TREND AND PROGRESS OF BANKING IN INDIA

Report of the Reserve Bank of India for the period January 1, 1968 to June 30, 1969. Submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949.

1968-69

Owner: Reserve Bank of India
The Report has been printed by Theodore A. Pereira at the Examiner Press, 35, Dalal Street, Fort, Bombay-1, and the Appendices have been printed by Dhirubhai J. Desai at States' People Press, Ghoga Street, Fort, Bombay-1 and Published by Shri U. S. Navani for the Reserve Bank of India, Bombay-1.

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CHAPTER I

MAJOR BANKING DEVELOPMENTS

Introductory

The major developments in Indian banking during the period under review, namely, from January 1, 1968 to June 30, 1969,* centered around the implementation of social control over banking, the main objectives and *modus operandi* of which were set out in the Report for the year 1967. Credit and banking policies of the Reserve Bank during this period were further oriented towards encouraging banks' lending to priority sectors of the economy and in accordance with the guidelines indicated by the National Credit Council. The Bank also introduced changes in its branch expansion policy with a view to extending the banking facilities to wider areas, and also mobilising larger deposit resources.

2. A far-reaching measure affecting the banking system was the nationalisation of the 14 major Indian banks** with effect from July 19, 1969. The Government of India issued, on that date, an ordinance to take these banks into public ownership and management and subsequently introduced in Parliament on July 25, 1969, the Banking Companies (Acquisition and Transfer of Undertakings) Bill which was passed by both the Houses and received the President's assent on August 9, 1969. The objective is to ensure that the banking system serves better the developmental needs of all sectors of the economy in conformity with national policy and priorities. With the nationalization of the 14 major Indian banks, the public sector in banking, including the State Bank of India and its subsidiaries, accounts for 83 per cent of the total deposits of the banking system, 84 per cent of total bank credit and 82 per cent of the number of branches as shown below :—

POSITION AS ON JULY 18, 1969

		No. of branches	Deposits	Credit
			(Rs. crores)	
1.	State Bank of India and its subsidiaries ..	2465	1248.4	1129.5
2.	14 nationalized banks..	4169	2626.2	1853.5
3.	Other Indian scheduled commercial banks ..	1338	299.1	197.2
4.	Foreign banks ..	128	482.2	371.0
5.	**All Scheduled Commercial banks** ..	**8100**	**4655.9**	**3551.2**
6.	Non-scheduled banks@	217	28.0	16.4
7.	**All Commercial banks**	**8317**	**4683.9**	**3567.6**

@ Figures relate to the last Friday of June 1969.

Social Control over Banking

3. The scheme of social control over banking referred to in the Report for the year 1967, was instituted with the main objectives of achieving a wider spread of bank credit, preventing its misuse, directing its flow to priority areas and making it a more effective instrument of economic development. The legislation for bringing about social control of banks, *viz.*, the Banking Laws (Amendment) Act, came into force on February 1, 1969. The changes sought to be brought about in the implementation of social control were organisational as well as functional and are recorded in the paragraphs below.

Organisational Changes

4. The organisational changes contemplated in the Act, related, among others, to the reconstitution of the Board of Directors of a bank, under sections 10A and 10B of the Act, with the majority of directors representing

* In the Report on Trend and Progress of Banking, the practice hitherto was to cover the calendar year and the last Report related to the period January-December 1967. It has been felt for sometime that both analytically as well as presentationally, it would be more appropriate to cover in the Report each year the period July to June and to synchronise its publication with that of the Annual Report of the Bank which also relates to the year ending June 30. This Report, therefore, covers the eighteen month period from January 1968 to June 1969.

** These were, the Central Bank of India Ltd., the Punjab National Bank Ltd., the Bank of India Ltd., the Bank of Baroda Ltd., the United Commercial Bank Ltd., the Allahabad Bank Ltd., the Dena Bank Ltd., the Indian Bank Ltd., the United Bank of India Ltd., the Canara Bank Ltd., the Union Bank of India Ltd., the Syndicate Bank Ltd., the Bank of Maharashtra Ltd. and the Indian Overseas Bank Ltd.

persons who have special knowledge or practical experience in respect of the matters such as agriculture and rural economy, small-scale industry, co-operation, banking, etc. Further, the Act required every Indian bank to have a person who has special knowledge and practical experience of banking, finance, economics or business administration as its full time Chairman and his term was not to exceed five years at a time. The permission of the Reserve Bank was to be obtained by a bank for the appointment, re-appointment and removal of a Chairman and for the fixation of his remuneration under section 35B of the Banking Regulation Act [as amended by the Banking Laws (Amendment) Act, 1968].

5. Even before the Act formally came into force on February 1, 1969, Indian banks with deposits of Rs. 25 crores and above, had already reconstituted their Boards of Directors and had appointed whole-time chairmen, with the approval of the Reserve Bank as required by Sections 10A and 10B which, however, did not apply to State Bank of India and its subsidiaries. The 13 foreign banks operating in India which were expected to set up Advisory Boards on the lines of the reconstituted Boards of Directors of Indian banks, and were required under the Act to get the accounts of their Indian business audited by auditors registered in India, also complied with these requirements.

6. All the nine banks with deposits between Rs. 10 crores and Rs. 25 crores accounting for 3 per cent of total deposits, had also reconstituted their Boards while sever of them had either appointed or were appointing whole-time chairmen (by the enc of June 1969). The remaining 43 bank which had deposits below Rs. 10 crores anc which accounted for another 3 per cent of deposits were also reported to be making progress in complying with the legislative requirements before the end of February 1970—the time limit fixed for such compliance in their case. Five of these 43 banks had already reconstituted their Boards of Directors by the end of June 1969.

7. Another major provision in the banking enactment related to elimination of certain undesirable influences on the disbursal of bank credit. The amendment to Section 20 of the Banking Regulation Act, 1949, precluded banks from lending to their directors or to concerns in which the directors were interested. In regard to existing loans, where no time limit was specified in the contract, the banks were required to recall such loans before the end of one year from the commencement of the Act, i.e., till February 1970. An examination of the balance sheets of the 16 major Indian banks revealed that between December 1967 and December 1968 they had reduced their lendings in this category from 10.1 per cent of the total to 3.1 per cent.

Functional and Directional Changes

8. As regards the functional changes that were brought about in furtherance of social control, the major change was one of directing credit to the priority sectors, in particular, agriculture, small-scale industry and exports and of translating credit priorities into individual bank credit decisions. The role of credit as an instrument of development has been symbolised in the establishment and functioning of the National Credit Council. As mentioned in the previous Report, the Council was set up in February 1968 in terms of the Government Resolution in this regard under the Chairmanship of the then Deputy Prime Minister and Finance Minister, with a view to assessing the demand for credit from the various sectors of the economy and determining priorities for lending and investment of bank funds.

National Credit Council

9. During the 18 months ended June 1969, the National Credit Council met three times and outlined the guidelines for bank lending and the steps to be taken by banks for more effective mobilisation of savings from the public. The first meeting of the National Credit Council which was held on March 16, 1968 (referred to in the previous year's Report) discussed the various problems relating to credit planning and appointed a Standing Committee, with the Governor of the Reserve Bank as its Chairman to study specific issues and to formulate concrete proposals for the consideration of the Council at its next session. Accordingly, at the second meeting of the Council which was held on July 24, 1968, the Report of the Standing

Committee was considered. The Council concurred with the Committee's view that commercial banks should take up the financing of agriculture and small-scale industries to a larger extent as a matter of urgency. As regards longer term issues, the Council, at the suggestion of the Vice-Chairman, decided to set up Study Groups for a further study of five issues ; these were (a) the problem of deposit mobilisation by commercial and co-operative banks; (b) the extent to which the credit needs of the industry and trade were likely to be inflated and how such trends could be checked ; (c) the organisational framework for implementation of objectives of social control ; (d) the need for adopting an area/project approach in implementing schemes for extending credit to agriculture and extending this approach to rural electrification and minor irrigation projects and (e) bank finance for road transport operators. As regards bank lending to priority sectors the Council recommended that commercial banks should allocate in 1968-69, additional amounts of Rs. 35-40 crores and Rs. 60-70 crores by way of credit to agriculture (other than to plantations and for marketing of agricultural produce including food procurement) and small-scale industries, respectively. These were indicated as the minimum targets to be kept in view by the banks. As regards contributions to debentures of the land mortgage banks, the Council recommended that commercial banks should achieve during 1968-69 an increase of at least 25 per cent over their performance in 1967-68.

10. As a sequel to the fixation by the National Credit Council of the minimum targets for commercial banks' lending to agriculture and small-scale industries for 1968-69, the Reserve Bank of India held discussions during August-September 1968 with 20 major scheduled commercial banks. During the discussions, these 20 banks indicated that during the period July 1968 to June 1969, their deposits would rise by Rs. 414 crores, and that their credit to agriculture and small-scale industries would go up by Rs. 43 crores and Rs. 74 crores, respectively. They had also indicated a figure of Rs. 27.5 crores for their contribution to debentures of land mortgage banks. In connection with the targets set for the banks, the Reserve Bank advised the banks to adopt the area/project approach by selecting certain specified areas/projects in consultation with State Governments, for enhancing lending to agriculture. The Reserve Bank also organised in December 1968 a Seminar on Financing of Agriculture by Commercial Banks with a view to having an exchange of views among all the interests concerned in the matter of agricultural finance. A summary of the discussions at the Seminar is given in Annexure A. Another notable development in the sphere of commercial banks' involvement in agricultural finance was the establishment of the Agricultural Finance Corporation Ltd., as a joint venture by the leading commercial banks.[1]

11. The third meeting of the Council held on March 21, 1969 considered the Reports of the Study Groups set up earlier by the Council on Deposit mobilisation by commercial and co-operative banks and Credit facilities for road transport operators. The major findings of these Reports are given in Annexures B and C. In this context, the Council suggested that banks should adopt a positive target that every town as defined in the Census Report which had a population of more than 10,000 should be covered by banking facilities by the end of 1970. In the interest of cheapening the cost of credit to the road transport operators, the Council supported the idea of commercial banks engaging in direct financing rather than indirect financing through hire-purchase companies to this sector. The Council also suggested that credit to small operators should be treated on lines similar to small-scale industries.

Credit to priority sectors

12. The minimum targets fixed for a rise in bank lending to agriculture and small-scale industries were, for the year ended June 1969, Rs. 35—40 crores and Rs. 60—70 crores, respectively. The actual performance in respect of credit to these sectors by 20 major commercial banks (which account for about 86 per cent of total bank deposits) revealed that the increase in credit limits to agriculture and small-scale industries was of the order of Rs. 221 crores and Rs. 185 crores, respectively. The increase in outstanding level of advances of these banks amounted to Rs. 134 crores and Rs. 83 crores, respec-

1. A fuller reference to the Agricultural Finance Corporation Ltd., is made in Annexure E.

tively. In the case of credit to agriculture, the outstanding amount rose from Rs. 25 crores in June 1968 to Rs. 159 crores in June 1969 and the number of borrowing accounts rose from 48 thousand to 163 thousand. There was also a rise in the amount per borrowing account—from Rs. 5,165 to Rs. 9,737. Nearly three-fifths of the rise in credit to agriculture (Rs. 76 crores out of Rs. 134 crores) was in respect of finance for distribution of fertilisers and other inputs (from Rs. 11 crores to Rs. 87 crores) and the bulk of this was for fertilizer credit to State Governments for distribution to individual farmers. Credit to electricity boards rose by Rs. 15 crores and other indirect finance increased by Rs. 12 crores. Direct credit to farmers rose from Rs. 9.7 crores to Rs. 40.4 crores or by Rs. 30.7 crores while the number of accounts rose by 111 thousand that is, from 48 thousand to 159 thousand. The amount per account increased from Rs. 2025 to Rs. 2546. In the case of credit to small-scale industries, the outstanding amount rose from Rs. 168.3 crores to Rs. 251.0 crores or by Rs. 82.7 crores : the number of small-scale units rose by 14 thousand, from 31 thousand to 45 thousand and the number of accounts by 23 thousand, from 45 thousand to 68 thousand.

13. The performance of individual banks in achieving the targets in respect of lending to priority sectors was somewhat uneven. Nearly three-fifths of the rise in credit to agriculture was accounted for by the State Bank of India, a large part of which was in respect of credit to State Governments and the State co-operative bodies for fertilizer distribution. Another 13 banks exceeded the targets set for their additional credit to agriculture during 1968-69. Three banks did not reach their targets although the credit limits given by them exceeded the targets. As regards the credit to small-scale industries, the State Bank of India contributed nearly one-third of the total increase during 1968-69. While twelve other banks exceeded their individual targets, the remaining 7 banks did not reach their targets. To ensure adequate or improved performance, a special Review Committee has been set up in the Reserve Bank to watch the progress made by banks in lending to priority sectors, *viz.*, agriculture and small-scale industries, and in complying with other aspects of social control over banks.

