and that the liquidation proceedings were not unduly delayed.

The following paragraphs contain particulars of the position of banks, vis-a-vis the more important Sections of the Banking Companies Act, 1949.

Section 11 (Requirement as to minimum paid-up capital and reserves)—During the year one application for permission to issue fresh capital for the purpose of compliance with Section 11 of the Banking Companies Act, 1949 was referred to the Bank by the Controller of Capital Issues, bringing the total number of such applications since the Act came into force to 220. The application was recommended for acceptance.

Section 22 (Licensing of banking companies)—During the year 9 banks comprising 7 non-scheduled banks and two scheduled banks were granted licences under Section 22 of the Banking Companies Act, 1949, while the licence granted to one scheduled bank was cancelled. The total number of licensed banks stood at 73 at the end of 1962. Six non-scheduled banks and one scheduled bank were refused licences as the affairs of one of the non-scheduled banks were being conducted in a manner detrimental to the interests of its depositors, while the rest of the banks had either ceased to be banking companies or decided to convert themselves into non-banking companies; the total number of banks for which licence was refused up to December 31 1962 was 146*. The applications of 210 banks were pending at the end of the year.

Section 23 (Licences to banks for opening offices)—Section 23 of the Banking Companies Act, 1949, as amended by the Banking Companies (Amendment) Act, 1959, empowers the Reserve Bank of India to issue conditional licences to banks for opening offices. During the year, such licences were issued to six banks in respect of six offices. Statements showing the position in regard to licensing of branches in terms of Section 23 of the Act are given in Appendix II

* Excluding one bank which was granted a conditional licence and seven banks whose licences were cancelled.

APPENDIX I

Particulars in respect of banks granted moratorium during 1962 under Section 45 of the Banking Companies Act, 1949.

Name of the Bank	No of offices	Name of the Transferee Bank	Date on which scheme of amalgamation came into force
Unity Bank Ltd., Madras.	1	State Bank of India	20-8-1962

APPENDIX II

Particulars regarding Licensing of Banks

1. Statement showing the position in regard to licensing in terms of Section 23 of the Banking Companies Act, 1949.

No. of places in respect of which applications were received during 1962 and those pending as at the end of 1961	No. of places in respect of which licences were granted/ refused for opening new offices		For opening temporary offices		For changing the location of existing offices		TOTAL	
	Granted	Refused	Granted	Refused	Granted	Refused	Granted	Refused
1004 @ (17)	277 (6)	52	14	—	1	—	292 (6)	52

Note : Figures within brackets indicate the number of offices outside India and are included in the main figures.

@ Applications in respect of 660 offices including 11 for offices outside India were pending as on December 31, 1962.

2. Statement showing the Number of Offices opened or closed in Foreign Countries by Indian Banks during 1962.

Country	No. of offices opened	No. of offices closed
Port Louis (Mauritius)	1	—
Moshi (Tanganyika)	1	—
Mbale (Uganda)	1	—
Manchester (U. K.)	1	—
Lagos (Nigeria)	1	—
Chittagong (Pakistan)	—	1
	5	1

APPENDIX III

Particulars in respect of Amalgamations and Transfer of Assets and Liabilities of Banking Companies in 1962.

Name of the Bank	No. of offices	Name of the Transferee Bank	Date of Amalgamation or Transfer
I List of Banks amalgamated under Section 44A of the Banking Companies Act, 1949.			
1. Presidency Industrial Bank Ltd., Poona ...	2	Bank of Karad Ltd., Karad ...	24- 5-1962
2. Gadodia Bank Ltd., Bombay ...	8@	Bank of India Ltd., Bombay ...	23-12-1962
3. South India Commercial Bank Ltd., Karur ...	5*	Bank of Madura Ltd., Madurai.	15-12-1962
II List of Banks which have transferred their Assets and Liabilities to other Banks.			
1. Hindu Bank Karur Ltd. ...	8	Canara Industrial and Banking Syndicate Ltd., Udipi ...	27-8-1962
2. Salem Ammapet Sengundar Bank Ltd., Salem ...	1	Canara Industrial and Banking Syndicate Ltd., Udipi ...	27-8-1962
3. Kerala Service Bank Ltd., Trivandrum ...	16†	Canara Industrial and Banking Syndicate Ltd., Udipi ...	29-12-1962
4. Surat Banking Corporation (Private) Ltd., Surat ...	1	Bank of Baroda Ltd., Baroda ..	13-12-1962
II List of Banks amalgamated under Section 45 of Banking Companies Act, 1949.			
1. Unity Bank Ltd., Madras** ...	1	State Bank of India ...	20- 8-1962

† Only 8 offices continued by the transferee bank.

@ 6 offices taken over by the transferee bank and two merged with its branches.

* 4 offices taken over by the transferee bank and one office merged with its branch.

**This bank was granted moratorium under Section 45 of the Banking Companies Act 1949 from March 25, 1962 to August 19, 1962.

APPENDIX IV

Indo-Pakistan Agreement on Banking

During 1962 the Implementation Committees set up under the Banking and Movable Property Agreements met in New Delhi between the 29th and the 31st March 1962. The more important decisions arrived at and the action taken thereunder are indicated below :

(1) The Pakistan Government would look into the cases where, despite orders for de-freezing the assets of Indian banks issued as far back as December 1952, restrictions continued to be placed in respect of certain banks. The Pakistan Government, however, did not appear to have taken steps in the matter as it was observed from the complaints received from some of the Indian banks that the restrictions imposed on them earlier had continued.

(2) The transfer of accounts on a matching basis from the non-agreed areas should be deferred till the position in respect of all the accounts is verified and detailed instructions were to be issued to banks in both the countries in this behalf for the payment of the accounts if possible before the end of July 1962. Of the accounts received by the Reserve Bank from the State Bank of Pakistan for verification, those amounting to Rs. 8.74 lakhs have been treated as eligible for transfer to Pakistan and 117 accounts amounting to Rs. 3.25 lakhs are still under verification, while of the accounts referred to by the Reserve Bank of India to the State Bank of Pakistan for verification, those amounting to Rs. 15.04 lakhs have been treated as eligible for transfer to India and the remaining 479 accounts aggregating Rs. 30.15 lakhs are under verification of the State Bank of Pakistan.

(3) In the case of rental charges on lockers and safe deposits of Muslim evacuees certain Indian banks had agreed to levy the same charges in regard to the lockers and safe deposits of Muslim evacuees as they did in the case of non-Muslim evacuees with their branches in Pakistan. On this basis a new bill might be sent to the Pakistan Government for payment.

(4) In regard to shares and securities deposited in banks, further lists may be exchanged. The repatriation of the sale proceeds of certain shares and securities already sold by the banks may be considered on a reciprocal basis.

It was also decided to consider the question of transferring the balances in respect of accounts falling under the following heads :—

(1) bank accounts in the individual, joint, or proprietary names of contractors, the documents relating to which were previously pledged with Government departments and have been released subsequently and

(2) shares of evacuee teachers of private educational institutions in the conjoint accounts of provident funds kept with commercial banks lying in the en bloc transfer areas in Pakistan i.e. the erstwhile West Punjab Province and Bahawalpur State. Accordingly, a press note was issued by the Reserve Bank of India calling for applications in the prescribed form in respect of the accounts falling under the above categories before the 15th September 1962. A statement compiled on the basis of the applications received has been forwarded by Reserve Bank's New Delhi office in December 1962 to the State Bank of Pakistan for verification and transfer to India.

The question of inclusion of banks working under schemes of arrangement or in liquidation within the scope of the Banking Agreement was also considered again at the Sixth Meeting of the Implementation Committee held at New Delhi in March 1962 but the matter was postponed to the next meeting. In this connection it may be mentioned that the Reserve Bank had supplied to the State Bank of Pakistan information in respect of Indian banks working under schemes of arrangement or in liquidation as early as in November 1961. Similar information regarding Pakistani banks has been supplied by the State Bank of Pakistan only recently i. e. on the 5th December 1962.

As regards the grant of facilities to Indian banks for realisation of their assets in Pakistan, the Government of Pakistan issued in February 1962 and March 1962 instructions to various departments to settle outstanding claims of Indian banks, including disbursement of the amount payable to them in respect of movable properties belonging to or pledged or hypothecated to them and taken over by Government departments. In view of this the Reserve Bank issued circulars in March and April 1962 asking concerned banks to pursue their claims vigorously with the appropriate authorities in Pakistan. No amounts have been recovered by the banks so far.

During the course of the Implementation Committee meeting, it was understood from the Pakistan authorities that some of the Indian banks had shown willingness to resume normal working in Pakistan. At the instance of the Government of India it was made clear to the concerned banks that no transfer of funds from India to Pakistan would be permitted to enable them to resume business in Pakistan. It may be added in this connection that on the 6th June 1962 the Government of Pakistan promulgated the Pakistan Banking Companies Ordinance. In terms of Section 13(3) of the Ordinance, foreign banks operating in Pakistan were required to maintain by way of paid-up capital and reserves an aggregate amount of Rs. 20 lakhs or 5% of their total liabilities whichever is higher and the entire amount was to be transferred from outside. The amount was to be maintained within six months from the date of the Ordinance. In view of the stand taken by the Government of India and as Indian banks have already enough assets in Pakistan out of which the required deposits would be created, the matter was taken up with the Government of Pakistan. The Government of Pakistan have since exempted banks from the above requirements till December 6, 1963.

APPENDIX V

THE BANKING COMPANIES (AMENDMENT) ACT, 1962
(No. 36 of 1962)

An Act *further to amend the Banking Companies Act, 1949*

Be it enacted by Parliament in the Thirteenth Year of the Republic of India as follows:—

1. Short Title. This Act may be called the Banking Companies (Amendment) Act, 1962.

2. Amendment of section II. In section 11 of the Banking Companies Act, 1949 (10 of 1949.) (hereinafter referred to as the principal Act),—

(*i*) in sub-section (*2*), in clause (*b*), for the words beginning with "the banking company shall" and ending with "required by clause (*a*)", the following shall be substituted, namely:—

"the banking company shall deposit and keep deposited with the Reserve Bank either in cash or in the form of unencumbered approved securities, or partly in cash and partly in the form of such securities—

(*i*) an amount which shall not be less than the minimum required by clause (*a*); and

(*ii*) as soon as may be after the expiration of each calendar year, an amount calculated at twenty per cent of its profit for that year in respect of all business transacted through its branches in India, as disclosed in the profit and loss account prepared with reference to that year under section 29:";

(*ii*) after sub-section (*2*), the following sub-section shall be inserted, namely:—

"(*2A*) Notwithstanding anything contained in sub-section (*2*), the Central Government may, on the recommendation of the Reserve Bank, and having regard to the adequacy of the amounts already deposited and kept deposited by a banking company under sub-section (*2*), in relation to its deposit liabilities in India, declare by order in writing that the provisions of sub-clause (*ii*) of clause (*b*) of sub-section (*2*) shall not apply to such banking company for such period as may be specified in the order.";

(*iii*) in sub-section (*3*), in clause (*ii*), the following proviso shall be inserted at the end, namely:—

"Provided further that in the case of every banking company to which this clause applies and which commences banking business for the first time after the commencement of the Banking Companies (Amendment) Act, 1962, the value of its paid-up capital shall not be less than five lakhs of rupees.".