14. As regards the targets for the following year (July 1969 to June 1970) the Council decided that the Reserve Bank would in consultation with the concerned authorities and the Standing Committee of the Council, determine the appropriate increases over the current year's levels. Another suggestion of the Council at the meeting was that commercial banks should be encouraged to expand their involvement in financing retail trade and medium-sized industries. In this connection, the Reserve Bank held individual discussions with 20 major banks between June 13, 1969 and July 5, 1969 to plan for banks' lending to the priority sectors. The targets indicated by these 20 banks for 1969-70 (July-June) were Rs. 121 crores for credit to agriculture and Rs. 91 crores for credit to small-scale industries, which compared with the targets for the preceding year of Rs. 35-40 crores and Rs. 60-70 crores, respectively.

Extension of Banking Facilities

15. A significant development which occurred during the period under review was the sharp increase in the number of commercial bank branches opened. In keeping with its objective of speeding up the branch expansion programme, the Reserve Bank introduced several changes in its branch licensing policy (details of which are given in paras 115 to 123 in Chapter III) whereby banks were encouraged to open offices in rural areas, specially at the unbanked centres and in underbanked States. In the year 1968 as many as 678 new offices were opened by the commercial banks of which 516 were by banks other than the State Bank and its subsidiaries. Again, over half of the total offices opened, namely 365, were at unbanked centres. In the half year January-June 1969, a further acceleration of the new branch expansion programme was in evidence as could be seen from the fact that as many as 526 new offices were opened in the first half of 1969 as compared with 449 in the second half of 1968, and 229 in the first half of 1968. Of the 526 new offices opened in the first half of 1969, over four-fifths (458) were opened by banks other than the State Bank and its subsidiaries. Again, of the 526 new offices opened, as many as 275 were in the unbanked centres. The

position of new offices opened during 1968 and the first half of 1969 as compared to 1967 may be seen in the table below.

TABLE 1. NEW OFFICES OPENED BY ALL COMMERCIAL BANKS

	1967	1968	1969 (Jan-June)
1. State Bank of India ..	83 (52)	87 (52)	23 (8)
2. Subsidiaries of State Bank of India ..	63 (49)	75 (61)	45 (32)
3. Other scheduled commercial banks	257 (79)	504 (247)	447 (229)
4. All scheduled commercial banks	403 (180)	666 (360)	515 (269)
5. Non-scheduled commercial banks	3 (2)	12 (5)	11 (6)
6. All commercial banks ..	406 (182)	678 (365)	526 (275)

Note: (1) Figures within brackets relate to offices opened at unbanked centres.
(2) Figures of 1968 and 1969 are provisional.

The total number of unbanked towns (as defined by the Census of 1961) was 582 as of end June 1969. Of these, 119 were those with population above 10,000. The National Credit Council, at its third meeting had indicated that all unbanked towns with a population of 10,000 and over should be provided with bank offices by the end of 1970. By the end of June 1969, all but 17 of such towns were allotted by the Bank to various commercial banks for the opening of branch offices. It is expected that all the unbanked towns with a population of 10,000 and above would be covered with bank branches even by mid-1970.

CHAPTER II

CREDIT POLICY OF THE RESERVE BANK AND BANKING TRENDS

16. The main elements of the economic situation were a relatively high level of agricultural output, slow revival of industrial activity, restoration of price stability, an increase in exports and a continued lag in investment. The need for stimulating investment and to direct credit into priority areas like agriculture, small industries and exports called not only for a liberalisation of credit in general but for preferential treatment for certain sectors.

Economic Background

17. The period covered here—from January 1968 to June 1969—was notable for a marked growth in agricultural production after two successive years of drought. The 1967-68 harvest was a bumper one and though in 1968-69 weather conditions were by no means as favourable as in the previous year, food output was more or less maintained at the previous year's level. Industrial production also rose by 6.3 per cent in 1968 as compared to a slight fall of 0.7 per cent in 1967. This helped arrest the continued pressure on prices, particularly of food articles. The year 1968 indeed saw a stability in the price level—the average wholesale price index was 1.0 per cent below the level of 1967—that had not been witnessed in recent years. This stability provided a favourable setting for industrial revival, particularly in the sectors which were facing recessionary conditions in 1966-67. There was also a distinct improvement in the balance of payments position with a rise in exports and a considerable fall in import payments.

18. The situation in the later part of the period, from April 1969 onwards, however, was not quite so favourable. Owing to a shortfall in output of certain raw materials in 1968-69 some pressure developed in prices of industrial raw materials as well as food articles as a result of which the wholesale price index moved up fairly sharply from March 1969. Aggregate demand pressures as measured by the monetary expansion rate has also more recently been a factor of some significance. Nonetheless, investment which, in the preceding three years, has been running at a low ebb is still somewhat slack in both the public and private sectors. These trends in the economy were reflected in the banking and monetary spheres during the period covered in this Report.

Money Supply

19. Money supply with the public increased by Rs. 561 crores or by 10 per cent during 1968-69 (July-June) as compared with the rise of Rs. 511 crores in 1967-68. The substantial rise in money supply in 1968-69 occurred against the background of an estimated reduction in the growth rate of the gross national product : in 1967-68, it may be recalled, the money supply had risen by 10.3 per cent but there was also a rise of around 9 per cent in gross national product. Unlike in 1967-68 when the growth in currency and demand deposits was equal, in 1968-69, a larger part of the growth in money supply was in terms of currency with the public. The major factors affecting this trend were the net bank credit to Government which expanded by Rs. 440 crores as against Rs. 171 crores and an increase in net foreign exchange assets (Rs. 140 crores as against Rs. 81 crores) (Table 2).

20. The variation during the year ended June 1969 as a whole, could be ascribed more than entirely to the rise in the six months from January 1969 to June 1969, the increase in total money supply during this period being of the order of Rs. 649 crores, brought about chiefly by a faster rate of increase in the Reserve Bank's net credit to Government, a part of which was due to the Government loan to the Food Corporation of India following the transfer of the functions of the Food Department to the Corporation.

TABLE 2. ANALYSIS OF MONEY SUPPLY VARIATIONS

(Rs. crores)

Items	June 1969 over June 1968	June 1968 over June 1967	June 1969 over Dec. 1968	June 1968 over Dec. 1967
A. Money Supply with the Public	**+ 561**	**+ 511**	**+ 649**	**+ 375**
1. Currency with the public	+ 367	+ 235	+ 443	+ 238
2. Other deposits with RBI	— 11	+ 41	— 33	+ 17
3. Demand deposits of banks	+ 205	+ 235	+ 239	+ 120
B. Major Factors affecting Money Supply				
1. Net bank credit to Government	**+ 440**	**+ 171**	**+ 374**	**+ 117**
(*a*) RBI's net credit to Government	+ 271	+ 113	+ 352	+ 149
(*b*) Banks' holdings of Government securities	+ 169	+ 58	+ 22	— 32
2. Net bank credit to private sector	**+ 130**	**+ 313**	**+ 287**	**+ 237**
(*a*) RBI's credit to private sector	+ 4	+ 6	+ 4	+ 4
(*b*) Banks' net credit to private sector** (*i-ii*)	+ 126	+ 307	+ 283	+ 233
(*i*) Banks' advances and private security holdings**	+ 592	+ 564	+ 475	+ 357
minus (*ii*) Banks' **time** deposits	+ 466	+ 257	+ 192	+ 124
3. Net foreign exchange assets of banking sector	**+ 140***	**+ 81**	**+ 128***	**+ 76**

* Excluding the changes due to revaluation of gold held in the Issue Department of the Reserve Bank of India with effect from February 1, 1969.

** This is inclusive of bank credit to public sector undertakings such as Food Corporation of India, for commercial purchases.

Credit Policy

21. The Reserve Bank's credit policy from the middle of 1967 and through 1968 was shaped in the background of larger agricultural production and the consequent need to finance larger marketing of crop and food procurement, an improvement in exports, the easing of monetary pressures, and the relative price stability. The need to stimulate new investment and to facilitate credit flow to the recession-hit and other industries which had accumulated inventories owing to slackness in demand also influenced the Bank's credit policy.

Busy Season of 1967-68—Policy

22. The last year's Report covered the period up to December 1967. The developments in the 1967-68 busy season may, therefore, be given here. The measures taken by the Reserve Bank since August 1967 to liberalise credit, with a view to correcting the recessionary trends in the economy, were carried a step further through the last quarter of 1967 and the early part of 1968. While the basic policy of the Reserve Bank to make refinance available to banks at the Bank rate, so long as a bank's net liquidity ratio was at or above 30 per cent remained unchanged, the Bank continued the various special schemes of refinance offered to banks under which they could borrow at or below the Bank rate in respect of finance to preferred sectors. The scope of concessional refinance was extended further and in February 1968, a rate of $4\frac{1}{2}$ per cent was offered to scheduled commercial banks on their borrowings equivalent to the increase in advances made by them to the priority sectors over the average of such advances in the slack or the busy season. The refinance at Bank rate was extended in respect of advances to State Governments/their agencies/Food Corporation of India for food procurement operations and advances for financing the distribution of chemical fertilisers and pesticides.

The Bank also provided for an extension of the refinance facilities at Bank rate for limited periods in certain special cases, on a discretionary basis. The system governing the application of higher interest rates in respect of borrowings from the Bank above the Bank rate entitlement was also liberalised. In regard to export credit, the Bank further reduced the cost of export credit by bringing down the ceiling rate from 8 to 7½ per cent, in January 1968, for products other than engineering and metallurgical goods and all post-shipment bills excepting rupee usance export bills (for all of which the concessional rate was already operative). It was further reduced in March 1968 to 6 per cent. As this rate was lower than the rate usually charged by banks on domestic credit, a scheme for grant of subsidy towards interest charges on export finance provided by banks at 6 per cent was evolved, the rate of subsidy to be paid by the Government of India being fixed at 1½ per cent. The scheme became effective from March 3, 1968.

Bank Rate Reduction

23. With the advance of the busy season of 1967-68, it became increasingly clear that the changed economic conditions such as the fall in prices, the slowing down of the pace of credit rise and the continuance of the recessionary conditions in the economy called for a further liberalisation of credit facilities for further stimulating economic recovery. The Reserve Bank, accordingly reduced the Bank rate from 6 per cent to 5 per cent with effect from March 2, 1968. Simultaneously the Bank directed a downward adjustment in the structure of interest rates on deposits and lending rates of banks. The maximum rate to be charged by banks on their advances was reduced from 10 per cent to 9½ per cent per annum. A ceiling of 6 per cent per annum was also prescribed for packing credit and post-shipment credit for exports. It was further indicated by the Bank on March 12, 1968, that banks should reduce by ½ per cent the rate of interest charged on at least 80 per cent of the banks' lendings as of March 1, 1968. The banks agreed to implement this reduction with effect from April 1, 1968. Deposit rates were also suitably adjusted. The maximum rate on 15-45 day deposits was reduced from 1.50 per cent to 1.25 per cent, that for 46-90 day deposits from 3.00 per cent to 2.50 per cent; the minimum rate for deposits of one year and over but less than two years was reduced from 6.00 per cent to 5.50 per cent and that for savings deposits from 4.00 per cent to 3.50 per cent. The commercial banks made necessary changes in their deposit rates structure with effect from March 4, 1968 in respect of notice money and from March 7, 1968 in respect of term deposits. The revised rate on savings deposits came into force on April 1, 1968.

Busy Season 1967-68—Trends

24. In the busy season of 1967-68, there was a record credit expansion of nearly Rs. 509 crores which compared with an expansion of Rs. 426 crores in the preceding busy season (Table 3). The outstanding levels of banking variables are shown in Table 4. The unprecedented credit expansion was mainly accounted for by a large rise in advances for food procurement operations which rose by Rs. 101 crores as against a rise of only Rs. 5 crores in the preceding busy season. The extension of credit by the banking system for the food procurement operations had the effect of providing relief to the Government's budget. If such advances were excluded, the expansion in the 1967-68 busy season would appear to be lower than in the previous busy season (Rs. 408 crores as against Rs. 421 crores). Among the major constituents of credit, non-seasonal securities recorded a smaller credit expansion (Rs. 112 crores as against Rs. 260 crores) which was mainly accounted for by credit against iron and steel, engineering goods and electrical goods (Rs. 14 crores as against Rs. 63 crores). On the other hand, the expansion in seasonal advances was larger (Rs. 383 crores as against Rs. 171 crores) primarily due to larger rise in advances against foodgrains (Rs. 105 crores as against Rs. 3 crores) and sugar (Rs. 123 crores as against Rs. 25 crores) (Table 5). Among the other banking variables the deposit accretion during the 1967-68 season was also larger, namely, Rs. 219 crores as compared with Rs. 169 crores in the busy season of 1966-67. The larger credit expansion during the period was financed by, apart from a rise in deposits, a reduction in investments in Government

securities* to the extent of Rs. 182 crores as compared to Rs. 198 crores in the 1966-67 busy season, and larger borrowings from the Reserve Bank (Rs. 105 crores as compared to Rs. 41 crores).

Slack Season of 1968—Policy

25. In the slack season of 1968, with a view to encouraging assistance to the three priority sectors in the context of the guidelines set out by the National Credit Council, the Bank continued its policy of selective liberalisation of credit and exemptions from the operational norms and procedures. The banks were in a fairly liquid position owing to a slower pick-up in industrial activity and a somewhat faster pace of rise in deposits which was at a rate of 6.2 per cent as compared with a rate of 5.6 per cent in the preceding slack season. Against this background, while the cost of Reserve Bank's lending to the banks remained unchanged, the other terms of credit for special types of refinancing were further liberalised.