3. **Amendment of section 17.** In section 17 of the principal Act,—

(*i*) in sub-section (*1*), the words "unless the amount in such fund together with the amount in the share premium account is not less than its paid-up capital," shall be omitted;

(*ii*) after sub-section (*1*), the following sub-section shall be inserted, namely:—

"(*1A*) Notwithstanding anything contained in sub-section (*1*), the Central Government may, on the recommendation of the Reserve Bank and having regard to the adequacy of the paid-up capital and reserves of a banking company in relation to its deposit liabilities, declare by order in writing that the provisions of sub-section (*1*) shall not apply to the banking company for such period as may be specified in the order:

Provided that no such order shall be made unless, at the time it is made, the amount in the reserve fund under sub-section (*1*), together with the amount in the share premium account is not less than the paid-up capital of the banking company.".

4. **Amendment of section 18.** In section 18 of the principal Act, for the words "two per cent of its time liabilities in India and five per cent of its demand liabilities in India,", the words "three per cent of the total of its time and demand liabilities in India," shall be substituted.

5. **Amendment of section 22.** In section 22 of the principal Act, in sub-section (*3*), in clause (*c*), after the words "a company incorporated outside India that", the words "the carrying on of banking business by such company in India will be in the public interest and that" shall be inserted.

6. **Amendment of section 24.** In section 24 of the principal Act, after sub-section (*2*), the following sub-section shall be inserted, namely:—

"(*2A*) (*a*) Notwithstanding anything contained in sub-section (*1*) or in sub-section (*2*), after the expiry of two years from the commencement of the Banking Companies (Amendment) Act, 1962,—

(*i*) a scheduled bank, in addition to the average daily balance which it is, or may be, required to maintain under section 42 of the Reserve Bank of India Act, 1934, (2 of 1934) and

(*ii*) every other banking company, in addition to the cash reserve which it is required to maintain under section 18, shall maintain in India in cash, gold or unencumbered approved securities, valued at a price not exceeding the current market price, an amount which shall not at the close of business on any day be less than 25 per cent of the total of its demand and time liabilities in India;

(*b*) in computing the amount for the purposes of clause (*a*),—

(*i*) the deposit required under sub-section (*2*) of section 11 to be made with the Reserve Bank by a banking company incorporated outside India, and

(*ii*) any cash or balances maintained in India by a banking company other than a scheduled bank with itself or in current account with the Reserve Bank or the State Bank of India or with any other bank which may be notified in this behalf by the Central Government, in excess of the aggregate of the cash or balance or both required to be maintained under section 18, and

(*iii*) any balances maintained by a scheduled bank with the Reserve Bank in excess of the balance required to be maintained by it under section 42 of the Reserve Bank of India Act, 1934, and any balances maintained by a scheduled bank with the State Bank of India or with any other bank which may be notified in this behalf by the Central Government, shall be deemed to be cash maintained in India."

7. Amendment of section 35B. In section 35B of the principal Act, in sub-section (*2*), for the figures and word "268, 269, 310, 311 and 388", the figures, words and brackets "268 and 269, the proviso to sub-section (*3*) of section 309, sections 310 and 311, the proviso to section 387, and section 388" shall be substituted.

8. Amendment of section 51. In section 51 of the principal Act,—

(*i*) after the figures "35", the figures and letter "35A" shall be inserted; and

(*ii*) the figures and letter "37, 44B" shall be omitted.

APPENDIX VI

The State-Associated Banks (Miscellaneous Provisions) Act, 1962

(No. 56 of 1962)

An Act *further to amend the State Bank of India Act, 1955, the State Bank of India (Subsidiary Banks) Act, 1959, and the Bankers' Books Evidence Act, 1891, and to provide for the winding up of certain minor State-associated banks and for matters connected therewith*

Be it enacted by Parliament in the Thirteenth Year of the Republic of India as follows:—

1. Short title and commencement. (*1*) This Act may be called the State-Associated Banks (Miscellaneous Provisions) Act, 1962.

(*2*) Section 3, except clauses (*ii*), (*iv*) and (*vii*) thereof, shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint; and the rest of this Act shall come into force at once.

2. Amendment of Act 23 of 1955. In the State Bank of India Act, 1955—

(*i*) in sub-section (*3*) of section 31, the following proviso shall be inserted at the end, namely:—

"Provided that nothing contained in this sub-section shall apply to such director by reason only of his being—

(*i*) a shareholder (other than a director) holding not more than two per cent of the paid-up capital in any public company as defined in the Companies Act, 1956, (I of 1956) or any corporation established by or under any law for the time being in force in India or any co-operative society, with which or to which the State Bank has entered into or made, or proposes to enter into or make, a contract, loan, arrangement or proposal; or

(*ii*) a director *ex officio* of the State Bank or a director of a subsidiary bank";

(*ii*) in section 34,—

(*a*) in sub-section (*5*), after the words "without security," the words "or without security of a description authorised by this Act" shall be inserted;

(*b*) in sub-section (*6*)—

(*i*) for the word and figures "section 33", the words "this Act" shall be substituted;

(*ii*) the words "interest in" shall be omitted; and

(*iii*) in section 50, in clause (*q*) of sub-section (*2*), after the words "without security" in both the places where they occur, the words "or without security of a description authorised by this Act" shall be inserted.

3. Amendment of Act (38 of 1959). In the State Bank of India (Subsidiary Banks) Act, 1959—

(*i*) in section 2, sub-clause (*iii*) of clause (*b*), sub-clause (*iii*) of clause (*c*) and sub-clause (*iii*) of clause (*d*) shall be omitted;

(*ii*) in Chapter II, for the existing heading, the following heading shall be substituted, namely:—

"CONSTITUTION OF NEW BANKS AND CHANGE OF NAME OF ANY SUBSIDIARY BANK";

(*iii*) in section 3, clause (*c*) shall be omitted;

(*iv*) after section 3, the following section shall be inserted, namely:—

"**3A. Change of name of a subsidiary bank** (*1*) The Central Government after consulting the State Bank and the Reserve Bank may, by notification in the Official Gazette, direct that the name of any subsidiary bank shall, with effect from such date as may be specified in this behalf, be changed to any other name and thereupon any reference to that subsidiary bank in this Act or any other law for the time being in force or in any contract, instrument or document shall be construed as a reference to that bank by its new name.

(*2*) The change in the name of a subsidiary bank under sub-section (*1*) shall not affect any rights or obligations of that bank or render defective any legal proceedings by or against it, and any legal proceedings which might have been continued or commenced by or against that bank by its former name may be continued by or against it by its new name.";

(*v*) in section 12, after sub-section (*3*), the following sub-section shall be inserted, namely:—

(*4*) For the purposes of this section,—

(*a*) "corresponding new bank" means in relation to the Bank of Jaipur Limited, the institution constituted under section 3 as the State Bank of Bikaner;

(*b*) "existing bank" includes the Bank of Jaipur Limited';

(*vi*) in section 13, for sub-section (*13*), the following sub-section shall be substituted, namely:—

'(*13*) For the purposes of this section,—

(*a*) "corresponding new bank" does not include the State Bank of Patiala and means in relation to the Bank of Jaipur Limited, the institution constituted under section 3 as the State Bank of Bikaner;

(*b*) "existing bank" includes the Bank of Jaipur Limited, but does not include the Bank of Patiala.';

(*vii*) in section 34, for the proviso to sub-section (*5*), the following proviso shall be substituted, namely:—

"Provided that nothing contained in this sub-section shall apply to such director by reason only of his being—

(*i*) a shareholder (other than a director) holding not more than two per cent of the paid-up capital in any public company as defined in the Companies Act, 1956, (I of 1956) or any corporation established by or under any law for the time being in force in India or any co-operative society, with which or to which the subsidiary bank has entered into or made, or proposes to enter into or make, a contract, loan, arrangement or proposal; or

(*ii*) a director of the State Bank or of any other subsidiary bank being a director under clause (*a*) or clause (*e*) of sub-section (*1*) of section 25 or being an officer of the Reserve Bank or the State Bank nominated under clause (*b*) or clause (*c*) of that sub-section";

(*viii*) in section 36, sub-sections (*3*) and (*4*) shall be omitted; and

(*ix*) for section 59, the following section shall be substituted, namely:—

"**59. Construction of references to existing banks** (*1*) For the purposes of sections 45, 49, 55, 58 and the First Schedule, the expression 'existing bank' shall include the Bank of Jaipur Limited.

(*2*) Except as otherwise provided in any general or special order made by the Central Government, any reference in any law, other than this Act, or in any contract or other instrument—

(*a*) to an existing bank, shall be construed as a reference to the corresponding new bank;

(*b*) to the Bank of Jaipur Limited, shall be construed as a reference to the State Bank of Bikaner.".

4. **Amendment of Act 18 of 1891.** In the Bankers' Books Evidence Act, 1891, in section 2—

(*i*) for clause (*1*), the following clauses shall be substituted, namely:—

'(*1*) "company" means any company as defined in section 3 of the Companies Act, 1956, (I of 1956.) and includes a foreign company within the meaning of section 591 of that Act;

(*1A*) "corporation" means any body corporate established by any law for the time being in force in India and includes the Reserve Bank of India, the State Bank of India and any subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959; (38 of 1959);

(*ii*) for sub-clause (*a*) of clause (*2*), the following clause shall be substituted, namely:—

"(*a*) any company or corporation carrying on the business of banking,".

5. **Provisions in respect of the State Bank, Dholpur** (*1*) Notwithstanding anything to the contrary contained in any other law or in any order or other instrument—

(*a*) the Central Government may by order appoint one or more officers to take over the management of the Dholpur bank or to wind up its affairs and distribute its assets and any expenditure incurred in connection with such appointment, management, winding up or distribution shall be payable by that bank;

(*b*) the principal civil court of original jurisdiction in the district in which the Dholpur bank's head office is situated shall have exclusive jurisdiction to entertain and decide any claim made by or against the Dholpur bank or any question whatever, whether of law or of fact, which may relate to or arise in the course of the winding up of that bank, whether such claim or question has accrued or arisen before or accrues or arises after the date of the winding up order, and any suit or other legal proceeding, whether of a civil or criminal nature, relating to any such claim or question and pending in any other court at the commencement of this Act shall not be proceeded with except in accordance with this section;

(*c*) in regard to the admissibility of the entries in the books of account as evidence in the course of the proceedings for the winding up of the bank, the settlement of the list of debtors of the bank, the passing of orders for the payment of the amounts due by the said debtors, the execution of the said orders or any other orders or decrees of the court, the priority of the claims on the bank, the making of preferential payments and the discharge of the other liabilities of the bank and any other incidental or connected matters, the law relating to the winding up of banking companies, as in force for the time being, shall apply as if the Dholpur bank were a banking company;

(*d*) the period of limitation for any suit or application relating to any payment due to the Dholpur bank which has accrued before or may accrue on or after the date of the first appointment of the officer in charge of winding up of the bank shall be twelve years from the date of the accrual of the claim or five years from the date of such first appointment of the officer aforesaid, whichever may end later; and

(*e*) after the repayment of all the deposit liabilities and any other amounts due to be paid by the bank including the amounts due to the Government of Rajasthan, the remaining assets, if any, of the bank shall be utilised, as far as may be, for the purposes and objects specified in the State Bank, Dholpur Act, 1915, and other relevant documents.

(*2*) In this section, "Dholpur bank" means the bank known as the Dholpur State Bank and governed at the commencement of this section by the State Bank, Dholpur Act, 1915.