26. Accordingly, the provisions of the Bill Market Scheme relating to packing credit advances were liberalised in May 1968 to enable exporters of cashewnuts, jute goods and also exporters of cotton textiles to the U.K. to avail of the benefits under the Scheme. Similar benefits were extended in respect of hides and skins in June 1968 and coffee in July 1968. The requirement of prior authorisation by the Reserve Bank before sanctioning any fresh credit limit of Rs. 1 crore or more or any fresh credit limit which would take the total of credit limits enjoyed by a party from the banking system beyond Rs. 1 crore, was also waived in respect of exports.

27. The Bank also conceded suitable exemptions to certain advances to industry and business, from certain norms fixed by it, in order to induce credit flow for checking the recessionary trends. Thus in June 1968, the Bank advised banks to make credit available on an unsecured basis to deserving borrowers of small means in cases where the banks were otherwise satisfied about the integrity and credit-worthiness of the borrower and indicated that such advances would be kept outside the purview of the norm fixed for banks' unsecured advances and guarantees, if banks approached for such concession. Similarly, advances against book debts, not outstanding for more than six months and due by companies were also allowed on August 8, 1968, to be excluded for the purpose of the above norm. On August 14, 1968, performance guarantees executed by banks on behalf of small-scale industries were also excluded for the purpose of the above norm. Later in the same month, a few exemptions were accorded from the norm of 5 per cent in respect of term loans to deposits : these included medium-term advances granted for such agricultural development purposes as would result in the creation of tangible assets capable of identification and inspection even if they were not refinanced by the Agricultural Refinance Corporation: (Earlier, this exemption was granted to those long or medium-term advances which were refinanced by the Agricultural Refinance Corporation as also those term loans to small-scale industries which were covered by the Credit Guarantee Scheme). Also, the term loans in respect of which refinance had been obtained from the IDBI and the medium-term export finance which was covered by appropriate policies of the ECGC were exempted from the above norm. Again, on October 12, 1968, exemption from this norm was also accorded to such of the medium and long-term bank advances granted for financing fisheries, dairy and poultry farming, as are refinanced by the Agricultural Refinance Corporation. From September 14, 1968, the refinance facilities under Section 17(4)(c) of the Reserve Bank of India Act, 1934, were also extended to enable eligible scheduled commercial banks to obtain refinance during the busy season in respect of their advances to co-operative banks for the purpose of enabling the latter to make advances to small-scale industries.

Slack Season of 1968—Trends

28. The main features of the banking trends for the slack season of 1968 as compared with the 1967 slack season were a larger accretion to deposits and a smaller contraction in credit, larger re-

* This comprises Central and State Government securities and is apart from the investment in other approved securities which include securities of the various State bodies such as Port Trusts, Municipalities, Electricity Boards, State Finance Corporations, Land Mortgage Banks etc.

TABLE 3

SEASONAL VARIATIONS IN SCHEDULED COMMERCIAL BANKS' DATA

(Rs. Crores)

Items	Slack Season 1967	Busy Season 1967-68	Slack Season 1968	Busy Season 1968-69	Slack Season Upto	
					June 27, 1969*	June 28, 1968
1. Bank Credit	—101.0	+508.7	— 42.9	+426.7	+136.0	+ 25.6
2. Investments in Government securities and other approved securities	+222.6	—150.1	+138.7	— 2.7	+ 74.2	+ 11.2
(a) In Government securities	+218.2	—182.3	+133.9	— 43.2	+ 69.6	+ 8.7
(b) In other approved securities	+ 4.4	+ 32.2	+ 4.8	+ 40.5	+ 4.6	+ 2.5
3. Cash in hand and balances with the Reserve Bank of India	+ 23.5	— 4.2	+ 30.2	+ 20.2	+ 99.5	+ 39.0
4. Money at call and short notice	+ 24.4	— 20.5	+ 34.6	+ 6.7	+ 3.1	+ 7.0
5. Aggregate Deposits	+193.9	+219.1	+238.9	+324.9	+204.1	+ 92.8
(a) Demand	+ 63.5	+122.2	+ 12.3	+145.1	+122.1	+ 52.8
(b) Time	+130.4	+ 96.9	+226.6	+179.8	+ 82.0	+ 40.0
6. Borrowings from the Reserve Bank of India	— 36.0	+105.3	— 81.9	+ 70.8	+ 71.2	— 8.6

Note : Data are based on weekly returns submitted by banks under Section 42(2) of the Reserve Bank of India Act, 1934, except in respect of borrowings from the Reserve Bank of India which are based on weekly borrowing advices from regional offices of the Reserve Bank of India.

* Revised.

TABLE 4

SEASONAL PATTERN OF PRINCIPAL RATIOS OF SCHEDULED COMMERCIAL BANKS

As on the last Friday of

(Rs. Crores)

Items	October 1967		April 1968		October 1968		April 1969		June 1969*		June 1968	
	Amount	*Per-centage*	Amount	*Per-centage*	Amount	*Per-centage*	Amount	*Per-centage*	Amount	*Per-centage*	Amount	*Per-centage*
1. Bank Credit	2568.6	*70.2*	3077.3	*79.4*	3034.4	*73.7*	3461.1	*78.0*	3597.1	*77.5*	3102.9	*78.2*
2. Investments in Government and other approved securities	1299.4	*35.5*	1149.3	*29.6*	1288.0	*31.3*	1285.3	*28.9*	1359.5	*29.3*	1160.5	*29.2*
(a) In Government securities	1149.2	*31.4*	966.9	*24.9*	1100.8	*26.8*	1057.6	*23.8*	1127.2	*24.3*	975.6	*24.6*
(b) In other approved securities	150.2	*4.1*	182.4	*4.7*	187.2	*4.5*	227.7	*5.1*	232.3	*5.0*	184.9	*4.6*
3. Cash in hand and Balances with Reserve Bank of India	234.7	*6.4*	230.5	*5.9*	260.7	*6.3*	280.9	*6.3*	380.4	*8.2*	269.5	*6.8*
4. Money at call and short notice	64.2	—	43.6	—	78.2	—	84.9	—	88.0	—	50.6	—
5. Aggregate Deposits	3657.1	*100.0*	3876.2	*100.0*	4115.1	*100.0*	4440.0	*100.0*	4644.1	*100.0*	3969.0	*100.0*
(a) Demand	1699.8	*46.5*	1822.0	*47.0*	1834.3	*44.6*	1979.4	*44.6*	2101.5	*45.3*	1874.8	*47.2*
(b) Time	1957.3	*53.5*	2054.2	*53.0*	2280.8	*55.4*	2460.6	*55.4*	2542.6	*54.7*	2094.2	*52.8*
6. Borrowings from the Reserve Bank of India	6.8	—	112.1	—	30.2	—	101.0	—	172.2	—	103.5	—

Note : 1) The percentages are ratios to aggregate deposits.

2) Data are based on weekly returns submitted by banks under Section 42(2) of the Reserve Bank of India Act, 1934, except in respect of borrowings from Reserve Bank of India which are based on borrowing advices from regional offices of the Reserve Bank of India.

* Revised.

TABLE 5. SEASONAL TRENDS IN BANK CREDIT: SECURITY-WISE CLASSIFICATION

(Rs. Crores)

	Busy Season 1966-67	Slack Season 1967	Busy Season 1967-68	Slack Season 1968	Busy Season 1968-69‡
Seasonal Advances	**+ 171.0**	**— 201·7**	**+ 383.4**	**— 173.4**	**+ 229.5**
Paddy and rice	+ 0.1	— 12.3	+ 63.0	— 36.6	+ 39.1
Wheat	— 6.5	+ 7.6	+ 12.4	+ 69.8	— 33.4
Other foodgrains	+ 9.7	— 4.7	+ 29.9	— 10.9	+ 10.8
Sugar	+ 25.0	— 67.0	+ 123.0	— 104.6	+ 98.9
Gur	+ 6.1	— 5.9	+ 4.5	— 5.2	+ 3.7
Groundnuts	+ 18.1	— 17.5	+ 8.2	— 7.1	+ 11.8
Other oilseeds	+ 20.6	— 21.2	+ 6.8	— 5.7	+ 14.0
Vegetable oils (including vanaspati)	+ 10.5	— 10.0	+ 11.2	— 2.2	+ 1.6
Cotton and kapas	+ 78.0	— 65.0	+ 83.4	— 49.4	+ 68.1
Raw jute	+ 16.0	— 13.8	+ 19.2	— 18.1	+ 1.0
Tea	— 13.4	+ 15.3	— 1.9	+ 17.5	— 8.6
Non-Seasonal Advances	**+ 260.4**	**+ 78.1**	**+ 111.9**	**+ 110.5**	**+ 107.2**
Cotton textiles	+ 6.5	+ 14.8	+ 22.5	+ 14.8	+ 0.8
Jute textiles	— 0.7	+ 3.3	— 3.7	+ 9.4	+ 6.2
Iron, steel and engineering goods	+ 44.6	+ 47.5	+ 6.0*	+ 31.1*	— 13.5*
Chemicals, dyes, paints, drugs and pharmaceuticals	+ 21.9	+ 12.1	+ 23.2@	+ 21.5@	+ 47.1@
Electrical goods	+ 18.4	+ 5.4	+ 7.5	+ 4.7	— 6.6
Assets of industrial concerns—fixed or floating	+ 23.1	+ 0.5	+ 0.3	+ 9.3	+ 4.7
Shares of joint stock companies	+ 7.4	— 7.7	+ 2.0	— 0.8	+ 3.1
Government and other trustee securities	— 5.1	+ 3.1	— 2.7	— 0.4	— 1.9
Gold and silver bullion and ornaments	+ 1.1	+ 2.4	+ 1.2	+ 3.6	+ 1.7
Total Secured Advances	**+ 431.4**	**— 123.6**	**+ 495.3**	**— 62.9**	**+ 336.7**
Unsecured Advances	**— 7.9**	**+ 27.8**	**+ 3.5**	**+ 33.2**	**+ 55.5**
Total Advances	**+ 423.5**	**— 95.8**	**+ 498.8**	**— 29.7**	**+ 392.2**

Source: Fortnightly Survey of Banks' Advances.
* Includes advances against vehicles.
@ Includes advances against fertilisers.
‡ Estimates.

payments of borrowings from the Reserve Bank and a smaller addition to the banks' investment portfolio. The accretion to deposits was Rs. 239 crores in the 1968 slack season as compared to Rs. 194 crores in the previous slack season. On the other hand, banks, were able to bring down their credit portfolio only by Rs. 43 crores as against Rs. 101 crores in the corresponding period in the previous year. The much smaller credit contraction in the 1968 slack season was, to some extent, due to the impact of the rise in food procurement advances; excluding such advances, the contraction in the 1968 slack season amounted to Rs. 66 crores as compared with Rs. 89 crores recorded in the 1967 slack season. In the result, the credit-deposit ratio declined from 79.4 per cent at the end of April 1968 to 73.7 per cent on October 25, 1968, although it was higher by 3.5 percentage points than the level obtaining a year ago. The banks effected larger repayments of the borrowings from the Reserve Bank during the 1968 slack season than in the corresponding period in the preceding year (Rs. 82 crores as against Rs. 36 crores). The much smaller return of funds to the banks and the repayment of a larger quantum of borrowings from the Reserve Bank resulted in the banking system investing a smaller amount in Government securities (Rs. 134 crores as compared with Rs. 218 crores in the corresponding period last year); this led to a lowering of the investment-deposit ratio from 31.4 per cent a year ago to 26.8 per cent on October 25, 1968. The addition to the cash reserves of banks was marginally higher than in the preceding slack season—Rs. 30 crores as against Rs. 24 crores and the cash ratio stood almost at the same level—6.3 per cent as compared with 6.4 per cent a year ago.

29. The smaller credit contraction in the 1968 slack season was accounted for, as mentioned in the foregoing, by a rise in food procurement advances. Besides this, there was a larger increase in non-seasonal advances (Rs. 111 crores as against Rs. 78 crores) due to larger expansion in advances against chemicals, dyes and pharmaceuticals (Rs. 22 crores as against Rs. 12 crores), jute goods and other manufactured articles excluding iron and steel and engineering products. Advances against the latter increased during the season by Rs. 31 crores although the rise was smaller than in the previous year (Rs. 48 crores).

30. The economic and monetary situation on the eve of the busy season of 1968-69 was characterised by a fair degree of stability in prices with good prospects of agricultural production except in respect of some crops, like oilseeds and jute, prices in respect of which showed signs of an upward trend. The monetary pressures were generally at a reduced level. However, the recovery in industrial activity, though perceptible, appeared to be rather slow. With a sizeable deposit accretion (at a rate of 6.2 per cent) in the slack season of 1968, the banks' liquidity position appeared to be quite comfortable and in view of the foregoing factors, the Bank did not think it necessary to make any radical changes in its credit policy for the busy season of 1968-69.