6. **Amendment of the State Bank of Kurundwad (Junior) Act, 1933.** In the State Bank of Kurundwad (Junior) Act, 1933—

(*a*) in section 22, for the words "The Indian Companies Act as applied to the State," the words and figures "The Companies Act, 1956" shall be substituted; and

(*b*) after section 22, the following section shall be inserted, namely:—

"22A. **Special provision for winding up of the bank.** No provision of law relating to the winding up of companies or corporations shall apply to the bank and—

(*i*) the provisions of section 5 of the State-Associated Banks (Miscellaneous Provisions) Act, 1962, except the provisions of clauses (*d*) and (*e*) of sub-section (*1*) thereof, and

(*ii*) the provisions of section 45-O of the Banking Companies Act, 1949 (10 of 1949.),

shall apply to or in relation to the bank as if references to the court were references to the principal civil court of original jurisdiction in the district in which the bank's head office is situated and references to the Dholpur bank were references to the State Bank of Kurundwad (Junior) Ltd.".

APPENDIX VII

The Reserve Bank of India (Amendment) Act, 1962

(No. 35 of 1962)

An Act *further to amend the Reserve Bank of India Act, 1934 and to make certain consequential amendments in the State Bank of India Act, 1955.*

Be it enacted by Parliament in the Thirteenth Year of the Republic of India as follows:—

1. **Short title.** This Act may be called the Reserve Bank of India (Amendment) Act, 1962.

2. **Amendment of section 8.** To sub-section *(2)* of section 8 of the Reserve Bank of India Act, 1934 (2 of 1934) (hereinafter referred to as the principal Act), the following proviso shall be added, namely:—

"Provided that the Central Board may, if in its opinion it is necessary in the public interest so to do, permit the Governor or a Deputy Governor to undertake, at the request of the Central Government or any State Government, such part-time honorary work, whether related to the purposes of this Act or not, as is not likely to interfere with his duties as Governor or Deputy Governor, as the case may be.".

3. **Amendment of section 17.** In section 17 of the principal Act,—

(a) in sub-clause *(a)* of clause *(2)*, for the words "maturing within ninety days from the date of such purchase or re-discount, exclusive of days of grace;" the following words shall be substituted, namely:—

"maturing,—

(i) in the case of bills of exchange and promissory notes arising out of any such transaction relating to the export of goods from India, within one hundred and eighty days, and

(ii) in any other case, within ninety days,

from the date of such purchase or re-discount, exclusive of days of grace;";

(b) in clause *(3)*, for sub-clause *(b)*, the following sub-clause shall be substituted namely:—

"*(b)* the purchase, sale and re-discount of bills of exchange (including treasury bills) drawn in or on any place in any country outside India which is a member of the International Monetary Fund and maturing,—

(*i*) in the case of bills of exchange arising out of any *bona fide* transaction relating to the export of goods from India, within one hundred and eighty days, and

(*ii*) in any other case, within ninety days, from the date of such purchase or re-discount:—

Provided that no such purchase, sale or re-discount shall be made in India except with a scheduled bank or a State co-operative bank. ";

(*c*) after clause (*3*), the following clause shall be inserted, namely:—

"(*3A*) the making to any scheduled bank or State co-operative bank of loans and advances, against promissory notes of such bank, repayable on demand or on the expiry of fixed periods not exceeding one hundred and eighty days;

Provided that the borrowing bank furnishes a declaration in writing, to the effect that—

(*i*) it holds bills of exchange arising out of any transaction relating to the export of goods from India, of a value not less than the amount of such loans or advances,—

(*a*) drawn in India and on any place in any country outside India which is a member of the International Monetary Fund or in any other country notified in this behalf by the Bank in the Gazette of India, and

(*b*) maturing not later than one hundred and eighty days from the date of the loan or advance; and

(*ii*) it will, so long as any part of such loans and advances remains unpaid, continue to hold such bills of exchange of a value not less than the amount of such loans or advances outstanding for the time being;";

(*d*) to clause (*4*), the following proviso shall be added, namely:—

"Provided that loans and advances made against the security of bills of exchange and promissory notes arising out of any transaction relating to the export of goods from India shall be repayable on demand or on the expiry of fixed periods not exceeding one hundred and eighty days.".

4. Amendment of section 42. In section 42 of the principal Act,—

(*a*) in sub-section (*1*),—

(*i*) for the words "five per cent of the demand liabilities and two per cent of the time liabilities", the words "three per cent of the total of the demand and time liabilities" shall be substituted;

(*ii*) for the proviso, the following proviso shall be substituted, namely:—

"Provided that the Bank may, by notification in the Gazette of India, increase the said rate to such higher rate as may be specified in the notification so however that the rate shall not be more than fifteen per cent of the total of the demand and time liabilities.";

(*iii*) in the *Explanation*, in clause (*c*), for the words and brackets "Refinance Corporation for Industry (Private) Limited", the words "Refinance Corporation for Industry Limited" shall be substituted;

(*b*) in sub-section (*1A*),—

(*i*) for the words "rates specified in the notification, such additional balance being calculated with reference to the excess of the demand and time liabilities of the bank as shown in the return referred to in sub-section (*2*) over its demand and time liabilities", the words "rate specified in the notification, such additional balance being calculated with reference to the excess of the total of the demand and time liabilities of the bank as shown in the return referred to in sub-section (*2*) over the total of its demand and time liabilities" shall be substituted;

(*ii*) the proviso shall be omitted;

(*c*) after sub-section (*1A*), the following sub-section shall be inserted, namely:—

"(*1AA*) Notwithstanding anything contained in sub-section (*1*) or sub-section (*1A*), it shall not be necessary for any scheduled bank to maintain with the Bank any balance which shall be more than fifteen per cent of the total of its demand and time liabilities as shown in the return referred to in sub-section (*2*).";

(*d*) in sub-section (*1B*), the following proviso shall be inserted at the end, namely:—

"Provided further that where the Bank does not, under sub-section (*5*), demand the payment of the penalty imposed by sub-section (*3*), it may pay interest at such rate or rates as may be determined by the Bank from time to time on the amount actually maintained with it by the scheduled bank, notwithstanding that such amount is less than the balance required to be maintained in pursuance of a notification issued under the proviso to sub-section (*1*) or under sub-section (*1A*).";

(*e*) for sub-section (*5*), the following sub-section shall be substituted, namely:—

"(*5*) (*a*) The penalties imposed by sub-sections (*3*) and (*4*) shall be payable within a period of fourteen days from the date on which a notice issued by the Bank demanding the payment of the same is served on the scheduled bank, and in the event of a failure of the scheduled bank to pay the same within such period, may be levied by a direction of the principal civil court having jurisdiction in the area where an office of the defaulting bank is situated, such direction to be made only upon an application made in this behalf to the court by the Bank;

(*b*) when the court makes a direction under clause (*a*), it shall issue a certificate specifying the sum payable by the scheduled bank and every such certificate shall be enforceable in the same manner as if it were a decree made by the court in a suit;

(*c*) notwithstanding anything contained in this section, if the Bank is satisfied that the defaulting bank had sufficient cause for its failure to comply with the provisions of sub-section (*1*), (*1A*) or (*2*), it may not demand the payment of the penal interest or the penalty, as the case may be."

5. **Amendment of section 43A.** In section 43A of the principal Act, after the words and figures "or section 43", wherever they occur, the words and figures and letter "or in pursuance of the provisions of Chapter IIIA" shall be inserted.

6. **Insertion of new Chapter IIIA.** In the principal Act, after Chapter III, the following Chapter shall be inserted, namely:—

Chapter IIIA

COLLECTION AND FURNISHING OF CREDIT INFORMATION

45A. **Definitions.** In this Chapter, unless the context otherwise requires,—

(*a*) "banking company" means a banking company as defined in section 5 of the Banking Companies Act, 1949, (10 of 1949) and includes the State Bank of India or any other banking or financial institution notified by the Central Government in this behalf;

(*b*) "borrower" means any person to whom any credit limit has been sanctioned by any banking company, whether availed of or not, and includes—

(*i*) in the case of a company or corporation, its subsidiaries;

(*ii*) in the case of a Hindu undivided family, any member thereof or any firm in which such member is a partner;

(*iii*) in the case of a firm, any partner thereof or any other firm in which such partner is a partner; and

(*iv*) in the case of an individual, any firm in which such individual is a partner;

(*c*) "credit information" means any information relating to—

(*i*) the amounts and the nature of loans or advances and other credit facilities granted by a banking company to any borrower or class of borrowers;

(*ii*) the nature of security taken from any borrower for credit facilities granted to him; and

(*iii*) the guarantee furnished by a banking company for any of its customers.

45B. *Power of Bank to collect credit information* The Bank may—

(*a*) collect, in such manner as it may think fit, credit information from banking companies; and

(*b*) furnish such information to any banking company in accordance with the provisions of section 45D.

45C. *Power to call for returns containing credit information*

(*1*) For the purpose of enabling the Bank to discharge its functions under this Chapter, it may at any time direct any banking company to submit to it such statements relating to such credit information and in such form and within such time as may be specified by the Bank from time to time.

(*2*) A banking company shall, notwithstanding anything to the contrary contained in any law for the time being in force or in any instrument regulating the constitution thereof or in any agreement executed by it, relating to the secrecy of its dealings with its constituents, be bound to comply with any direction issued under sub-section (*1*).

45D. *Procedure for furnishing credit information to banking companies*

(*1*) A banking company may, in connection with any financial arrangement entered into or proposed to be entered into by it, with any person, make an application to the Bank in such form as the Bank may specify requesting it to furnish the applicant with such credit information as may be specified in the application.

(*2*) On receipt of an application under sub-section (*1*), the Bank shall, as soon as may be, furnish the applicant with such credit information relating to the matters specified in the application, as may be in its possession:

Provided that the information so furnished shall not disclose the names of the banking companies which have submitted such information to the Bank.

(*3*) The Bank may in respect of each application levy such fees, not exceeding twentyfive rupees, as it may deem fit for furnishing credit information.

45E. *Disclosure of information prohibited*

(*1*) Any credit information contained in any statement submitted by a banking company under section 45C or furnished by the Bank to any banking company under section 45D, shall be treated as confidential and shall not, except for the purposes of this Chapter, be published or otherwise disclosed.

(*2*) Nothing in this section shall apply to—

(*a*) the disclosure by any banking company, with the previous permission of the Bank, of any information furnished to the Bank under section 45C;

(*b*) the publication by the Bank, if it considers necessary in the public interest so to do, of any information collected by it under section 45C, in such consolidated form as it may think fit without disclosing the name of any banking company or its borrowers.

(*3*) Notwithstanding anything contained in any law for the time being in force, no court, tribunal or other authority shall compel the Bank or any banking company to produce or to give inspection of any statement submitted by that banking company under section 45C or to disclose any credit information furnished by the Bank to that banking company under section 45D.

45F. *Certain claims for compensation barred.*

No person shall have any right, whether in contract or otherwise, to any compensation for any loss incurred by reason of the operation of any of the provisions of this Chapter.

45G. *Penalties* (*1*) If any banking company—

(*a*) fails to submit any statement required under section 45C or submits under that section a statement which is false in any material particular ; or

(*b*) fails to comply with any condition imposed under this Chapter, every director or other officer of the company and every other person who is knowingly a party to the breach shall be punishable with fine which may extend to two thousand rupees.

(*2*) If any person discloses any credit information, the disclosure of which is prohibited under section 45E, he shall be punishable with imprisonment which may extend to six months or with fine which may extend to one thousand rupees or with both.".