Busy Season of 1968-69-Policy

31. The Governor of the Reserve Bank had a meeting with the Chairmen and Chief Executives of the major banks on the eve of the 1968-69 busy season and the Bank's credit policy was announced on October 26, 1968. Within the general framework of the selective concessions on refinance for the preferred sectors of the economy including the engineering and metallurgical industries as well as food procurement and allied operations, a few modifications were made in the mechanism of calculating the incremental amounts in respect of advances to the three preferred sectors. Thus, refinance in respect of increments in bank credit to each of the three sectors *viz.* exports, agriculture and small-scale industries (guaranteed by the Credit Guarantee Organisation) taken individually was provided at 4½ per cent (in the past this was in respect of net increment in the total of advances to the three sectors). A significant feature of the policy was that the definition of 'agriculture' for purposes of concessional refinance as well as for the relief in the computation of net liquidity ratio was widened. Thus, the definition which earlier covered credit for distribution of inputs such as chemical fertilisers and pesticides was extended to cover loans to farmers for crop finance (other than plantations) and by way of medium-term credit for capital investment purposes, such as digging of wells or purchase of pumpsets, tractors, etc. and finance for fisheries, dairies, poultries, cold storage etc. As a part of the promotional measures, the Bank asked the commercial banks to pay special attention to the credit needs of the cotton textile industry and also to enhance the credit flow to the priority sectors of agriculture and small-scale industry so as to achieve the targets set by the National Credit Council. The Reserve Bank also relaxed the norm governing the average credit-deposit ratio by raising it from 75 per cent to 80 per cent. Export credit (both pre-shipment and post-shipment), bad and doubtful debts for which full provision had been made and aggregate outstandings of refinance obtained from the IDBI in respect of medium and long-term advances were also exempted from this norm. Some modifications were also introduced in November 1968 in the Export Credit (Interest Subsidy) Scheme which was in force since March 1968 with a view to simplifying its operations, and a new scheme known as 'Pre-shipment Credit Scheme' was introduced on January 20, 1969 (For details please see para 70 of Chapter III).

32. In February 1969, the Bank reviewed the credit situation and policy. No change was made in the overall policy. Under an amendment made to Section 17(3A) of the Reserve Bank of India Act, on February 1, 1969, banks were enabled to obtain refinance from the Bank for periods upto 180 days against their declarations of packing credit advances. Certain modifications were further introduced on February 6, 1969, in the system of refinance so as to simplify it and avoid complicated calculations and procedural difficulties which banks experienced in working out the rates payable by them on bank refinance. Thus, a uniform rate of 4½ per cent per annum, irrespective of a bank's net liquidity ratio, was charged on re-

finance, upto the total of a bank's short-term advances to agriculture and also to small-scale industries covered by the Credit Guarantee Organisation, which were outstanding and not merely in respect of the increment in such advances over the base period as was done earlier.* Refinance was to be made available for the whole amount against any eligible security and not necessarily against bills arising out of lending to these sectors. The Bank, however, withdrew the concessions given earlier by way of relief in the computation of net liquidity ratio on account of incremental advances to these two sectors and in respect of increases in refinance for food procurement advances. Banks were informed that they could approach for Bank rate refinance in case they experienced any difficulty on account of a substantial increase in their lending to priority sectors.

Busy Season of 1968-69—Trends

33. In the busy season of 1968-69, total bank credit recorded a relatively smaller expansion of Rs. 427 crores as compared to Rs. 509 crores in the 1967-68 busy season. However, excluding food procurement advances, the credit expansion in the 1968-69 busy season was somewhat higher than in the previous busy season —Rs. 419 crores as against Rs. 408 crores. Aggregate deposits, on the other hand, showed a record increase of Rs. 325 crores as against Rs. 219 crores in the 1967-68 busy season and Rs. 169 crores in the 1966-67 busy season. The credit-deposit ratio moved up by 4.3 percentage points from 73.7 per cent at the end of October 1968 to 78.0 per cent at the end of April 1969 as compared to an increase of 9.2 percentage points in the ratio in the corresponding period in the preceding year. Owing to the comfortable resources position of banks, the disinvestment in Government securities was smaller—Rs. 43 crores as against Rs. 182 crores during the same period last year; the investment-deposit ratio, however, declined to 23.8 per cent at the end of April 1969 because of the larger deposit expansion—at this level it was lower than that of 24.9 per cent as at the end of April 1968. Cash and balances with the Reserve Bank recorded a rise of Rs. 20 crores as against a decline of Rs. 4 crores in the preceding busy season: the cash ratio stood at 6.3 per cent as on April 25, 1969 as against 5.9 per cent as on April 26, 1968. The comfortable resources position enabled the banks to have recourse to a smaller quantum of borrowing from the Reserve Bank which was Rs. 71 crores as compared with Rs. 105 crores during the previous busy season. The much smaller credit expansion was accounted for by a very small net rise in food procurement advances (Rs. 8 crores as against Rs. 101 crores) brought about to a great extent by a repayment to the State Bank of India of nearly Rs. 70 crores of advances by the Food Corporation of India, and by a smaller expansion in non-seasonal advances (Rs. 107 crores as against Rs. 112 crores) as well as a smaller expansion in seasonal advances (Rs. 230 crores as compared with Rs. 383 crores). This was mainly because of a smaller rise in advances against sugar, foodgrains, cotton and kapas and raw jute.

Slack Season of 1969-Policy

34. Money supply with the public expanded by Rs. 535 crores in the four months ended April 1969 as compared with Rs. 346 crores in the corresponding period of 1968. While banks' deposits had risen considerably, the credit expansion upto the middle of April 1969 was lower than in the same period in 1968. The Reserve Bank's credit policy was, therefore, based on the expectation that the banking system as a whole was likely to be in a comfortably liquid position. In a meeting with the Chairmen and the Chief Executives of the major banks on May 29, 1969, the Governor of the Reserve Bank set out the Bank's credit policy in the slack season of 1969. Besides asking banks to continue their efforts towards increasing the credit flow for productive activity, specially in regard to the priority sectors, the Governor also advised banks to deploy their liquid resources in Government securities, including the State Government securities, and the securities of State approved bodies like the State Electricity Boards, State Finance Corporations, Land Mortgage Banks etc. keeping in mind the need to direct funds more effectively to the less developed States. This, in turn, it was thought, would help revive the demand for capital goods industries and give impetus to agricultural out-

* Since February 18, 1970, refinance irrespective of net liquidity ratio is available at Bank rate only in respect of the increase in short-term direct lending to agriculture and small-scale industries covered by Credit Guarantee Organisation, over a specified base period.

put and industrial development. The need for opening more branches and larger lending by commercial banks in the less developed and under-developed States, with a view to helping correct the regional disparities in industrial and general economic development was also emphasised by the Governor. Following the discussion at the meeting of the National Credit Council held in March 1969, the Reserve Bank asked the banks to provide credit to some of the sectors such as retail trade in rural areas, hire-purchase of trucks, taxis and scooters and to the self-employed. The banks were at the same time cautioned against lending for speculative activity and to restrict the credit flow to sectors which showed an unhealthy upward trend in prices.

35. It was also announced that the refinance facilities available under the Bill Market Scheme in respect of food procurement, agriculture and small-scale industries would continue to be available even after June 30, 1969. The refinance for exports and in respect of packing credit was also available as before, beyond June 1969.

Slack Season of 1969—May June Trends

36. During the first two months of the slack season of 1969 (May and June), total credit extended by scheduled commercial banks recorded a contra-seasonal rise of Rs. 136 crores as compared with a similar rise of Rs. 26 crores in the corresponding period of 1968. Even excluding food procurement advances, there was a rise of Rs. 65 crores as against a contraction of Rs. 44 crores. Deposit accretion was also substantially higher by Rs. 204 crores as against a rise of Rs. 93 crores. The larger credit expansion in this period was due mainly to advances to priority sectors and for food procurement a large part of which was refinanced by the Reserve Bank. This was reflected in the fact that total borrowings rose by Rs. 71 crores in these two months in the slack season (as against a repayment of Rs. 9 crores in the corresponding period in 1968) and that this was almost entirely due to borrowings for refinancing food procurement advances. With larger resources available with banks, their investment in Government securities was higher by Rs. 70 crores as against Rs. 9 crores, while the addition to their cash reserves totalled Rs. 100 crores as compared with Rs. 39 crores.

37. The position relating to the year ended June 1969 as compared with the preceding two years is shown in Table 6. In the year ended June 1969, total credit rose by Rs. 494 crores or by 15.9 per cent as compared to a rise of Rs. 472 crores or by 17.9 per cent in the preceding year. The rate of deposit accretion on the other hand, was higher in the year ended June 1969, namely, 17.0 per cent (Rs. 675 crores as compared to a rise by 12.9 per cent (Rs. 452 crores).

TABLE 6.
BANKING TRENDS—IMPORTANT VARIATIONS
(For the years ended June—1967, 1968 and 1969)

(Rs. Crores)

Items	June 1967	Variation during the year ended June 1967	June 1968	Variation during the year ended June 1968	June 1969	Variation during the year ended June 1969
1. Total Bank Credit	2631.1	+359.7	3102.9	+471.8	3597.1	+494.2
2. Total Investments	**1069.9**	**+ 20.4**	**1160.5**	**+ 90.6**	**1359.5**	**+199.0**
(a) in Government securities	922.6	+ 3.8	975.6	+ 53.0	1127.2	+151.6
(b) in other approved securities	147.3	+ 16.6	184.9	+ 37.6	232.3	+ 47.4
3. Cash and Balances with the Reserve Bank of India	258.8	+ 63.5	269.5	+ 10.7	380.4	+110.9
4. Money at call	57.7	— 4.5	50.6	— 7.1	88.0	+ 37.4
5. Aggregate Deposits	**3516.9**	**+393.7**	**3969.0**	**+452.1**	**4644.1**	**+675.1**
(a) Demand	1664.6	+187.3	1874.8	+210.2	2101.5	+226.7
(b) Time	1852.3	+206.4	2094.2	+241.9	2542.6	+448.4
6. Borrowings from the Reserve Bank of India	11.5	+ 9.0	103.5	+ 92.0	172.2	+ 68.7

Source :— Returns submitted under Section 42(2) of the Reserve Bank of India Act, 1934, except in respect of borrowings from the Reserve Bank of India which are based on borrowing advices from regional offices of Reserve Bank of India.

Selective Credit Controls

38. In the field of selective credit controls the Bank modified its policy during the period under review to suit the requirements of the situation in regard to the supply and prices of some of the commodities which are financed with the help of bank finance (Appendix VI). The groundnut as well as the cotton crop in 1967-68 was expected to be substantially higher than in the previous year and by January 1968, prices of oilseeds and cotton were ruling appreciably lower than a year ago. In response to signs of an improved supply situation in regard to these commodities, therefore, the Bank relaxed control on advances against oilseeds, vegetable oils (including vanaspati) and cotton and kapas. On January 13, 1968, the minimum margin was lowered from 50 per cent to 35 per cent in respect of credit to vanaspati manufacturers and registered oil mills covering oils and to oil mills and warehouse receipts covering groundnuts. Separate ceilings were prescribed for advances against oils to (i) vanaspati manufacturers and oil mills and (ii) others and for those against groundnuts in respect of (i) warehouse and (ii) non-warehouse advances. The control was relaxed further on May 27, 1968 by reducing the margins in the case of advances against oilseeds, from 35 to 25 per cent in respect of oil mills and warehouse advances and from 50 to 35 per cent in the case of others. The margins on advances covering oils were reduced from 35 to 25 per cent for those to vanaspati producers and oil mills and from 60 to 35 per cent for others. Control on warehouse advances was further relaxed in July 1968 in respect of advances against receipts of new warehouses *i.e.*, those opened on or after January 1, 1961 and those which were opened before January 1, 1961 but which have since that date increased its capacity by not less than 100 per cent by way of their own fresh or additional construction. The control on cotton advances which was modified in November 1967 was further relaxed on April 2, 1968 by reducing the margin from 35 to 25 per cent and raising the ceiling to 110 per cent of the peak level reached in each quarter of 1967. The minimum margin on such advances to cotton mills was reduced from 25 per cent to 20 per cent on June 17, 1968. Again, in view of the comfortable supply position and the consequent fall in prices of wheat and 'other foodgrains,' the Bank relaxed the credit control on these commodities. In the case of 'other foodgrains', on May 27, 1968, the margin was reduced from 40 to 25 per cent in respect of warehouse advances and from 50 to 35 per cent in the case of others and the ceiling was raised. In the case of wheat, the Bank, on August 7, 1968, reduced the margin from 40 per cent to 25 per cent in respect of warehouse advances and from 50 to 35 per cent in the case of others and raised the ceiling.

39. By October 1968, there were signs of a sharp uptrend in the prices of oilseeds, oils and jute and in view of this the Bank tightened its credit control in respect of oils and oilseeds and imposed control on advances against raw jute and jute goods. A ceiling was imposed on October 26, 1968, on raw jute advances to parties other than jute mills along with a minimum margin of 35 per cent. A margin of 50 per cent was also prescribed for advances against Pucca Delivery Orders for jute goods granted to parties other than exporters against certain registered export contracts. In the case of vegetable oils and oilseeds, the Bank raised, on November 8, 1968, the margin by 10 per cent from 25 per cent to 35 per cent in the case of advances to vanaspati manufacturers and oil mills and from 35 per cent to 45 per cent in the case of credit to other parties.

40. In the early part of the marketing season of cotton, the prospects for the 1968-69 cotton crop appeared to be very good. This was also reflected in a sustained fall in cotton prices. Having regard to the overall comfortable supply position of cotton and with a view to mitigating the hardships experienced by cotton textile mills in getting adequate finance from banks, the Bank completely removed the control on advances to cotton mills on November 26, 1968. The control on advances against paddy and rice was also somewhat relaxed in March 1969, following an improvement in the supply and price situation: the minimum margin was reduced by 15 per cent to 25 per cent on warehouse advances and to 35 per cent on non-warehouse advances: ceilings were also raised to 100 per cent of the levels of 1968.

41. By April 1969, the situation in regard to supplies and prices of oils and oilseeds

worsened and there was also a spurt in cotton prices following the reports of the output being lower than earlier expected and the delay in importing the P.L. 480 cotton. The level of bank advances against cotton had risen and there were apprehensions of a larger use being made of bank finance for holding stocks of cotton particularly by traders. The Bank, therefore, raised the margin on cotton advances to parties other than mills from 25 to 50 per cent on May 3, 1969 and reduced the ceiling from 100 per cent to 85 per cent of the corresponding period in 1968. In the case of oils and oilseeds too, in order to discourage bank credit being used for speculative holding of stocks, the Bank raised the margins on May 22, 1969, by 5 to 10 per cent and reduced the ceiling to 80 per cent of the 1967 levels as against 100 per cent.

Sectoral Changes in Credit

42. It is now two years since the Bank initiated special measures in August 1967, to liberalise facilities so as to make credit available to priority sectors and the recession-hit industries on cheaper terms. This was done not only by lowering the Bank rate but also by providing several concessions in regard to refinance facilities, particularly to the engineering industry and the priority sectors such as agriculture, small-scale industries and exports. The banks have endeavoured to increase their advances to agriculture and small-scale industries: the credit limits sanctioned by the 20 major commercial banks rose, between June 1968 and June 1969, by Rs. 221 crores and Rs. 185 crores, respectively. The credit levels outstanding in respect of these two sectors increased by Rs. 134 crores and Rs. 83 crores, respectively, during the same period. Of the rise of Rs. 134 crores, credit for fertilisers and other inputs accounted for Rs. 76 crores, direct finance for Rs. 31 crores, loans to Electricity Boards for Rs. 15 crores and other indirect finance Rs. 12 crores. The number of accounts in respect of credit to agriculture rose by 115 thousand while in the case of credit to small-scale industries the number of accounts rose by 23 thousand and the number of units by 14 thousand. Credit to another important priority sector, namely, exports also rose substantially during the period from March 1968 to June 1969 by Rs. 124 crores, from Rs. 139 crores to Rs. 263 crores. As regards bank credit to manufacturing industry, there were indications of a larger rise in such credit in the period after December 1968. The rise in such credit between the end of 1968 and the middle of 1969 has been estimated at nearly Rs. 220 crores as against a fall of Rs. 10 to Rs. 15 crores estimated for the period from March 1968 to December 1968. The major part of the larger rise in the first half of 1969 has been—apart from that in credit to sugar industry which was seasonal—in respect of textile industries (Rs. 72 crores) particularly cotton textiles (Rs. 49 crores). Among other industries, advances to chemical, pharmaceutical and fertiliser industries recorded a secular rise throughout the period covered here, reflecting to a large extent, a sustained demand for credit in view of the continued productive and stocking activities. On the other hand, advances to engineering, iron and steel and electrical goods industries declined which probably reflected less demand for bank credit, partly in view of the slower pick-up in productive activity and partly a relatively more rapid unloading of stocks of finished goods with the slight revival of demand for them.

43. While the foregoing reveals that the banking system, aided by liberal credit facilities offered by the Reserve Bank increased its accommodation to the industrial sector particularly the agro-based industries such as textiles, the rise in credit to other industries was rather slower and in the case of some, also reflected a somewhat reduced dependence on credit. This could be explained by the fact that industrial recovery is not yet complete. To the extent the recessionary trends still persist in some sectors, the reasons for the same are probably to be found in factors other than the availability of bank credit.

Deposit Mobilisation and Structure of Deposits

44. Part of the large rise of deposits of scheduled commercial banks in 1967-68 and 1968-69 was due to the rapid branch expansion in that period at a time when national income registered a big rise after virtual stagnancy during 1965-66 and 1966-67. The pace of deposit rise (adjusted for changes in P.L. 480 deposits) which had slowed down in 1967, was again stepped up in 1968 and 1969 (Table 7). In the year 1968 the number of branches in ope-

ration rose by 667. The deposit rise in this period was of the order of Rs. 460 crores or 12.2 per cent. In the first half of 1969, the number of branches in operation rose by 512: deposits rose in this period by Rs. 421 crores or by 10.0 per cent. In 1968, commercial banks opened 678 new branches, out of which 308 were opened in rural centres *i.e.* with population below 10,000: 181 were opened at semi-urban centres with population between 10,000 and 1 lakh while 189 offices were opened at urban centres, that is, with population of over 1 lakh. In 1967, of the 406 new offices opened, 173 were in rural centres, 76 in semi-urban centres while 157 were in urban centres. In 1969 upto July 21, 574 new offices were opened of which as many as 261 were in rural centres, 167 in semi-urban centres and 146 in urban centres. Again, of 678 branches opened in 1968, 365 were in unbanked centres while in the first half of 1969, 275 out of 526 new offices were opened at unbanked centres.

TABLE 7.

ANNUAL RISE IN BRANCHES AND DEPOSITS OF SCHEDULED COMMERCIAL BANKS

(Amount in Rs. crores)

Last Friday of	Branches		Deposits	
	No.	Rise	Amount	Per cent
1964@	5524	+480	+264.1	+11.5
1965@	5935	+411	+360.2	+14.1
1966@	6416	+481	+469.0	+16.1
1967	6816	+400	+374.2	+11.0
1968	7483	+667	+460.4	+12.2
June 1969	7995	+951*	+675.1*	+17.0*

*Represents increase over June 1968.

@Inclusive of P.L. 480 deposits of Rs. 34 crores, Rs. 33 crores and Rs. 12 crores which were transferred to the Reserve Bank of India from the State Bank of India during 1964, 1965 and 1966, respectively.

45. The composition of deposits of commercial banks at centres with various population groups is shown in Table 8. The

TABLE 8.

CLASSIFICATION OF DEPOSITS ACCORDING TO TYPE

(Rs. Crores)

Centres with Population	Current Deposits				Savings Deposits			
	December 1965*	September 1968@	Increase	% to total rise	December 1965*	September 1968@	Increase	% to total rise
	1	2	3	4	5	6	7	8
1. Above 10 lakhs	412.9	464.5	51.6	*47.7*	241.7	392.9	151.2	*34.6*
2. 5 to 10 lakhs	54.7	67.8	13.1	*12.1*	42.5	75.3	32.8	*7.5*
3. 1 to 5 lakhs	137.1	152.5	15.4	*14.2*	123.8	204.2	80.4	*18.4*
4. 50,000 to 1 lakh	50.1	61.2	11.1	*10.2*	55.0	100.5	45.5	*10.3*
5. 10,000 to 50,000	91.6	98.9	7.3	*6.7*	113.0	186.4	73.4	*16.8*
6. Below 10,000	22.7	32.5	9.8	*9.1*	26.4	80.7	54.3	*12.4*
Total	**769.1**	**877.4**	**108.3**	*100.0*	**602.4**	**1040.0**	**437.6**	*100.0*

Centres with Population	Fixed Deposits				Total Deposits			
	December 1965*	September 1968@	Increase	% to total rise	December 1965*	September 1968@	Increase	% to total rise
	9	10	11	12	13	14	15	16
1. Above 10 lakhs	639.2	970.3	331.1	*40.6*	1293.9	1827.7	533.8	*39.2*
2. 5 to 10 lakhs	101.0	156.0	55.0	*6.7*	198.3	299.2	100.9	*7.4*
3. 1 to 5 lakhs	253.1	410.2	157.1	*19.2*	514.0	766.8	252.8	*18.5*
4. 50,000 to 1 lakh	102.8	175.6	72.8	*8.9*	207.9	337.3	129.4	*9.5*
5. 10,000 to 50,000	176.5	300.9	124.4	*15.2*	381.1	586.1	205.0	*15.0*
6. Below 10,000	39.1	115.9	76.8	*9.4*	88.1	229.2	141.1	*10.4*
Total	**1311.7**	**2128.9**	**817.2**	*100.0*	**2683.3**	**4046.3**	**1363.0**	*100.0*

* Figures relate to annual averages.

@ Based on Monthly Survey of Deposits.

notable feature seen from the aggregate figures was the steady rise in the share of fixed deposits in total deposits from 48.9 per cent in December 1965 to 52.6 per cent in September 1968. The proportion of savings deposits also showed a rise from 22.4 per cent to 25.7 per cent but that of current deposits declined from 28.7 per cent to 21.7 per cent.

46. Of the total rise in deposits between December 1965 and September 1968, over 65 per cent took place at centres with population above 1 lakh, of which the major part was at centres with population above 10 lakhs. Of the centres with population below 1 lakh where 35 per cent of the rise in deposits took place, the major part of the rise was at smaller centres, namely, those with population below 50,000 (Table 8) indicating the deposit potential in these areas. At bigger places *i.e.* with population of over 1 lakh the proportion of the rise in the case of current deposits was higher (74.0 per cent) than in the case of savings and fixed deposits in respect of which 61 and 67 per cent of the rise respectively took place at bigger centres.

47. The latest available position in respect of State-wise distribution of deposits at different population centre groups relates to September 1968 (Table 9). Nearly 57 per cent of total deposits were in three States of Maharashtra, West Bengal and Gujarat and in Delhi: the number of bank branches in these regions accounted for two-fifths of the total number of branches in the country. The major part of deposits in Maharashtra and West Bengal was, however, concentrated in urban centres *i.e.* with population above 1 lakh, namely, 91 per cent and 85 per cent, respectively. Of these, deposits in Bombay and Calcutta accounted for 79 and 81 per cent, respectively. The distribution in certain other States like Tamil Nadu, U.P., Gujarat and Mysore was more even; for example, in Tamil Nadu and U.P. 66 per cent was in urban centres, and 28 per cent in semi-urban centres while the proportions in Gujarat and Mysore

TABLE 9.

CLASSIFICATION OF DEPOSITS AND OFFICES OF SCHEDULED COMMERCIAL BANKS ACCORDING TO STATES AND POPULATION GROUPS

(As at the end of September 1968)

(Amount Rs. Crores)

States	At Centres with Population* of							
	Below 10,000 (Rural)		10,000 to 1 lakh (Semi-Urban)		1 lakh and above (Urban)		Total	
	No. of Branches	Amount	No. of Branches	Amount	No. of Branches	Amount	No. of Branches	Amount
	1	2	3	4	5	6	7	8
1. Andhra Pradesh ..	128	8.6	207	40.8	164	93.1	499	142.5
2. Assam	20	3.3	33	24.5	11	6.9	64	34.7
3. Bihar	43	10.1	123	66.3	77	73.1	243	149.5
4. Gujarat	180	23.7	257	131.8	216	190.1	653	345.6
5. Haryana	35	4.5	89	35.3	10	10.5	134	50.3
6. Jammu & Kashmir ..	1	—	1	0.4	15	17.4	17	17.8
7. Kerala	150	18.1	169	54.8	99	43.2	418	116.1
8. Madhya Pradesh ..	63	6.1	153	35.5	86	56.8	302	98.4
9. Maharashtra	122	12.9	293	77.1	575	897.1	990	987.1
10. Mysore	176	21.0	299	65.9	185	113.6	660	200.5
11. Orissa	25	3.0	54	15.0	15	6.7	94	24.7
12. Punjab	73	20.0	123	69.7	90	89.8	286	179.5
13. Rajasthan	118	7.3	121	25.7	86	37.8	325	70.8
14. Tamil Nadu ..	159	11.3	457	70.7	367	169.3	983	251.3
15. Uttar Pradesh ..	146	19.7	255	96.8	248	215.9	649	332.4
16. West Bengal ..	44	11.3	120	71.5	278	481.5	442	564.3
17. Delhi	—	—	—	—	249	390.9	249	390.9
18. Union Territories@ ..	78	48.3	45	41.6	—	—	123	89.9
Total 1 to 18 ..	**1561**	**229.2**	**2799**	**923.4**	**2771**	**2893.7**	**7131**	**4046.3**

Note :—(1) Based on monthly survey of deposits.
(2) Number of branches relate to reporting branches.

* Based on Census of 1961.

@ Including Nagaland and excluding Delhi.

were around 55 per cent and 36 per cent, respectively. Of the total deposits at rural centres (Rs. 229 crores) 58 per cent of deposits were in Gujarat, Mysore, Punjab, U.P. and the Union Territories excluding Delhi. In the semi-urban centres, deposits in six States, namely, Gujarat, U.P., Maharashtra, Tamil Nadu, Bihar and Mysore accounted for 55 per cent while nearly three-fourths of deposits in urban centres were concentrated in Maharashtra, West Bengal, Delhi, Gujarat and Tamil Nadu.