7. **Amendment of the State Bank of India Act, 1955.** In the State Bank of India Act, 1955 (23 of 1955.)—

(*i*) in section 33, in clause (*xixb*), after the words "classes of industries", the words "or in such business or trade or classes of business or trade" shall be inserted;

(*ii*) in section 34, to sub-section (*3*), the following proviso shall be added, namely:—

"Provided that nothing in sub-clause (*ii*) of clause (*b*) shall apply where the State Bank holds by way of a collateral security any negotiable instrument or security which does not mature within six months from the date aforesaid in respect of any loan, advance or cash credit sanctioned under this Act.".

APPENDIX VIII

Selected Notifications relating to Banking Companies

Government of India

Ministry of Finance

Department of Economic Affairs

1. No.F.4(88)-BC/62. dated October 26, 1962.

Collection and Furnishing of Credit Information

S.O.3290.—In pursuance of clause (*a*) of section 45*A* of the Reserve Bank of India Act, 1934 (2 of 1934), the Central Government hereby notifies for the purpose of the said clause the following banking and financial institutions, namely:—

(*a*) all subsidiary banks as defined in section 2(*k*) of the State Bank of India (Subsidiary Banks) Act, 1959;

(*b*) the Industrial Finance Corporation of India established under the Industrial Finance Corporation Act, 1948;

(*c*) all State Financial Corporations governed by the State Financial Corporations Act, 1951;

(*d*) the Madras Industrial Investment Corporation Ltd.;

(*e*) the Industrial Credit and Investment Corporation of India Ltd.;

(*f*) the National Industrial Development Corporation Ltd.; and

(*g*) the Rehabilitation Industries Corporation Ltd.

2. No. F. 4/32/62-SB dated December 18, 1962.

In exercise of the powers conferred by sub-section (2) of section 38 of the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959), the Central Government hereby sanctions the terms and conditions submitted to it under the said sub-section (2) and set out in the Annexure to this order, relating to the acquisition by the State Bank of Bikaner of the business, including the assets and liabilities of the State Bank of Jaipur, and specifies the 1st January 1963 as the date on which the said terms and conditions shall come into effect.

Annexure to the Government of India, Ministry of Finance, Department of Economic Affairs, Order No. F. 4/32/62-SB dated December 18, 1962.

Scheme for taking over the undertaking of the State Bank of Jaipur by the State Bank of Bikaner under Section 38 of the State Bank of India (Subsidiary Banks) Act, 1959.

Without prejudice to the generality of the foregoing provision and subject to the other provisions of this scheme all contracts, deeds, bonds, agreements, powers of attorney, grants of legal representation and other instruments of whatever nature, subsisting or having effect immediately before the taking over date and to which the Jaipur Bank is a party or which are in favour of that bank or the rights or obligations under which they have devolved on that bank under or in pursuance of the Act and in particular section 10 of the Act, shall be of full force and effect against or in favour of the Bikaner Bank and may be enforced or acted upon as fully and effectually as if instead of the Jaipur Bank, the Bikaner Bank had been a party thereto or as if they had been issued in favour of the Bikaner Bank.

APPENDIX IX

SELECTED CIRCULARS ISSUED TO BANKING COMPANIES AND OTHER CREDIT INSTITUTIONS

1. DBO. No. Cre. 453/C. 218 (K)-62 dated January 13, 1962.

Advances against ordinary shares of Joint Stock Companies—All Scheduled Banks

We have reviewed the working of our regulation of March 11, 1960 prescribing a minimum margin of 50 per cent on bank advances against ordinary shares of joint stock companies. Scheduled bank credit against ordinary shares, which had shown a steep rise prior to our control, has, in the last twentyone months or so, remained pretty stable around Rs. 80—83 crores, despite a considerable increase in the volume of new capital issues on the market and some rise in share prices. Further, from December 1961 onwards, a system of regulatory margins, uniform and automatic, has been in vogue on all the stock exchanges, ensuring a greater measure of internal discipline in their operations. In the light of these developments and the efficacy of the Bank's general credit control system, it is considered appropriate to reduce the minimum margin on advances against shares from 50 per cent to 40 per cent.

2. The other provisions of the directive, such as the exemption in favour of individual personal accounts for a sum not exceeding Rs. 5,000/- and the prohibition of investment in *budla* transactions by banks continue to remain in force.

2. DBO. No. 454/C. 218 (K)-62 dated January 13, 1962.

In exercise of the powers conferred upon it by section 21 and clause (*a*) of sub-section (1) of section 36 of the Banking Companies Act, 1949, the Reserve Bank hereby directs that the directive contained in its letter DBO. No. Sch. 1899/C. 218(K), 60 dated the 11th March 1960, as amended by the directive DBO. No. Cre. 10693/C-218 (K)-61 dated the 23rd October 1961, shall be further amended as follows, namely:

In clauses (*a*) and (*b*) of sub-paragraph 1 (headed "Margin") of paragraph 2 of the said directive, for the words "fifty per cent" at both the places where they occur the words "forty per cent" shall be substituted.

3. DBO. No. Bom. 860/C. 263-62 dated January 25, 1962.

Regarding Capital Funds of banks and the transfer of 20 per cent of disclosed profits to published reserves—All Indian banks

With reference to the Governor's circular No. DBO. No. Bom. 13291/C. 263-61 dated December 27, 1961 a point has been raised whether "the usual and necessary provisions" referred to in paragraph 5(1) thereof include provision for taxation. In this connection, we advise as under—

2. Certain banks have already reserves which are equal to or exceed their paid-up capital. The intention is that such banks should transfer not less than twenty per cent of their disclosed profits arrived at after making the usual and necessary provisions and after deduction of the provision for taxation.

3. There are several banks the reserves of which are not equal to their paid-up capital. The intent of the Governor's letter is that such banks should, till they reach parity of paid-up capital and reserves, follow the same basis of computation as they observed in their Profit and Loss Account for 1960. That is to say, if they computed transfers to reserves on profits *before tax* they should continue to do so till parity is reached.

4. It may happen that banks which have reached parity of paid-up capital and reserves will, by reason of an increase of their paid-up capital, come under the legal obligation to make transfers to their reserves under Section 17 of the Act. Such banks would be permitted to compute their disclosed profits for the purposes of such transfer, after making the usual and necessary provisions and after deduction of the provision for taxation.

5. Though the Governor's letter dated the 27th December 1961 was addressed to the Indian Scheduled banks only, the intention was that all Indian banks should follow the convention referred to in that letter, and accordingly a copy of that letter is being sent to the non-scheduled banks.

4. DBO. No. Cre. 2053/C. 218-62 dated February 28, 1962.

Advances against Foodgrains—All Scheduled Banks

Please refer to the directive regulating bank advances against foodgrains (other than wheat) enclosed with our letter DBO. No. Cre. 4839/C. 218-61 dated May 15, 1961. The output of foodgrains for 1961-62, and in particular of rice, is expected to be much the same as last year, and possibly slightly better. The monthly average of the All-India index of rice prices ruled slightly lower during 1961 than in 1960, but in the last two months the index has been slightly higher than last year. On the whole, it appears advisable to maintain the framework of control on foodgrains, with some relaxation.

2. In view of the relative stability in the supply and price situation in respect of paddy and rice, it has been decided to relax somewhat the provision of the directive regarding ceiling limits. Thus, the ceiling limits from March 1962 onwards for advances against paddy and rice in Andhra Pradesh and other States are increased to 105 per cent of the permitted levels in 1961-62 (March-February).

3. The revised directive also incorporates the provision for additional credit facilities to licensed millers and dealers in the State of Punjab as in our directive DBO. No. Cre. 11061/C. 218-61 dated October 31, 1961 which is now being superseded.

Further, the concession enjoyed by banks in Kerala in respect of their advances against paddy and rice in that State is continued during 1962 in view of the necessity to import larger stocks of foodgrains to cover the shortfall in the production of paddy and rice in the State; the revised directive accordingly provides for additional permitted levels against paddy and rice in respect of offices and branches of banks in Kerala State.

4. As regards 'other foodgrains' (excluding wheat), it has been decided to maintain permitted levels at the same levels as in 1961-62 (March-February) and also to continue the classification of States into Madhya Pradesh, Uttar Pradesh and 'other States'.

5. DBO. No. Cre. 2054/C. 218-62 dated February 28, 1962.

Advances against Foodgrains—All Scheduled Banks

In exercise of the powers conferred upon it under section 21 of the Banking Companies Act, 1949 and in supersession of the directive DBO. No. Cre. 4840/C. 218-61 dated May 15, 1961 as amended by the directive DBO. No. Cre. 11061/C. 218-61 dated October 31, 1961 the Reserve Bank of India hereby directs that every scheduled bank shall—

I. Margin

maintain in respect of each credit limit against the security of paddy and rice or other foodgrains (excluding wheat) a margin which shall not be less than 35 per cent of the value of the relative stocks:

Provided that in respect of credit limits granted to *licensed* dealers and millers in the State of Punjab against the security of paddy and rice, the margin maintained shall not be less than 25 per cent of the value of stocks;

II. Average aggregate level of credit

Paddy and Rice

(*a*) maintain in respect of offices or branches opened before January 1, 1959 in each two-month period commencing from March-April 1962, an average aggregate level of credit against the security of paddy and rice which shall not—

(i) in respect of its offices and branches in the State of Andhra Pradesh exceed 105 per cent of the average aggregate level of credit permitted to be maintained by such offices or branches in the corresponding period of two months during the period March 1961 to February 1962,

(ii) in respect of its offices and branches in all other States taken together exceed 105 per cent of the average aggregate level of credit permitted to be maintained, by such offices or branches in the corresponding period of two months during the period March 1961 to February 1962.

Provided that *in addition* to the level of credit permitted under sub-clause (ii) above, offices and branches in the State of Punjab may maintain an average aggregate level of credit equivalent to 25 per cent of the actual level of such credit allowed to *licensed* dealers and millers in the corresponding period of two months during the period March 1961 to February 1962, provided the additional credit is given to such *licensed* dealers and millers:

Provided further that *in addition* to the level of credit permitted under sub-clause (ii) above, offices and branches in the State of Kerala may maintain during the year 1962 an average aggregate level of credit equivalent to the actual level of such credit maintained by such offices and branches in the corresponding period in 1961.

Other Foodgrains (excluding wheat)

(*b*) maintain separately in respect of its offices and branches in (i) the State of Madhya Pradesh, (ii) the State of Uttar Pradesh and (iii) all other States taken together, in each two-month period commencing from March-April 1962 an average aggregate level of credit against the security of other foodgrains (excluding wheat) which shall not exceed the average aggregate level of credit permitted to be maintained in the corresponding period of two months during the period March 1961 to February 1962.

III. New offices or branches

In addition to the level of credit permitted to be maintained under clauses II(*a*) (for paddy and rice), and II(*b*) (for other foodgrains excluding wheat) above, every scheduled bank may maintain in each two-month period, commencing from March-April 1962, a further level of credit against the security of paddy and rice and other foodgrains (excluding wheat) at its new offices, i.e., offices or branches opened on or after January 1, 1959—(*a*) where such offices are at 'centres without banking facilities', to the extent of Rs. 1 lakh in respect of each such office subject to the relative stocks being in the possession or under the control of the office concerned; but any excess of such level of credit over Rs. 1 lakh shall be taken into account for computing the average aggregate level of credit for the purposes of this directive; (*b*) where such offices are at centres not covered by sub-clause (*a*) above, to an extent equal to *three times* the average aggregate level of credit actually maintained by those offices in the corresponding period of two months during the period March 1961 to February 1962; but any excess of such level of credit over the permitted level under this sub-clause shall be taken into account for computing the average aggregate level of credit for the purposes of this directive.