Trends in Co-operative Banking

48. At the end of June 1969, there were 28 apex co-operative banks (including 3 apex industrial co-operative banks), 366 central co-operative banks (including 25 district industrial banks) and 954 primary co-operative banks (including 320 salary earners' societies) under the purview of Banking Regulation Act, 1949 (as applicable to co-operative societies). As at the end of December 1968, primary co-operative banks included 366 salary earners' societies of which 225 had expressed a desire to go out of the purview of the Act. During the period from December 1967 to December 1968, the deposits of State co-operative banks (excluding inter-bank deposits) increased from Rs. 87.3 crores to Rs. 102.03 crores and stood at Rs. 107.99 crores as at the end of March 1969, while those of the central co-operative banks increased from Rs. 234.2 crores to Rs. 275.74 crores and stood at Rs. 290.38 crores as at the end of March 1969. The deposits of 663 reporting primary co-operative banks stood at Rs. 115.8 crores at the end of December 1968 and at the end of March 1969, the deposits of 668 reporting primary co-operative banks stood at Rs. 119.42 crores. The number of State co-operative banks on the Second Schedule to the Reserve Bank of India Act has increased from 12 to 14 on the scheduling of the Punjab and Haryana State Co-operative Banks with effect from February 4, 1969.

49. During the period January-June 1968, short-term credit limits of Rs. 4.99 crores were sanctioned by the Reserve Bank of India to 7 State co-operative banks for financing seasonal agricultural operations and marketing of crops at a concessional rate of 2 per cent below the Bank rate. During the period from July 1, 1968 to June 30, 1969, such credit limits sanctioned to 19 State co-operative banks aggregated Rs. 337.52 crores and outstandings in respect of drawals from these limits totalled Rs. 183.09 crores as at the end of June 1969. The Reserve Bank also sanctioned credit limits to 6 co-operative banks amounting to Rs. 22.0 crores at the Bank rate for financing the purchase and distribution of chemical fertilisers during January-June 1968, the drawals in respect of which amounted to Rs. 16.3 crores. During the period July 1968 to June 1969, credit limits sanctioned to 8 co-operative banks for the same purpose were higher at Rs. 35.50 crores, the drawals and outstandings in respect of which amounted to Rs. 40.12 crores and Rs. 14.71 crores as on June 30, 1969, respectively. In addition, a special credit limit of Rs. 10.3 crores was sanctioned to 1 State co-operative bank for financing marketing of cotton and kapas during January-June 1968, the drawals in respect of which amounted to Rs. 10.5 crores, leaving a balance of Rs. 1.2 crores as at the end of June 1968. This facility was provided to 2 State co-operative banks during January 1968—June 1969, the limits sanctioned, the drawals thereon and outstandings at the end of June 1969 amounting to Rs. 8.35 crores, Rs. 7.20 crores and Rs. 0.90 crore, respectively. In addition to the accommodation for agricultural purposes at concessional rate of interest, short-term finance amounting to Rs. 23.05 crores was made available to 2 State co-operative banks for general banking purposes during the period July 1968—June 1969. There were no outstandings in respect of these advances on June 30, 1969. The Reserve Bank also sanctioned a short-term limit of Rs. 0.42 crore to a State co-operative bank under Section 17(4)(a) of the Reserve Bank of India Act against Government and trustee securities representing investments of Agricultural Credit (Stabilisation) Fund at Bank rate for enabling it to grant conversion loans to affiliated central banks. Drawals on these limits amounted to Rs. 0.36 crore while the outstandings as on June 30, 1969 stood at Rs. 0.28 crore.

50. Short-term credit limits to 9 State co-operative banks for financing production and marketing activities of handloom weavers' societies at a concessional rate of $1\frac{1}{2}$ per cent below the Bank rate during January-March 1968 stood at Rs. 1.38 crores. The drawals and

outstandings out of these limits stood at Rs. 6.29 crores and Rs. 5.61 crores, respectively. Further, during April 1968-March 1969, the limits sanctioned to 9 State co-operative banks, the drawals thereof and outstandings as at the end of March 1969 stood at Rs. 7.80 crores, Rs. 8.45 crores and Rs. 5.96 crores, respectively. Credit limits at the Bank rate were also sanctioned for financing the purchase and distribution of yarn ; during January-March 1968, the limits sanctioned and outstandings stood at Rs. nil crore and Rs. 0.24 crore, respectively. Limits and outstandings for the same purpose during the period April 1968-March 1969 stood at Rs. 1.02 crores and Rs. 0.32 crore, respectively.

51. Besides short-term credit limits, the Reserve Bank also sanctioned medium-term credit aggregating Rs. 14.7 crores to 14 co-operative banks during January-June 1968 at a concessional rate of 1½ per cent below the Bank rate for approved agricultural purposes. The drawals against these limits were of the order of Rs. 9.1 crores and outstandings as on June 30, 1968 were Rs. 16.5 crores. During the period July 1968-June 1969, the limits, drawings, and outstandings under this facility granted to 15 State co-operative banks totalled Rs. 19.0 crores, Rs. 8.98 crores and Rs. 17.47 crores, respectively. An amount of Rs. 0.13 crore was also outstanding as on June 30, 1969 in respect of medium-term loans advanced during earlier years to State co-operative banks for financing the purchase of shares in co-operative processing societies.

52. During the financial year 1968-69, loans were sanctioned to 12 State Governments from the National Agricultural Credit (Long-term Operations) Fund to the extent of Rs. 4.06 crores for contributing to the share capital of apex and central co-operative banks, co-operative land development banks and agricultural credit societies.

53. Owing to the recurrence of drought in some parts of the country, short-term loans of Rs. 0.5 crore repayable to the Reserve Bank were converted into medium-term loans by drawing upon the National Agricultural Credit (Stabilisation) Fund during the period January-June 1968. During July 1968-June 1969, amounts so converted totalled Rs. 6.32 crores. The outstanding amount of loans from National Agricultural Credit (Stabilisation) Fund at the end of June 1969 stood at Rs. 5.18 crores.

54. It was stated in the Report for 1967 that the Reserve Bank had constituted in June 1967 a Working Group under the Chairmanship of a Deputy Governor of the Bank to study the problem of ensuring an adequate flow of funds for industrial financing through co-operative banks. The main recommendations of the Working Group submitted in August 1968 fall into two broad categories according to whether their implications are mainly organisational or financial. The recommendations relating to the organisational aspect were :

(a) There should be a programme for re-organisation of industrial co-operative societies with the objective of ensuring that each of the existing societies has a business potential adequate to enable it to function as a viable unit ;

(b) Criteria for reorganisation of the existing societies should be strictly applied to new societies so as to ensure that the prospects of their success are properly assessed before registration ; and

(c) Organisational arrangements should be made within the co-operative banks to enable them to play an effective role in developing and financing industrial societies and remove restrictive provisions in the bye-laws of urban co-operative banks for enabling them to play a prominent role in financing small-scale industrial units :

The recommendations in regard to financial accommodation related mainly to :

(a) The strengthening of the capital structure of industrial co-operative societies,

(b) The financing of the block and working capital requirements of industrial co-operative societies and

(c) The role of the Reserve Bank of India with reference to these recommendations.

55. The Reserve Bank had with the approval of the Committee of the Central Board of

Directors, recognised for financial accommodation under Section (17)(2)(bb) of the Reserve Bank of India Act, 22 broad groups of cottage and small-scale industries in addition to the weaving industry and power-looms in the co-operative sector already recognised for the purpose. The other recommendations of the Working Group have generally been accepted by the Central Board of Directors of the Bank excepting those in regard to the amendment to Section 46A of the Reserve Bank of India Act with a view to enabling the Bank to contribute to the rural debentures issued by or on behalf of the processing societies and also for enabling loans to be made to State Governments with a view to subscribing to the share capital of industrial co-operative societies (other than processing societies) whose membership is drawn from the weaker sections of the community. Action has been initiated for implementing the other recommendations either directly or by other concerned agencies.

CHAPTER III

BANKING LEGISLATION AND PROMOTIONAL AND ORGANISATIONAL MEASURES

56. The previous chapter dealt with credit policy and the major developments in the operations of commercial banks during the period January 1968 to June 1969. This chapter reviews legislative and promotional measures, as well as developments in organisational set-up and related matters.

Banking Legislation

The Banking Laws (Amendment) Act, 1968

57. The rationale of the policy of social control over commercial banks and the steps which were initiated in this connection by the Government to achieve it were outlined in Chapter II of the Report for the year 1967 (vide paragraphs 60 to 71). Thereafter, the Banking Laws (Amendment) Act, 1968 was passed by Parliament. The measure received the assent of the President on December 28, 1968 and came into force with effect from February 1, 1969. The more important provisions of the Bill having a bearing on social control over banks were set out in the previous Report and those relating to the reconstitution of the Board of Directors of banking companies and the prohibition of advances to directors of banks or to concerns in which they were interested, were incorporated in the Amending Act. Thus, in terms of the Amending Act, banks were required to reconstitute their Boards of Directors, so that not less than 51 per cent of the total number of members were persons having special knowledge of or practical experience in certain fields such as accountancy, agriculture and rural economy, small-scale industry, co-operation, banking, economics, finance and law. The directors representing these sectors should not have substantial interest in or be connected, as employee, manager, or managing agent, with large or medium-sized industrial undertakings or trading or commercial concerns. Of these directors, not less than two are to represent agriculture or rural economy, co-operation and small-scale industry. The Amending Act requires every Indian bank to have a full-time Chairman who is a professional banker or possesses experience of financial, economic or business administration. So long as he is Chairman of a banking company, he should not be a director of any company or a partner of any trading, industrial or business concern or should *not* have substantial interest in any company or firm and should not be engaged in other business or concern. The appointment, removal or termination of appointment of the Chairman, and the terms to be granted to him would require approval of the Reserve Bank. The Act empowers the Reserve Bank to reconstitute the Board of Directors of a bank if the composition of the Board does not fulfil the requirements of law and if the bank does not comply with the directions given by the Reserve Bank in this regard. The Reserve Bank is also empowered to remove from office a Chairman of the banking company and appoint a suitable person, after giving a reasonable opportunity to the Chairman and the bank to represent their case.

58. Section 20 of the Banking Regulation Act, 1949, had prohibited the grant of unsecured loans and advances to directors of banking companies and to the concerns in which they were interested or to concerns and industries for which they acted as guarantors. The Amending Act prohibits the grant of any new loans and advances, whether secured or unsecured, to directors or members of any Committee or Board appointed by the banks in India or to concerns in which they are interested as partner, director, manager, managing agent, employee or guarantor or in which they hold substantial interest. Subsidiaries of banking companies, government companies and non-profit-making companies are exempted from this provision. Any loan which has already been granted or granted after the commencement of Sec-

tion 5 of the Amending Act because of an earlier commitment, will have to be recovered within the period stipulated at the time of the grant of the loan or advance or where no such period has been stipulated, before the expiry of one year from the commencement of Section 5 of the Amending Act. The Reserve Bank may, however, in special cases extend the period upto 3 years.

59. The appointment, re-appointment or removal of the auditors of a banking company now requires the approval of the Reserve Bank, and the Reserve Bank has been empowered to direct the auditors to audit any special transactions, which it may specify.

60. The Reserve Bank's powers to appoint directors or observers and to issue directives to banks have been amplified. Such directions may be issued not only in the interests of depositors or proper management of the banking companies, but also in the interest of banking policy. Banking policy, as defined in the Act, means any policy which is specified from time to time by the Reserve Bank in the interest of the banking system or in the interest of monetary stability or sound economic growth, having due regard to the interests of the depositors, the volume of deposits and other resources of the bank and the need for equitable allocation and the efficient use of these deposits and resources. The widening of the scope of Reserve Bank's directives to cover the requirements of banking policy, in Sections 21, 35A, 36 and 36AB of the Banking Regulation Act, has the effect of enlarging Reserve Bank's power to issue directions to banks in regard to the policy to be followed by them in making loans and advances, or generally on any matter concerning the affairs of a bank, whether arising out of inspection or otherwise, and in regard to the appointment of observers or additional directors by the Reserve Bank.

61. In view of the special responsibilities of banks under the Negotiable Instruments Act towards their depositors and the public in general, the Act provides a new Section 36AD, which makes it unlawful to (a) obstruct any person from lawfully entering or leaving a bank's office or from carrying on any business there, (b) hold within such office, demonstrations which are violent or are calculated to prevent the transactions of normal business or (c) act in any manner calculated to undermine the confidence of the depositors in the bank concerned. This provision will not, however, be used to curtail normal and lawful trade union rights by the employees.

62. The Central Government is empowered under the Act to acquire the business of any bank, if it fails more than once to comply with any directions issued to it under Section 21 or Section 35A of the Banking Regulation Act in so far as such directions relate to banking policy or if the Central Government is satisfied that a banking company is being managed in a manner detrimental to the interest of its depositors, or in the interest of banking policy, or for the better provision of credit generally, or of credit to any particular section of the community or in any particular area. Provision has been made for payment of compensation, in the event of such acquisition.