(*Note:*—The amount of permitted levels for purposes of clauses II and III (*b*) will be intimated to each bank).

IV. Exemptions

Advances against paddy and rice and other foodgrains (excluding wheat) (*a*) made against the pledge of warehouse receipts issued by warehouses established by the Central and State Warehousing Corporations or (*b*) granted to co-operative marketing and processing societies shall not be taken into account for the purposes of this directive.

V. Definitions

For the purposes of this directive:

(*a*) "two-month period" means the successive two months, commencing from March-April 1962 viz., March-April, May-June, etc.;

(*b*) "credit" or "credit limit" includes credit provided by way of (1) loan or advance (2) cash credit or overdraft or (3) purchase or discount of bills other than demand documentary bills drawn in connection with the movement of paddy and rice and other foodgrains (excluding wheat);

(*c*) "average aggregate level of credit" means the average of the outstanding advances as on the four Fridays during the two-month period with reference to which the return in Form 7 is to be furnished; namely, the second and fourth Friday when there are four Fridays in a month or the third and fifth Friday when there are five Fridays in a month;

(*d*) "other foodgrains" (excluding wheat) means any, some or all of the following commodities namely, jowar, bajra, maize, barley, ragi, gram and all other grains and pulses, but does not include paddy and rice;

(*e*) "centre without banking facilities" refers to a place within the radius of 15 miles of which there is no other office or branch of a scheduled bank operating;

(*f*) "*licensed* dealers and millers" in the Punjab refer to dealers and millers licensed under the Punjab Rice Dealers Licensing Order, 1957 and the Punjab Rice Mills (Licensing and Control) Order, 1958, respectively.

VI. Explanation

References in this directive to "average aggregate level of credit" permitted to be maintained in 1961-62 shall be construed as references to the level permitted to be maintained in terms of the directive DBO. No. Cre. 1379/C. 218-61 dated February 8, 1961, as amended by our circular DBO. No. Cre. 1659/C. 218-61 dated February 16, 1961 and the subsequent directive DBO. No. Cre. 4840/C. 218-61 dated May 15, 1961.

VII. Composite Advances

Where credit limits have been sanctioned against the security of paddy and rice and other foodgrains (excluding wheat) and against any other type of security (that is composite credit limits), the credit limits against (*a*) paddy and rice and (*b*) other foodgrains (excluding wheat), shall be segregated and the restrictions contained in this directive shall be made applicable to such segregated limits.

6. DBO. No. Cre. 2056/C.218(H)-62 dated February 28, 1962.

Advances against Oilseeds—All Scheduled Banks

Please refer to the directive enclosed with our letter DBO. No. Cre. 1381/C. 218(H)-61 dated February 8, 1961 regulating bank advances against groundnuts and other oilseeds (excluding cotton seeds). The output of groundnuts during 1961-62 is estimated to be somewhat higher than in the previous year. Prices of groundnuts, both spot and forward, however, continue to maintain a firm trend. Prices of castor seed and linseed also show continued steadiness. It is, therefore, considered necessary to continue the framework of control on advances against groundnuts and other oilseeds. However, in view of the estimated increase in the output of groundnuts, it has been decided to allow a small increase in ceiling limits. Thus, ceiling limits on advances against groundnuts for each two-month period commencing from March-April 1962 are increased to 105 per cent of the levels permitted in the corresponding period of 1961-62 (March-February). A copy of the relevant directive which is being issued in supersession of the directive DBO. No. Cre. 1382/C.218(H)-61 dated February 8, 1961 is enclosed.

2. As the additional limits available to exporters of H.P.S. groundnuts and groundnut oil under the directive are only marginal in nature, it would be permissible for you to meet, *on a priority basis*, part of the credit requirements of exporters, and the full credit requirements of the vanaspati manufacturers, integral oil expeller mills, oil crushers and new oil mills established recently, within the overall permissible credit limits against groundnuts available to you. It is also important for the effective implementation of the provisions of this directive that exemption from margins and ceiling limits accorded to exporters of groundnuts and groundnut oil is scrupulously applied so as to avoid a misuse of the exemption, such as the same exporter obtaining credit from more than one bank in respect of the same export licence or contract. Parties affected by the directive should not also be allowed facilities, which would either directly or indirectly defeat its purpose, for example, through grant of clean advances, discount of clean bills, etc.

7. DBO. No. Cre. 2057/C.218(H)-62 dated February 28, 1962.

Advances against Oilseeds—All Scheduled Banks

In exercise of the powers conferred upon it under Section 21 of the Banking Companies Act, 1949 and in supersession of the directive DBO. No. Cre. 1382/C.

218(H)-61 dated February 8, 1961, the Reserve Bank of India hereby directs that every scheduled bank—

I. Margin

Groundnuts

(i) shall maintain in respect of each credit limit against the security of groundnuts whether granted before or after the date of receipt of this directive, a margin which shall not be less than *45 per cent* of the value of the relative stocks;

Other Oilseeds

(ii) shall maintain in respect of each credit limit against the security of 'other oilseeds' whether granted before or after the date of receipt of this directive, a margin which shall not be less than *40 per cent* of the value of the relative stocks:

Provided that nothing contained in (i) and (ii) shall apply to credit limits in favour of (*a*) vanaspati manufacturers and (*b*) exporters of groundnuts or 'other oilseeds' or groundnut oil.

II. Aggregate Level of Credit

Groundnuts

(*a*) shall, in respect of offices or branches opened before *1st January 1959,* maintain in each *two-month period* commencing from March-April 1962, an average aggregate level of credit against the security of groundnuts, which shall not exceed 105 per cent of the average aggregate level of credit permitted to be maintained by such offices in the corresponding period of 1961-62 (March-February);

(*b*) may in respect of each of the offices or branches opened on or after *1st January 1959* in areas where groundnuts are cultivated or marketed, maintain the level of advances at the average advance per office in February 1961 of the offices granting advances against the security of groundnuts in such areas subject to a ceiling of Rs. 1 lakh per office.

(*Note:* The amount of permissible limits under clause II will be intimated to each bank).

Provided that *in addition* to the permissible level of credit under sub-clauses (*a*) and (*b*) above, a further level of credit against the security of groundnuts may be maintained—(i) in respect of any person or party who holds a licence which is in force or has registered a contract in the form of cable offer and cable acceptance, with the Export Trade Control authorities for the year 1962, for the export of *H.P.S. groundnuts* upto an extent which shall not exceed sixty-six and two-thirds per cent of the value of the unutilised portion of the quota or contracts so registered; (ii) in respect of any person or party holding a licence which is in force for the export of groundnut oil, up to an extent which shall not exceed fifty per cent of the value of the groundnut equivalent of the value of the unutilised quota under such licence, subject to the condition that such person or party is an exporter of groundnut oil and is either an oil crusher or stocks groundnuts for getting them crushed by other oil expellers only for the purpose of export. (*Explanation:* For the purpose of this provision 1 ton of groundnut oil should be taken as equivalent of 2-1/2 tons of groundnuts of ordinary variety).

III. Exemptions

Advances against groundnuts and 'Other Oilseeds' made against the pledge of warehouse receipts issued by warehouses established by the Central and State Warehousing Corporations shall not be taken into account for the purposes of this directive.

IV. Definitions

For the purposes of this directive

(i) 'Other Oilseeds' mean all oilseeds other than groundnuts and cottonseeds.

(ii) 'Unutilised portion of the quota' means total quota *less* that portion thereof which has already been utilised by actual exports.

(iii) 'Unutilised portion of the contract' means total quantity of contract registered with the Export Trade Control authorities *less* that portion which has already been fulfilled by actual exports.

(iv) 'New Offices' mean offices or branches opened on or after the *1st January 1959.*

(v) 'Credit' or 'Credit Limit' includes credit provided by way of loans or advances, cash credit or overdraft or purchase or discount of bills (other than demand documentary bills) drawn in connection with the movement of groundnuts and 'Other Oilseeds'.

(vi) 'Average Aggregate Level of Credit' means the average of the outstanding advances as on the four Fridays during the two-month period with reference to which the return in Form 7 is to be furnished, namely, the second and fourth Friday, when there are four Fridays in a month or the third and fifth Friday when there are five Fridays in a month.

(vii) 'Two-month period' means the successive two months, commencing from March-April 1962, viz., March-April, May-June, etc.

(viii) 'Areas where groundnuts are cultivated or marketed' mean the States of Gujarat, Madras, Maharashtra, Andhra Pradesh, Mysore, Madhya Pradesh and Uttar Pradesh.

V. **Composite Advances**

Where credit limits have been sanctioned against the security of groundnuts, other oilseeds and any other type of security (i.e., composite credit limits), the credit limits against (*a*) groundnuts and (*b*) other oilseeds, shall be segregated and the restrictions contained in this directive shall be made applicable to such segregated limits.

8. DBO. No. Leg. 2404/46A-62 dated March 12, 1962.

Remittance facilities—Amendment to the Reserve Bank of India Scheduled Banks' Regulations, 1951—All Scheduled Banks

Please refer to our circular letter DBO. No. Sch. 12288/66-61 dated the 30th November 1961. In exercise of the powers conferred by sub-sections (1) and (2) of section 58 of the Reserve Bank of India Act, 1934 (2 of 1934), the Central Board of the Reserve Bank of India has, with the previous sanction of the Central Government, amended regulation 8(1)(*b*) of the Reserve Bank of India Scheduled Banks' Regulations at its meeting held on the 26th February 1962, as follows:—

For clause (*b*) of regulation 8(1), the following clause shall be substituted, namely:—

"(*b*) thrice a week free of charge, an amount of Rs. 5,000/- or a multiple thereof on each occasion,—

(i) from any place at which there is an agency of the Bank, to any account which it maintains with the Bank, such remittance being permitted to each of its offices, branches, sub-offices or pay offices; and

(ii) from any account which it maintains with the Bank to any place at which there is an agency of the Bank and it has its office or branch."

9. DBO. No. Sch. 2448/C.96-62 dated March 14, 1962.

Ten-Year Treasury Savings Deposit Certificates—Acceptance as security against loans—All Scheduled banks

Please refer to our circular letter DBO. No. Sch. 8279/C.96-60 dated the 18th October 1960. Under sub-rule (3B) of Rule 7 of the Public Debt Rules, 1946 (relevant extract given below), Treasury Savings Deposit Certificates can be transferred by way of pledge or security to scheduled banks and this has already been brought to your notice in our circular referred to above.

2. The above certificates, tendered as security, can be transferred to the banks by execution of a Transfer Deed in the prescribed form. They can also be encashed

(subject to adjustment of discount at specified rates) after one year from the date of original deposit and normally, therefore, there should be no difficulty for the banks to accept them as security for advances. If, however, you experience any procedural or other difficulties in this regard, you may kindly refer the matter to our Public Debt Offices.

Enclosure to the above circular

Extract of sub-rule (3B) of Rule 7 of the Public Debt Rules, 1946.

"(3B) Notwithstanding anything contained in clause (*e*) of sub-rule (3A) but subject to the conditions specified in clauses (*a*), (*b*), (*c*) and (*d*) of that sub-rule, a Treasury Savings Deposit Certificate may be transferred by way of pledge or security to—

(*a*) a Gazetted Officer of Government in his official capacity;

(*b*) a local authority or any officer of such local authority;

(*c*) the Reserve Bank of India, a scheduled bank or a co-operative society including a co-operative bank; or

(*d*) any other corporation or a Government company as defined in section 617 of the Companies Act, 1956.

Explanation.—In this sub-rule—

(*a*) "local authority" means a municipal corporation, municipal committee, district board, body of Port Commissioners or other authority legally entitled to or entrusted by the Government with the control or management of a municipal or local fund;

(*b*) "corporation" means a corporation established by or under any law for the time being in force but does not include a company or a foreign company as defined in the Companies Act, 1956".

10. DBO. No. Cre. 3795/C.218(H)-62 dated April 19, 1962.

Advances against Oilseeds—All Scheduled Banks

Please refer to the directive enclosed with our letter DBO. No. Cre. 2056/C. 218(H)-62 dated February 28, 1962 regulating bank advances against groundnuts and other oilseeds (excluding cottonseed). The need has been felt for some concession in the operation of our control on advances against groundnuts in respect of integral oil expeller mills operating solvent extraction plants for processing groundnut oilcake of which some considerable quantities are exported in de-oiled condition. The Bank has, therefore, decided to relax somewhat the provisions of the aforesaid directive in order that the banks may be in a position to extend additional credit facilities to integral oil expeller mills to enable them to purchase and store groundnuts for the specific purpose of extracting from them the de-oiled cake of a standard necessary to meet the requirements of foreign importers. A copy of the relevant directive which is being issued is enclosed.

11. DBO. No. Cre. 3796/C.218(H)-62 dated April 19, 1962.

Advances against Oilseeds

In exercise of the powers conferred upon it by section 21 of the Banking Companies Act, 1949, the Reserve Bank of India hereby directs that the following amendment shall be made in its directive DBO. No. Cre. 2057/C.218(H)-62 dated February 28, 1962, namely:—

In the said directive, in the proviso to clause II, after the Explanation to item (ii), the following item shall be inserted:

(iii) in respect of any integral oil expeller mill, upto an extent which shall not exceed 25 per cent of the f.o.b. value of the de-oiled or defatted groundnut cake actually exported by it in the corresponding period of 1961-62 (March-February).

12. DBO. No. Cre. 4505/C.218-62 dated May 10, 1962.

Advances against Paddy and Rice in the State of Orissa—Scheduled Banks Operating in Orissa

Please refer to the directive regulating bank advances against foodgrains other than wheat (enclosed with our letter DBO. No. Cre. 2053/218-62 dated February 28, 1962). The need has been felt for some relaxation in the operation of our control on advances against foodgrains in respect of rice millers and traders in Orissa State. The Bank has, therefore, decided to grant an ad hoc increase in the permitted levels as prescribed under the aforesaid directive, effective for the period from May-June 1962 to January-February 1963 for banks operating in Orissa State. As you have branches in Orissa, the increase in the permitted level sanctioned to you is Rs.__________. The distribution of this additional amount among your branches in Orissa State is left to your discretion, but it should be ensured that this amount is utilised only in making advances to the rice mills and traders in that State, preference being given to rice mills. In case the limit sanctioned now is found to be inadequate, you may please write to us stating your reasons for our consideration. A copy of the relevant directive which is being issued is enclosed.

13. DBO. No. Cre. 4506/C.218-62 dated May 10, 1962.

Advances against Paddy and Rice in the State of Orissa

In exercise of the powers conferred upon it under section 21 of the Banking Companies Act, 1949, the Reserve Bank of India hereby directs that the following changes shall be made in its directive DBO. No. Cre. 2054/C.218-62 dated February 28, 1962, namely:—

In clause II(*a*), for the second proviso, the following shall be substituted—

"Provided further that *in addition* to the level of credit permitted under sub-clause (ii) above,

(A) offices and branches in the State of Kerala may maintain during the year 1962 an average aggregate level of credit equivalent to the actual level of such credit maintained by such offices and branches in the corresponding period in 1961; and

(B) offices and branches in the State of Orissa may maintain during the period beginning with May 1962 and ending with February 1963, an average aggregate level of credit, which may be allowed only to rice mills and traders in paddy and rice, within that State, and which shall not exceed a limit calculated at the rate of Rs. 1.12 lakhs per branch or office within that State."

14. DBO. No. Sch. 6505/C.96-62 dated July 2, 1962.

Governor's Letter to all Scheduled Banks

For some years past, the Reserve Bank has taken the opportunity on the advent of the slack season for agricultural marketing, and consequently also for money market conditions, to urge the banks to endeavour to bring about the normal seasonal contraction of credit, with a view to clearing the decks to take on the credit load of the busy season to follow. Other measures have also been taken by the Bank to minimise recourse by banks to the Reserve Bank and to encourage reliance by them to the maximum extent on their own, deposit and other, resources. This year, the need for banks to secure normal seasonal return of funds is all the greater, in view of the pressures which have been in evidence on the price level and the necessity to hold the price line in the interest of exports in our external payments situation. Also, for some time now, growth in banks' deposit resources has continued to take place at a fairly rapid rate and the pace of this increase is currently being maintained. It is important in this context that the incentive of banks to achieve the necessary reduction of credit in the present slack season is strengthened by some further tightening of the basis of their access to the Reserve Bank, through a readjustment of the Bank's scheme of slab rates of lending. The modifications which are set out below are designed to induce banks to achieve a greater measure of self-reliance and reinforce their efforts to meet the growing credit needs of the private and public sectors through more effective mobilisation of financial resources.

2. The following changes are made in the quota for borrowings from the Reserve Bank announced in our letter D.B.O. No. Sch. 7347/C.96-60 dated September 21, 1960. Effective immediately, the quota during each quarter will be 25 per cent of the average of the reserves required to be kept by each bank under Sub-Section 1 of Section 42 of the Reserve Bank of India Act during each week of the previous quarter. Borrowing upto 100 per cent of the quota will be permitted at the Bank rate, namely, 4 per cent. Any borrowing over this amount upto 200 per cent of the quota (viz., upto 50 per cent of the average of the reserves during the previous quarter) will bear an additional rate of 1 per cent over the Bank rate; borrowings in excess of 200 per cent and upto 400 per cent of the quota (viz., upto 100 per cent of the average of the reserves during the previous quarter) will bear interest at 2 per cent over the Bank rate. Beyond this further limit borrowings will bear interest at 2-1/2 per cent over the Bank rate. The system of quotas and additional rates is applicable only to borrowings of scheduled banks under Section 17(4)(*a*) and (4)(*c*) of the Reserve Bank of India Act. The additions to basic quotas of individual banks announced by the Bank in terms of its circular letter No. DBO. Sch. 12644/C.96-61 dated December 11, 1961 regarding lending to co-operatives and small industries would continue to remain in force and be over and above the quota as set out in this letter.

15. DBO. No. Leg. 7226/C.236-62 dated July 25, 1962.

The Banking Companies Act, 1949—Members of Indian Banks' Association / Bombay Exchange Banks' Association

Please refer to our letter DBO. No. Leg. 1970/C.236-52 dated the 27th March 1952 forwarding a copy of notification No. B.C.A. 2/C.236-52-R.B. dated the 29th February 1952 amending item 4 of the earlier notification No. B.C.A.1/C.236-49-R.B. dated the 12th April 1949 containing a list of currencies in which export bills drawn in, and import bills drawn on and payable in, India may be expressed for the purposes of section 25 of the Banking Companies Act, 1949. In this connection we enclose for the information of the members of your Association a copy of notification No. B.C.A. 3/C.236-62-R.B. dated the 3rd July 1962 further amending our notification No. B.C.A.1/C.236-49-R.B. dated the 12th April 1949. The present notification has been published in the Gazette of India (Part III-Section 4) dated the 14th July 1962 in terms of sub-rule (3) of rule 14 of the Banking Companies Rules, 1949.

Copy of the Notification No. BCA. 3/C.236-62 R.B. dated July 3, 1962.

In pursuance of sub-section (3) of section 25 of the Banking Companies Act, 1949 (10 of 1949) read with sub-rule (3) of Rule 14 of the Banking Companies Rules, 1949, the Reserve Bank of India hereby makes the following alterations in its Notification No. B.C.A. 1/C.236-49-R.B. dated the 12th April 1949, as amended, namely:—

In the said notification, for items 2 to 4, the following items shall be substituted:—

"2. Sterling or any sterling area currency.

3. Currency of any of the following countries or currency areas:—
Austria
Belgian Monetary Area
Canada
Denmark
Dutch Monetary Area
French Franc Area
French Somali Coast
Italian Monetary Area
Iraq
Japan
Norway
Panama
Philippine Islands
Portuguese Monetary Area
Sweden
Switzerland and Liechtenstein
The United States of America and any territory under the sovereignty of the U.S.A.
United Arab Republic
Federal Republic of Germany, including the Western sectors of Berlin."

16. DBO. No. CIB. 10128/C.127-62 dated October 15, 1962.

Collection and Furnishing of Credit Information—All Scheduled Banks

As you are aware, the Reserve Bank of India Act, 1934, as recently amended, empowers the Bank to collect credit information from banking companies and furnish such information to any banking company which applies for it. Accordingly, the Reserve Bank of India, in exercise of its powers under section 45C(1) of the Act, hereby directs you to submit to it every quarter statements as in the enclosed form, which is generally on the lines of the returns already being submitted by you. The statements should relate to the last Friday of March, June, September and December and should be forwarded by your individual offices direct to the Chief Officer, Department of Banking Operations, Credit Information Division, Reserve Bank of India, Central Office, Post Box No. 1030, Bombay-1, *within three weeks from the date to which they relate*. The first statements should relate to the last Friday of September 1962. The statements submitted in terms of our circular DBO. No. CIB. 6670/C. 127-61 dated the 29th June 1961 may be discontinued.

2. It is observed from the statements submitted in terms of our circular dated the 29th June 1961 mentioned above that many offices of banks have been committing errors in their compilation. Instructions regarding the preparation and submission of the statements now called for are given in Annexure I. It is requested that the attention of your offices may specifically be drawn to these instructions and the necessity of compiling the statements accurately for purposes of the scheme impressed upon them. In this connection your attention is also invited to instruction No. 3 in Annexure I suggesting the use of horizontal foolscap size paper for compilation of the statements. If a uniform size of paper is adopted by banks for this purpose, it will facilitate processing of the data on machines.

3. Information based on the statements received from banks will be furnished to applicant banks soon after the statements have been received and processed. Applications for credit information would have to be made by the Head/Principal Office of the bank in the prescribed form a copy of which will be forwarded to you in due course.

4. We need hardly emphasise that the scheme can be a success only if banks, for whose benefit it is primarily intended, are able to submit the quarterly statements correctly and in time.

Annexure 1

Instructions regarding the preparation and submission of the statements

1. The statements should relate to the last Friday of each quarter and not the last day.

2. They should be in the prescribed form.

3. They should be typed or neatly written in ink on one side of the paper. The size of the statement should not be unduly large or too small; horizontal foolscap size is suggested for the purpose. Uniform size of the return will facilitate processing of data on machines expeditiously.

4. If a party has been sanctioned more than one credit limit and the aggregate of the limits amounts to Rs. 5 lakhs or over in the case of secured and Rs. 1 lakh or over in the case of unsecured facilities, all his limits (secured as well as unsecured, even though small) should be reported. But if a party enjoys aggregate limits of less than the above amounts, they are not to be reported. Limits enjoyed by a party at all the bank's offices should be taken into account, while determining whether they are to be reported.