63. In keeping with the spirit of the provisions of Section 3 of the Amending Act, some of the banks reconstituted their Boards of Directors and/or appointed whole-time Chairmen even before the Amending Act came into force. As it was felt that all the banking companies would not have been in a position to comply with the provisions of Section 3 of the Amending Act within the time permissible therein, in exercise of the powers conferred by Section 53 of the Banking Regulation Act, 1949, the Government, on the recommendation of the Bank, issued a notification on February 1, 1969, exempting banking companies, having deposits of less than Rs. 10 crores, as on the date of the notification, from the requirements of reconstitution of the Board of Directors (Section 10A of the Banking Regulation Act) and banks having deposits of less than Rs. 25 crores, as on the date of the notification, from the requirements of appointment of whole-time Chairmen (Section 10B of the Banking Regulation Act) till February 1, 1970. In consonance with the spirit of these provisions, all foreign banks operating in India have been asked to set up advisory boards consisting of Indians (with the exception of the Chief Executive Officer when he is a member) with a majority of persons having special knowledge of or practical experience in one or more of the

fields mentioned above. Accordingly, all foreign banks have constituted local advisory boards in India.

64. Early in 1968, in the course of the discussions which Governor had with the representatives of foreign banks on certain aspects relating to social control over banks, the question of the induction of foreign funds by these banks into India, on a long-term basis, in connection with their Indian business (more or less in the nature of 'capital funds') was also discussed. It was decided that foreign banks should have as their 'own funds deployed in Indian business,' an amount equivalent to 3.5 per cent of their deposits in India. These banks were given the option to comply with the above requirements through one or more of the following ways:-

(i) Foreign funds belonging to the bank brought in and retained in some specific category of reserves ;

(ii) Foreign currency loans granted to Indian parties ;

(iii) An interest free deposit with the Reserve Bank of India in foreign currency in any of its foreign accounts, with an option that if the bank which makes the deposit so requests, the Reserve Bank would be prepared to consider making an interest-bearing fixed deposit with that bank's foreign office on mutually agreed terms ;

(iv) An interest-bearing foreign currency fixed deposit in the name of the Reserve Bank of India with one of the bank's offices outside India.

All the foreign banks now comply with the above requirements through one or more of the above methods.

65. The foreign banks are also required to maintain a credit-deposit ratio of not more than 80 per cent. (Both the Indian and foreign banks are allowed to exclude export bills negotiated, packing credit finance and a few other items from advances for the computation of the credit-deposit ratio). The foreign banks can exceed the above ratio provided the excess is covered by funds brought from outside India. All the foreign banks are at present complying with the relevant requirement.

The Banking Commission

66. In his statement on social control over commercial banks made in the *Lok Sabha* on December 14, 1967, the then Deputy Prime Minister and Minister of Finance had stated as mentioned in the previous Report, that a Banking Commission would be set up to study matters which affect the development of the banking industry on the right lines. Accordingly, the Government of India announced on January 29, 1969, the appointment of the Banking Commission with Shri R. G. Saraiya as the Chairman. The Commission is a four member body consisting of, besides the Chairman, Shri N. Ramanand Rao, Managing Director of the State Bank of India, Shri Bhabatosh Datta, formerly Professor of Economics and Shri V. G. Pendharkar, the Principal Adviser to the Reserve Bank of India as its Member-Secretary.

67. The terms of reference of the Commission are as follows :

(i) To enquire into the existing structure of the commercial banking system having particular regard to size, dispersion and area of operation and to make recommendations for improving the structure ;

(ii) To make recommendations for extending the geographical and functional coverage of the commercial banking system ;

(iii) To make recommendations for improving and modernising the operating methods and procedures and the management policies of commercial banks ;

(iv) To examine the cost and capital structure and to review the adequacy of available surplus and reserves, having regard to the developmental needs of the banking system and to make recommendations in the light of the findings ;

(v) To review the existing arrangements relating to recruitment, training and other relevant matters connected with manpower planning of bank personnel and to make recommendations for building up requisite professional cadre of bank personnel at all levels of management ;

(vi) To review the working of co-operative banks and to make recommendations with a view to ensuring a co-ordinated development of commercial and co-operative banks, having regard, in particular, to (ii) above ;

(vii) To review the role of various classes of non-banking financial intermediaries, to enquire into their structure and methods of operation and recommend measures for their orderly growth ;

(viii) To review the working of the various classes of indigenous banking agencies such as multanies and shroffs, evaluate their utility in the money market complex and to make recommendations in the light of the findings ;

(ix) To review the existing legislative enactments relating to commercial and co-operative banking ;

(x) To make recommendations on any other related subject matter as the Commission may consider germane to the subject of enquiry or on any related matter which may be specifically referred to the Commission by the Government.

The Commission has commenced functioning and has issued questionnaires to banks and other concerned institutions, eliciting information on the issues covered by terms of reference. The Commission is expected to submit its Report by the end of 1970.

Promotional Measures

Export Finance Facilities

68. Mention was made in the previous Report regarding the operation of the special schemes of the Reserve Bank of India and the Industrial Development Bank of India under which refinance facilities have been made available on preferential terms for exports. Until the reduction of the Bank rate from 6 per cent to 5 per cent on March 2, 1968, irrespective of the cost of borrowing from the Reserve Bank for other purposes, the banks were allowed to borrow against holdings of both rupee usance export bills and foreign currency usance export bills at the Bank rate. Whether or not they borrowed from the Reserve Bank of India, they were not to charge the exporters more than $1\frac{1}{2}$ per cent above the Bank rate on export credit ; on March 2, 1968, the maximum rate of interest which the banks could charge was reduced to 6 per cent per annum and the Government of India introduced the Export Credit (Interest Subsidy) Scheme, (referred to later) on March 3, 1968.

69. The scheme for refinancing packing credit advances of banks relating to exports at concessional rate of interest which was introduced in August 1967 also continued to operate. Under this scheme, the Bank provides refinance to eligible scheduled commercial banks, irrespective of their net liquidity ratio, in respect of their packing credit advances for export of engineering and metallurgical products at $4\frac{1}{2}$ per cent per annum and other products at the Bank rate (i.e. 5 per cent) subject to the banks' making such advances at a rate of interest not exceeding 6 per cent per annum. In order that as large a sector as possible may benefit by this scheme, it was operated in a flexible manner and the procedural requirements were modified/waived wherever necessary. Such modifications have been made during the year in respect of packing credits granted by banks to exporters of tobacco, exports of ores through the Minerals and Metals Trading Corporation and exporters of leather and leather goods through the State Trading Corporation.

70. In order to simplify formalities for availment by scheduled commercial banks of refinance in respect of pre-shipment credits extended by them to exporters, Section 17(3A) of the Reserve Bank of India Act has been amended with effect from February 1, 1969. The amendment enables the banks to avail of refinance against packing credit by giving declarations of having extended such advance without production of promissory notes of individual parties. The amendment also enables banks to obtain refinance from the Bank repayable on demand or for fixed periods not exceeding 180 days. Since February 1, 1969, refinance to banks in respect of their packing credit advances for export is provided under a new scheme, called 'Pre-shipment Credit Scheme' framed under the amended Section 17(3A) of the Reserve

Bank of India Act. Earlier, it was made available to banks under Section 17(4)(c) of the Act, which required the banks, *inter alia*, to lodge eligible usance promissory notes of the individual parties with the Reserve Bank of India and entailed payment of stamp duty on usance promissory notes to be lodged with the Reserve Bank. Under the scheme, introduced on February 1, 1969, refinance to banks in respect of their packing credit advances for export of engineering and metallurgical products was provided by the Bank at 4½ per cent and for other products at Bank rate.* Whether or not banks borrow from the Reserve Bank, they are obliged to charge a rate of interest not exceeding 6 per cent to the borrowers, as before.

71. Consequent on the introduction of the Import Deposit Scheme in the U. K., it became necessary for Indian exporters to grant credit facilities to their U. K. buyers for periods longer than 180 days. Scheduled commercial banks were permitted to include in their declarations of export usance bills for the purpose of borrowing from the Reserve Bank under Section 17(3A) of the Reserve Bank of India Act, export bills payable beyond 180 days but within 240 days from the date of shipment provided that they matured not later than 180 days from the date of borrowing from the Reserve Bank. Simultaneously such export bills were also made eligible for interest subsidy under the Export Credit (Interest Subsidy) Scheme, 1968.

72. Under the Export Bills Credit Scheme of the Bank referred to above, total advances made by the Bank between July 1, 1968 and June 28, 1969 amounted to Rs. 145.35 crores of which Rs. 121.85 crores were against declaration of foreign currency bills and Rs. 23.50 crores against declaration of Rupee Export Bills. The total amount availed of by banks in 1967-68 (July-June) was Rs. 84.43 crores of which Rs. 48.17 crores was against foreign currency bills and Rs. 36.26 crores was against rupee bills. The outstanding amount of export bill advances by the Bank as on June 30, 1969 stood at Rs. 3.63 crores of which Rs. 0.15 crore was in respect of rupee export bills.

Interest Subsidy Scheme

73. In pursuance of the Deputy Prime Minister's statement in the *Lok Sabha* on February 29, 1968, the Export Credit (Interest Subsidy) Scheme was introduced with effect from March 3, 1968 for grant of interest subsidy in respect of export finance provided by the scheduled commercial banks at rates not exceeding 6% per annum. During the period under review *i.e.*, 1-1-1968 to 30-6-1969, claims for interest subsidy from 35 eligible scheduled commercial banks were received and an aggregate amount of Rs. 1.83 crores was paid to them till the 30th June 1969. The amount of Rs. 1.83 crores comprised subsidy paid in respect of pre-shipment and post-shipment credit amounting to Rs. 0.73 crore and Rs. 1.10 crores, respectively. The subsidy paid generally covered the claims made by banks for the period 3rd March 1968 to 31st March 1969 and was disbursed during February to June 1969.

Refinance Facilities by I.D.B.I.—Export Credit

74. The Industrial Development Bank of India continued to operate the scheme for providing refinance facilities to eligible banks against medium-term export credit granted to exporters primarily for export of capital and engineering goods. During January-June 1968 and from July 1968 to June 1969, 2 and 11 applications amounting to Rs. 19.2 lakhs and Rs. 7.5 crores, respectively, were sanctioned bringing the total number of applications sanctioned since the introduction of the scheme in January 1963 upto the end of June 1969 to 23 and the amount sanctioned to Rs. 9.3 crores ; disbursements during the period January-June 1968 and from July 1968 to June 1969, aggregated Rs. 14.6 lakhs and Rs. 2.5 crores, respectively. Total disbursements at the end of June 1969 aggregated Rs. 4.1 crores ; outstandings stood at Rs. 2.4 crores at the end of June 1969.

75. In view of the large export contracts secured by Indian exporters in recent months for supply of capital and engineering goods on deferred payment basis, it was felt that commercial banks might not, by themselves, be able or willing to carry the whole risk and provide the entire term finance and guarantee facilities required by the exporter even with refinancing assistance from the

* Since February 18, 1970 banks are eligible for refinance at 4½ per cent only to the extent of the increase in their advances to exports over a specified base period.

IDBI. The IDBI, therefore, introduced a new scheme effective December 6, 1968, in terms of which the Bank, in appropriate cases, enters into participation arrangements with eligible commercial banks for providing term finance and guarantee facilities to industrial concerns, both in the public and private sectors, exporting capital and engineering goods and services on deferred payment basis. The scheme provides for export credits both during pre-shipment stage and post-shipment stage for periods over 6 months, and performance and financial guarantees on behalf of exporters. The extent of participation by the IDBI and commercial banks would depend upon the facts of each case and would generally be settled by discussion between themselves. All licensed scheduled commercial banks in India, which are authorised dealers in foreign exchange, are eligible for participation under the scheme. Normally, the IDBI would charge on its portion of the export credit, an interest rate of $4\frac{1}{2}$ per cent and the participating bank would charge its own rate on its portion upto 6 per cent—the ceiling rate currently prescribed by the Reserve Bank of India for all types of export credit. Thus, the average cost of export credit to the exporter would work out lower than 6 per cent per annum. Since the introduction of the scheme in December 1968 upto the end of June 1969, the Bank has sanctioned direct export finance aggregating Rs. 7.1 crores to two concerns, in participation with banks in the form of post-shipment loans of Rs. 6.5 crores and an advance payment guarantee for Rs. 60 lakhs for exports of railway track accessories, transmission line towers and copper and ACSR conductors to Iran.

The Toda Report on the Export Credit System of India

76. Mention may be made here of the Report on the 'Export Credit System of India' of Mr. Yoshiaki Toda of the Bank of Japan, who was requested in June 1968 by the Reserve Bank to examine the export credit problems in India and to make suggestions for further improvements in export credit facilities with particular reference to (i) the problems arising in assisting exporters of new products and exporters with a relatively small turnover, (ii) the present costs of export credit at the various stages and (iii) the mechanism of the Reserve Bank refinance from the point of view of the adequacy of incentives provided in it to banks for expanding export credit. The above Report was submitted on November 3, 1968.