5. In case the limit sanctioned to a party is distributed among various offices of the bank, the offices at which the sub-limits are availed of should report such sub-limits giving full particulars under all columns of the statement. The office sanctioning the entire limit should report only that part of the limit which is allocated for availment with it.

6. If an office has no limits to report, it should submit a 'nil' statement.

7. The names of parties should not be abbreviated. They should be given in full in column 2 and spelt correctly. In the case of individuals, the surname should always be given last.

8. In case a firm or company has more than one place of business and it avails of credit facilities at different places, the address of its Head Office alone should be shown in column 3.

9. The constitution of the party, such as individual, firm, private or public limited company etc. should be correctly stated in column 4.

10. The code numbers for the bank and branch advised in connection with the statements submitted in terms of our circular DBO. No. CIB. 6670/C.127-61 dated the 29th June 1961, remain unchanged. It should, however, be ensured that they are given correctly in columns 6 and 7 in all cases.

11. Where the particulars relating to any pay office or sub-office are included in the statement submitted by the parent office, the code number of the latter alone should be indicated in column 7. A list of such pay offices/sub-offices which would not submit the statements and the offices which would submit statements on their behalf should be furnished to the Reserve Bank.

12. In column 8 of the statement it should merely be indicated whether the facility is secured or unsecured or partly secured. Advances against hypothecation of goods may be treated as secured.

13. Description of the security may be given in column 10 on the lines indicated in the Annexure to the form. The list of groups under which the securities may be classified as shown therein is merely illustrative and not exhaustive. Code numbers shown under column 9 should not be inconsistent with the nature of security mentioned under column 10 i.e. if the facility is a secured one, security should be indicated against it but if it is clean, there should be no security shown against it.

14. As all limits enjoyed by a party, even though small, are to be reported if the total limits enjoyed amount to Rs. 5 lakhs or over in the case of secured or Rs. 1 lakh or over in the case of unsecured limits, amounts under columns 12 and 13 should be given, in lakhs of rupees up to two decimal places, e.g. a limit of Rs. 25,000 should be shown as 0.25.

15. Limits granted in foreign currencies in respect of parties enjoying facilities in India should be converted into rupees.

16. The figures under columns 12 and 13 should be totalled.

17. If a part of the limit sanctioned to a party is converted into usance promissory notes for availing of advances from the Reserve Bank under section 17(4)(*c*) of the Reserve Bank of India Act, the outstandings in respect of such promissory notes discounted should be included in the balance.

18. Limits in favour of banks should be excluded.

(Form of return prescribed under section 45C(1) of the Reserve Bank of India Act)

STATEMENT OF SECURED AND UNSECURED ADVANCES AS ON

Code No. (For use of Reserve Bank)	Name of the party	Address	Constitution	Code No. (For use of Reserve Bank)	CODE No.		Secured/-Unsecured	Nature of facility @	Nature of security and charge	Code No. (For use of Reserve Bank)	Limit sanctioned	Balance outstanding	Remarks
					Bank	Branch							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
											(In lakhs of rupees)		

Note:—The Officer/s submitting the statement should place his/their signature/s only on the left hand side of the statement as indicated.

Signature/s of the
Officer/s submitting the statement

INSTRUCTIONS

1. Particulars in this return should be furnished as on the last Friday of each quarter.

@2. The information required under column 9 should be grouped under the following code numbers:

Code No.	*Nature of facility**
1.	Secured cash credit, overdraft and demand loans.
2.	Clean cash credit, overdraft and demand loans.
3.	Secured term loans and advances.
4.	Clean term loans and advances.
5.	Purchase of inland documentary demand bills.
6.	Discount of inland documentary usance bills.
7.	Purchase of inland clean bills.
8.	Discount of inland clean bills other than multani hundis.
9.	Discount of multani hundis.
10.	Inland letter of credit (documentary)
11.	Inland letter of credit (clean)
12.	Pre-shipment credit (Packing credit)—secured.
13.	Pre-shipment credit (Packing credit)—clean.
14.	Foreign import letters of credit.
15.	Foreign (export) documentary bills purchased and discounted.
16.	Loans against import bills and documents.
17.	Trust receipt facilities.
18.	Overdraft/cash credit/loan against purchase of Government supply bills.
19.	Letters of guarantee (Only guarantees in terms of which the bank undertakes to extend credit facilities e.g. deferred payment guarantees in respect of import of capital goods are to be reported here).
20.	Other guarantees (e.g. guarantees given to Railways and other government departments regarding payment of freight, implementation of Government contracts etc.)

* In case any facility granted is not covered by the above code numbers, a brief description of such facility should be given under column 9. In regard to facilities to be indicated by code numbers 10, 11 and 14 the figure to be shown under column 13 of the statement should relate to the letters of credit established and remaining outstanding as on the date of the return.

Annexure

Nature of security and charge

* Pledge of stock-in-trade, goods, etc. by manufacturing concerns.
* Hypothecation of stock-in-trade, work-in-progress, finished goods, etc. by manufacturing concerns.
* Pledge/hypothecation of plantation crops by tea and coffee estates, etc.
* Pledge of seasonal commodities, manufactured goods, imported goods, etc., by trading concerns, indicating the names of principal items comprising the security.
* Hypothecation of seasonal commodities, manufactured goods, imported goods, etc. by trading concerns, indicating the names of principal items comprising the security.
* Pledge of gold and silver bullion including gold and silver ornaments.
* Pledge of Government and other Trustee securities.
* Pledge of shares and debentures.
* Pledge of fixed deposit receipts.
* Mortgage of immovable properties, fixed assets, etc.
* Pledge/hypothecation of shipping documents, railway receipts and other documents of title to goods.
* Hire purchase under hypothecation agreement.
* Assignment of life insurance policies.
* Hypothecation of Motor Vehicles, boats etc.

17. DBO. No. Sch. 10781/C.96-62 dated October 31, 1962.

Governor's Letter to all Scheduled Banks

In recent months economic trends in the country have given evidence of some inflationary pressure. With a fairly high rate of increase in money supply and a comparatively slow expansion in production, prices have hardened. The external payments situation remains difficult. The recent turn of events on the northern border makes it all the more incumbent to take adequate precautionary measures to ensure stable economic conditions for both development and defence effort. One of the measures necessary is to prevent any excessive impact of money supply on the economy. The rate of deposit accretion to the banks has in the recent past been fairly satisfactory. The prospect of future growth of banks' deposit resources is also rated as good. In view of this, it appears clearly advisable that the credit policy in the impending busy season should, to start with, be operated in terms of a ceiling for banks' access to the Reserve Bank. The ceiling could be relaxed, if necessary, on a detailed assessment of its operations and credit requirements in any particular case. This policy should cause little difficulty to banks as, by all indications, they should be able to meet the normal demands for expansion of credit during the forthcoming busy season with only marginal recourse to the Reserve Bank. On the other hand, this policy will ensure that banks will renew and sanction advances only where they feel that it is fully justified and thus restrict their access to the Reserve Bank to the minimum necessary.

2. With effect from October 31, 1962, the system of quotas and lending rates of the Bank for both bills and Government securities communicated to you *vide* our letter No. DBO. Sch. 6505/C.96-62 dated the 2nd July, 1962 is accordingly being modified. As at present, a bank will be able to borrow upto 100 per cent of its basic statutory reserve at different rates upto 6 per cent as follows:

Rate	*Quota for borrowing*
4 per cent	25 per cent of statutory reserve*
5 per cent	Another 25 per cent of statutory reserve
6 per cent	Another 50 per cent of statutory reserve

*The average of the reserves required to be kept by a bank under Sub-Section 1 of Section 42 of the Reserve Bank of India Act during each week of the previous quarter.

But the Reserve Bank will not permit any borrowing beyond this limit, viz., 100 per cent of a bank's statutory reserve normally. Should any bank find itself in a special situation requiring further assistance over and above its ceiling limit, the Reserve Bank will consider the grant of such assistance only after making a detailed assessment of the bank's overall position and satisfying itself that the additional accommodation is justified. A penal rate of interest will also be charged by the Bank for such special accommodation.

3. The system of quotas and additional rates is applicable only to borrowings of scheduled banks under Section 17(4)(*a*) and (4)(*c*) of the Reserve Bank of India Act.

4. As regards the additions to basic quotas of individual banks (viz., 25 per cent of statutory reserve which is permitted to be borrowed at Bank rate) communicated to banks in terms of the Bank's circular letter No. DBO. Sch. 12644/C.96-61 dated December 11, 1961 regarding lending to small industries and co-operatives, the

system will be modified as follows. While the banks would be able to borrow amounts additional to their basic quotas at Bank rate in terms of the said circular letter, their quotas in the next slab, viz., at 5 per cent, will stand reduced by the respective additions to the basic quota. If for any bank the addition to the basic quota for lending to small industries and co-operatives exceeds the quota at 5 per cent, the excess will be deducted from the quota at 6 per cent.

5. The Bank expects that these measures, inter alia, will, in the current situation, strengthen the incentive of the banking system to mobilise deposits further.

18. DBO. No. Sch. 11128/C.96-62 dated November 10, 1962.

Governor's Letter to all Scheduled Banks

The general financial situation in the country in the context of the developments on the Northern Frontier and the steps to be taken by the banking system to meet the new situation were discussed at a Conference of the Chairmen of leading commercial banks held in Bombay on the 8th November, 1962 under the auspices of the Reserve Bank.

2. There was unanimous agreement amongst all present that in the present context the monetary and banking policy should be so geared as to provide not only the maximum funds for Defence but also to secure the production of essential goods for Defence, essential civil consumption and export, holding at the same time the price line in check. To maximise their own resources for this purpose, it is necessary that banks should readjust their advances portfolios to avoid an over-extended position, refuse advances which are likely to be utilised for purposes of hoarding and speculation and consider recalling, in suitable cases, where it is not in pursuance of promotion of essential productive effort, advances against gold, unsecured advances and advances against shares. Foreign banks operating in India and Indian banks with branches abroad could also consider the question of bringing foreign funds to India on a short-term basis to the maximum possible extent.

3. With regard to the borrowings from the Reserve Bank to supplement their resources, it was agreed that the revised system of quotas and lending rates of the Bank both for bills and Government securities, which was communicated to scheduled banks by our circular letter DBO. No. Sch. 10781/C.96-62 dated the 31st October 1962 should be operated in a flexible manner. According to the above circular a bank can borrow up to 100% of its statutory reserve, which may be called its basic quota, at different rates as follows:

Rate	*Quota for borrowing*
4 per cent	Up to 25 per cent of the statutory reserve.
5 per cent	Up to another 25 per cent of the statutory reserve.
6 per cent	Up to another 50 per cent of its statutory reserve.

In addition to the above basic quota, it has been decided that each scheduled bank may be sanctioned for a period of six weeks from the date of this letter, an additional quota which, together with the basic quota, would be equal to the maximum of its actual borrowings from the Reserve Bank under sections 17(4)(*a*) and 17(4)(*c*) of the Reserve Bank of India Act during the last bill market season. Interest at 6½ per cent would be charged for such additional quota. As these additional quotas would be only for a period of six weeks, banks should discuss with the Reserve Bank before the end of this period their requirements for the entire busy season after making the adjustments referred to, and the Bank would sanction appropriate quotas to them where these are intended for purposes enumerated in paragraph 2 above.

4. As regards additions to the basic quotas of individual banks in respect of their lending to small scale industries and co-operatives, these will continue to be governed by paragraph 4 of our circular letter DBO. No. Sch. 10781/C.96-62 dated the 31st October, 1962.

19. I.F.D. No. GD. 3769/1-62/63 dated December 26, 1962.

Scheme for the guarantee of advances granted to small-scale industries—Extension—All specified credit institutions

As you are aware, the above scheme was introduced on an experimental basis from the 1st July 1960 for a period of two years and was continued on the existing terms and conditions after that period pending Government's final decision in the matter on the basis of a review of its working during the experimental period. Government have since decided to extend the area of operation of the scheme to cover the entire country and to place it on a permanent basis on the existing terms and conditions and the decision will come into effect from the 1st January, 1963. The Reserve Bank will continue to administer the scheme in its Industrial Finance Department at Bombay as hitherto.

2. Consequent on the extension of the scheme and also in the light of the experience in its working so far, certain amendments to the scheme would be necessary. They are under consideration and a detailed circular in this regard will be sent to you in due course. Meanwhile, references to "approved district" in the existing scheme may be treated as omitted. Further, the following alterations may be made in the list of specified credit institutions appended to the scheme:

(i) The name of 'Bank of China' may be deleted.

(ii) The name of 'First National City Bank of New York' may be changed to 'First National City Bank'.

(iii) The name of 'Jaya Laxmi Bank Ltd.' may be inserted after the name of 'Indian Overseas Bank Ltd.'

(iv) The name of 'Bombay State Financial Corporation' may be deleted and the name of 'Maharashtra State Financial Corporation' inserted after the name of 'Madhva Pradesh Financial Corporation'.

3. During the course of review of the working of the scheme, certain procedural matters connected with its operation have also been considered and it has been decided to make the following changes:

(i) At present, in terms of paragraph 3(*c*)(i) of our letter IFD. No. GD. 7/1-59/60 dated the 21st June, 1960, the credit institutions are required to submit guarantee applications in duplicate. In future, such applications *need not* be submitted in duplicate.

(ii) As against the present procedure, the Guarantee Organisation will *ordinarily* be prepared to accept balance sheets and statements of profit and loss account/statements of assets and liabilities in the prescribed form for the latest completed financial year provided they relate to a date not more than 12 months prior to the date of guarantee applications; otherwise proforma balance sheets etc., on a more recent date may be submitted and may be followed up by regular balance sheets/statements when accounts are finally closed.

SELECTED CIRCULARS ISSUED BY THE REFINANCE CORPORATION FOR INDUSTRY

1. No. 950 Pro (1)-62 dated August 25, 1962.

All eligible banks and State Co-operative Banks

Please refer to our letter No. 151/Pro.(1)-61 dated the 17th February, 1961 advising that loans made by financial institutions to small-scale industrial units will be eligible for refinancing facilities from us, provided they are guaranteed by the Guarantee Organisation under the Government of India's Scheme for Guarantee of advances granted to small-scale industries and satisfy the other conditions of eligibility for refinance. As the Corporation is prepared to refinance term loans with a maturity in excess of 7 years in exceptional cases, and as guarantees are not issued under the Credit Guarantee Scheme for periods in excess of 7 years, it has been decided by the Corporation that where a term loan to small industry made for a period exceeding 7 years deserves an exceptional treatment, it will be eligible for refinance (to the extent of instalments maturing within 10 years) even though it is guaranteed for 7 years. Further, as the Guarantee Scheme operates only in a few districts of the country at present, the financial institutions cannot avail themselves of the refinancing facilities in respect of their loans to the large number of deserving small-scale units situated outside these districts. In view of this, the Corporation has also decided to consider applications for refinance in respect of term loans to small-scale industries located in areas not covered by the Guarantee Scheme, *on merits of each case.*

2. As refinancing facilities provided by the Corporation have since been extended to all the State Financial Corporations established under the State Financial Corporations Act, 1951 and as these Corporations generally make term loans for periods in excess of 10 years, all term loans irrespective of the periods for which they are

made (except that minimum period should be 3 years) have been made eligible for refinance to the extent of the instalments falling due for payment within 10 years of refinance. Further, term loans made jointly by two banks or by a bank and a term lending institution like a State Financial Corporation will also be considered as eligible. Although banks do not lend for periods in excess of 7 years (in exceptional cases up to 10 years) these relaxations will, it is hoped, make for flexibility and will encourage collaboration between different types of lending institutions. It will now be possible for a bank and the Industrial Finance Corporation of India/the Industrial Credit & Investment Corporation of India Ltd./a State Financial Corporation to make a joint loan for, say, 15 years to an industrial unit, the bank financing the earlier maturities, say, up to 7 years and obtaining refinance thereagainst and the latter financing the subsequent maturities. The other conditions of eligiblity will, however, remain unchanged.

ANNEXURE

List of credit institutions specified for the grant of facilities under the scheme

A. BANKS

(i) State Bank of India and its Subsidiaries

(1) State Bank of India.
(2) State Bank of Bikaner.
(3) State Bank of Hyderabad.
(4) State Bank of Indore.
(5) State Bank of Jaipur.
(6) State Bank of Mysore.
(7) State Bank of Patiala.
(8) State Bank of Saurashtra.
(9) State Bank of Travancore.

(ii) Other Banks

(1) Allahabad Bank Ltd.
(2) American Express Co. Inc.
(3) Andhra Bank Ltd.
(4) Bank of Baroda Ltd.
(5) Bank of India Ltd.
(6) Bank of Maharashtra Ltd.
(7) Bank of Rajasthan Ltd.
(8) Bank of Tokyo Ltd.
(9) Bareilly Corporation (Bank) Ltd.

(10) Belgaum Bank Ltd.
(11) British Bank of the Middle East.
(12) Canara Bank Ltd.
(13) Canara Banking Corporation Ltd.
(14) Canara Industrial & Banking Syndicate Ltd.
(15) Central Bank of India Ltd.
(16) Chartered Bank.
(17) Comptoir National D'Escompte de Paris.
(18) Devkaran Nanjee Banking Co. Ltd.
(19) Eastern Bank Ltd.
(20) First National City Bank.
(21) Hongkong & Shanghai Banking Corporation.
(22) Indian Bank Ltd.
(23) Indian Overseas Bank Ltd.
(24) Jaya Laxmi Bank Ltd.
(25) Karur Vysya Bank Ltd.
(26) Krishnaram Baldeo Bank Pvt. Ltd.
(27) Kumbakonam Bank Ltd.
(28) Lakshmi Commercial Bank Ltd.
(29) Laxmi Vilas Bank Ltd.
(30) Mercantile Bank Ltd.
(31) Miraj State Bank Ltd.
(32) Mitsui Bank Ltd.
(33) National & Grindlays Bank Ltd.
(34) National Bank of Pakistan.
(35) Netherlands Trading Society.
(36) New Bank of India Ltd.
(37) Pandyan Bank Ltd.
(38) Punjab National Bank Ltd.
(39) Sangli Bank Ltd.
(40) South India Bank Ltd. (Tinnevelly).
(41) South Indian Bank Ltd.
(42) Tanjore Permanent Bank Ltd.
(43) Union Bank of India Ltd.
(44) United Bank of India Ltd.
(45) United Commercial Bank Ltd.
(46) United Western Bank Ltd.

(47) Vijaya Bank Ltd.

(48) Vysya Bank Ltd.

(iii) State Co-operative Banks

(1) Andhra State Co-operative Bank Ltd.

(2) Assam Co-operative Apex Bank Ltd.

(3) Bihar State Co-operative Bank Ltd.

(4) Delhi State Co-operative Bank Ltd.

(5) Gujarat State Co-operative Bank Ltd.

(6) Himachal Pradesh Co-operative Bank Ltd.

(7) Hyderabad Co-operative Apex Bank Ltd.

(8) Jammu and Kashmir State Co-operative Bank Ltd.

(9) Kerala State Co-operative Bank Ltd.

(10) Madhya Pradesh State Co-operative Bank Ltd.

(11) Madras State Co-operative Bank Ltd.

(12) Maharashtra State Co-operative Bank Ltd.

(13) Manipur State Co-operative Bank Ltd.

(14) Mysore State Co-operative Apex Bank Ltd.

(15) Orissa State Co-operative Bank Ltd.

(16) Pondicherry State Co-operative Bank Ltd.

(17) Punjab State Co-operative Bank Ltd.

(18) Rajasthan State Co-operative Bank Ltd.

(19) Tripura State Co-operative Bank Ltd.

(20) Uttar Pradesh Co-operative Bank Ltd.

(21) West Bengal Provincial Co-operative Bank Ltd.

B. STATE FINANCIAL CORPORATIONS

(1) Andhra Pradesh State Financial Corporation.

(2) Assam Financial Corporation.

(3) Bihar State Financial Corporation.

(4) Gujarat State Financial Corporation.

(5) Jammu and Kashmir State Financial Corporation.

(6) Kerala Financial Corporation.

(7) Madhya Pradesh Financial Corporation.

(8) Maharashtra State Financial Corporation.

(9) Mysore State Financial Corporation.

(10) Orissa State Financial Corporation.

(11) Punjab Financial Corporation.

(12) Rajasthan Financial Corporation.

(13) Uttar Pradesh Financial Corporation.

(14) West Bengal Financial Corporation.

C. OTHER INSTITUTIONS

Madras Industrial Investment Corporation Ltd.

2. No. 1411/Exp.(2)-62 dated December 11, 1962.

To Eligible Banks

You are already familar with the facilities which the Refinance Corporation has been providing in order to enable you to meet the medium-term requirements of your industrial clients. Here is yet another opportunity which the Corporation has the pleasure to offer you to meet medium-term credit requirements of your clients engaged in export trade. The necessity for expanding the export trade of the country needs no emphasis and the banks are invited to take full advantage of this facility in order to help promotion of exports.

2. The Corporation has recently finalised a scheme for refinancing of medium-term export credit i.e., credit for periods exceeding six months but not exceeding five years.

3. Broadly speaking, the new facility will be available in respect of export credits for periods between six months and five years covering exports of primarily capital and engineering goods. Pre-shipment credit will also be eligible for refinance when combined with post-shipment credit. The exporters should be in the private sector and may either be manufacturers, recognised export houses or other exporters of standing. The minimum amount of a loan against which refinance may be sought will not, for the present, be less than Re. 1 lakh and the maximum amount of all the loans refinanced in the case of any single exporter will not exceed Rs. 50 lakhs. The latter limit will apply separately in the case of industrial loans and export credit loans. The exports in respect of which refinance may be sought will be made against firm contracts and will ordinarily be covered by an appropriate policy of the Export Risks Insurance Corporation Ltd. (ERIC). A down payment to the extent of 20% or a letter of credit or guarantee providing for payment to that extent against delivery of shipping documents should ordinarily have been received before a loan is considered for refinance; this condition is, however, relaxable in deserving cases. An order from the Reserve Bank granting exemption under Rule 6 of the Foreign Exchange Regulation Rules, 1952 is required to be produced with the application for refinance.

4. As an authorised dealer in foreign exchange you have considerable experience in handling export finance and it is not necessary for the Corporation to prescribe any particular mode of finance. However, in order to avoid overlapping of the facilities

with those available from the Reserve Bank and keeping in view the nature of export transactions envisaged under the scheme, the refinance by the Corporation has been proposed to be extended in respect of advances made by banks in the form of *term loans* supported by letters of credit, guarantees, bills, ERIC policies etc. The period of the advance should not be less than six months.

5. The rate of interest at which refinance for export credits will be available has, for the present, been fixed at 5% i.e., the same rate at which refinance is being made available in respect of equipment loans.

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