77. Some measures relating to export credit by banks have recently been taken by the Reserve Bank and the Industrial Development Bank of India ; these measures which have a bearing upon some of the suggestions made by Mr. Yoshiaki Toda in his Report on Export Credit System of India (referred to above) are as follows :

78. As mentioned earlier, following the enactment of the Banking Laws (Amendment) Act, 1968, the Reserve Bank provides refinance to banks for periods not exceeding 180 days against their packing credit advances on their furnishing to the Reserve Bank, declarations of the eligible packing credit advances. Under the revised procedure, the practice of fixing limits for individual exporters in respect of packing credit advances has been dispensed with and an overall limit is fixed for each bank as in the case of the post-shipment credit. The regional offices of the Reserve Bank have also been authorised to deal with applications for limits under the Export Bills Credit Scheme and the Pre-shipment Credit Scheme.

79. The Reserve Bank is also giving attention to the question of a fuller study being made of the minimum period for which pre-shipment credit is granted for exportable commodities with a view to giving specific indications to banks in regard to such commodities.

80. As regards the facility of term credit to exporters, the Industrial Development Bank of India which had already under consideration a scheme for providing direct finance to exporters, announced it on December 6, 1968. Details of the scheme have been given in paragraph 75 of the Report.

81. The Reserve Bank had, as early as June 1968, taken action in regard to the provision of forward exchange cover in respect of long-term export contracts so as to minimise the risks of currency depreciation by providing roll-over facilities, enabling the authorised dealers to offer such a cover to exporters.

The authorised dealers could, in turn, obtain forward cover from the Reserve Bank, in respect of their sterling transactions. Similarly, the Bank had already exempted packing credit advances and post-shipment credit from the computation of the norms fixed in respect of (i) the credit-deposit ratio and (ii) unsecured advances and guarantees by banks.

82. The Reserve Bank has already made arrangements for collection of fuller statistical data on export finance by commercial banks. Similarly, the Bank as well as the Government of India have already taken steps to give adequate publicity to the various export credit facilities.

Refinance of Term Loans to Industrial Concerns

83. As in the previous years, the Industrial Development Bank of India continued to provide refinance to banks in respect of their medium-term loans to industrial concerns for expansion and modernisation of plant and machinery and for the establishment of new units. The details relating to the existing facilities are given in Annexure 'D.' The amount of sanction for refinance to commercial banks during July 1968-June 1969 increased to Rs. 6.1 crores in respect of 36 applications as compared to Rs. 5.1 crores in respect of 33 applications during July 1967-June 1968. Earlier, sanctions of refinance in respect of industrial loans to commercial banks were at Rs. 3.8 crores in respect of 24 applications during January-June 1968 as compared to Rs. 5.4 crores in respect of 21 applications during January-June 1967; the total outstanding for refinance disbursed to commercial banks at the end of June 1969 stood at Rs. 38.2 crores compared to Rs. 44.4 crores at the end of June 1968.

Credit Guarantee Scheme for Small-Scale Industries

84. As observed in the earlier Reports, the Reserve Bank administers a scheme, on behalf of the Government of India, since July 1960, for guarantee of advances granted to small-scale industries by specified banks and financial institutions. This scheme made significant progress during the period under review and larger assistance was made available by banks to small-scale industries by availing themselves of the guarantee provided under the scheme.

85. Upto May 1968, only small-scale concerns engaged in industrial activity *viz.*, manufacture, processing or preservation of goods were eligible for guarantee under the scheme. However with effect from May 16, 1968, the scope of the scheme was extended with the approval of the Government of India to automobile servicing and repairing workshops. Subsequently in October 1968, the scheme was further extended to certain other types of concerns engaged in servicing and repairing. As a result of the general widening of the interest in the scheme, during the one and a half year period ended June 30, 1969, 54,625 applications for guarantees were received which recorded a substantial rise over the previous period. During the above period a total of 47,696 guarantees were issued for Rs. 240.01 crores as compared to 27,443 guarantees for Rs. 114.03 crores during the preceding period of 1½ years (July 1966-December 1967). Of the guarantees issued during January 1968 to June 1969, 21,602 guarantees for Rs. 122 crores were in respect of industrial units engaged in the manufacture of a variety of products like chemicals and chemical products, metal products, machinery, transport equipment and basic metal industries, as against 14,729 guarantees for Rs. 69.20 crores during the preceding period of 1½ years; these industries accounted for 45.3 per cent and 50.8 per cent of the number and amount of guarantees issued during the period ended June 30, 1969, as compared with 53.7 per cent and 60.68 per cent respectively, for the preceding period of 1½ years. Since the inauguration of the scheme to the end of June 1969, 1,18,898 applications were received for an amount of Rs. 589.54 crores and guarantees were issued in respect of 1,04,767 applications for a total sum of Rs. 470.71 crores and the guarantee obligation arose in respect of 135 advances, the Government's share of the amount in default being Rs. 17.87 lakhs.

86. In July 1968, two more commercial banks were added to the list of approved credit institutions eligible for guarantee bringing the total of such institutions to 454, of which there were 65 commercial banks (in-

cluding State Bank of India and its subsidiaries). *Till the end of June 1969, 79 institutions* including the State Bank of India and its subsidiaries have availed themselves of the guarantee facilities. As an inducement to the credit institutions to render more assistance to small-scale industries, the rate of guarantee (payable by the credit institutions to the Guarantee Organisation) was reduced, with effect from October 1, 1968, from $\frac{1}{4}$ of one per cent to $\frac{1}{10}$ of one per cent per annum, the concession being restricted to those credit institutions which agreed to cover under the scheme all their eligible advances to small-scale industries sanctioned or renewed on or after October 1, 1968. Upto the end of June 1969, 30 scheduled commercial banks including State Bank of India and its 7 subsidiaries, 17 State Financial Corporations including Madras Industrial Investment Corporation Ltd., and 2 co-operative banks decided to cover all their eligible advances to small-scale industries under the scheme.

87. As a result of the above reduction in the guarantee commission from $\frac{1}{4}$ per cent to $\frac{1}{10}$ per cent per annum and consequent upon the various measures taken by the Reserve Bank and the IDBI for increasing credit to the small-scale industrial sector, there has been a considerable rise in the receipt of applications for guarantee. It may be mentioned that the Reserve Bank's preferential refinance (at $4\frac{1}{2}$ per cent) in respect of loans to small-scale industries applies only to loans guaranteed by the Guarantee Organisation. Steps are being taken to simplify and expedite the issue of guarantees. The regional offices of the Industrial Finance Department of the Bank functioning at important centres helped to build up liaison with the various agencies concerned with the development of small-scale industries and to provide better facilities to banks in regard to guarantees.

88. As mentioned in the previous Report, the Bank had undertaken an all-India survey of small-scale industrial units on sample basis, mainly with a view to assessing their requirements of institutional credit. Out of the total sample of 13,577 units selected for the survey, only 2,194 units submitted the completed questionnaire. As the response to this survey was not satisfactory, the question of conducting a field survey is under consideration.

Refinance of Term Loans for Agricultural Development

89. Reference was made in Chapter II to the measures taken by the Reserve Bank to induce commercial banks to increase their involvement in agricultural financing—for direct as well as indirect activities. Commercial banks have also been urged to make greater use of the facilities extended by the Agricultural Refinance Corporation for the purpose. The Corporation makes refinance available to eligible institutions, including scheduled commercial banks, for the medium and long-term financing of agricultural development schemes.

90. During the period January to June 1968, the Corporation sanctioned refinance in respect of 51 schemes of agricultural development involving a total financial outlay of Rs. 41.02 crores, the Corporation's commitment being of the order of Rs. 36.75 crores. Out of the above 51 schemes sanctioned, 40 were to be financed through the central land development banks and of the remaining 11 schemes, 5 were to be financed through State co-operative banks and 6 through scheduled commercial banks.

91. During the period July 1968 to June 1969, the Corporation sanctioned refinance in respect of 108 schemes of agricultural development involving a total financial outlay of Rs. 79.21 crores, the Corporation's commitment being of the order of Rs. 69.32 crores. Thus, at the end of June 1969 the Corporation's commitment rose to Rs. 156.48 crores in respect of 233 schemes, the total financial outlay on these schemes being of the order of Rs. 182.03 crores.

92. Out of the above 108 schemes, 86 schemes were to be implemented through the central land mortgage banks ; one scheme was to be implemented through a State co-operative bank and the remaining 21 by scheduled commercial banks.

Working Group on Bank Credit for the Cotton Textile Industry

93. To consider the problem of credit availability to the cotton textile industry, the Reserve Bank of India, with the concurrence of the Government of India, set up on March 22, 1968 a Working Group consisting of the Textile Commissioner (Chairman) and his officers and the representatives of the Reserve Bank of India, the State Bank of India, the Indian Banks' Association, the National Textile Corporation and the Indian Cotton Mills' Federation. A representative of the Federation of Indian Chambers of Commerce and Industry was included in the Group subsequently.

94. The terms of reference of the Working Group were as follows :

(i) to consider the difficulties experienced by those cotton textile mills which were unable to provide normal margins but whose financial condition was otherwise sound, in securing credit facilities from commercial banks for modernisation or working capital purposes ;

(ii) to examine the feasibility of providing a reasonable degree of protection to the commercial banks against the risk involved in extending additional credit to such mills by accepting lower margins and/or by adopting a revised valuation of fixed assets as may be appropriate ; and

(iii) to make recommendations which might include a scheme for this purpose.

95. The Group submitted an interim report on May 3, 1968 and the final report on July 24, 1968. The recommendations made by the Group were, as per its terms of reference, in respect of cotton textile mills which were unable to provide normal margins but whose financial condition was otherwise sound. The recommendations relating to reduction in the margin for the grant of advances against the security of cotton, cloth, yarn and stores and also fixed assets were brought to the notice of commercial banks and they were advised not to turn down loan applications from the cotton textile mills merely because they could not provide the normal margins. Details of applications which were rejected by banks were required to be reported to the Reserve Bank. Further, in cases where the cotton textile mills had diverted a part of their cash credit facilities for the acquisition of fixed assets, the Industrial Development Bank of India decided to extend refinancing facilities in respect of a part of such advances. As regards compliance with the Reserve Bank's directive for liquidation of excess deposits from the public held by the cotton textile mills, an extension of one year from the 31st December 1968 was granted in their case, taking into consideration the relevant recommendations of the Group. The other major recommendations of the Group related to the provision of additional credit by the term lending institutions for the purpose of modernisation of plant and machinery, and grant of loans in deserving cases.

96. From the periodical reports received from banks as called for, it was observed that during the period June 1968 to 15th June 1969, the total number of mills whose requests for reductions in margins/additional credit facilities were acceded to by banks aggregated 174 ; the applications of 45 mills were rejected mostly on grounds of unsatisfactory financial position of the mills or their unsatisfactory past performance and those of 12 mills were under consideration of four banks.

Working Group for Jute Industry

97. The representatives of the Indian Jute Mills' Association met the Governor of the Reserve Bank in December 1968 and pointed out the difficulties faced by the jute mills towards finance required for procurement, etc. of raw jute and export of the finished products. They also expressed that mills entering into export trade independently had to face certain difficulties in getting packing credit facilities from banks. As a result of this, it was decided in March 1969 to form a Working Group with Shri S. K. Mukherjea, Joint Chief Officer, Department of Banking Operations and Development, Reserve Bank of India, Calcutta, as Convener, to look into the problems of short-term credit required by Jute Industries for production and export. The other members of the Group are a representative each from the State Bank of India, the Indian Banks' Asso-

ciation and the Indian Jute Mills' Association. The Convener has also been instructed to invite a representative of the Calcutta Jute Fabrics'Association when the Group discusses the problems relating to packing credits. By the end of June 1969 the Working Group had held two meetings at Calcutta.

Organisational Measures

Bank Inspections

98. In pursuance of the Bank's policy of periodical inspections of all banks with a view to assessing their financial position as well as methods of operation, 52 scheduled banks and 12 non-scheduled banks were inspected under Section 35 of the Banking Regulation Act, 1949, during the period July 1968-June 1969 (21 scheduled and 4 non-scheduled banks during January-June 1968). During the same period 11 banks (4 during January-June, 1968) were inspected under Section 45(Q) of the Act for judging whether there were any substantial irregularities in their winding-up proceedings. Besides, 2 banks were inspected in the former Portuguese Territories (in March-April 1968) under Sections 14 and 22 of the Goa, Daman and Diu (Banks Reconstruction) Regulation, 1962, to determine their future set-up. Seven banks were inspected for issue of a certificate under Section 44(1) (voluntary winding-up)—six during January-June 1968 and one during January-June 1969. One bank each was also inspected during January-June 1968 and July-December 1968 for issue of a certificate under Section 49B (change of name by a banking company) and/or 49C (alteration of memorandum of a banking company).

99. The scope of the periodical inspections by the Bank has been amplified, in the context of the wider role of banks, to cover the measures taken by banks for providing increased finance to agriculture, small-scale industries and the export sector and in the field of deposit mobilisation as also the implementation of other social control measures.

100. As regards the co-operative sector, 20 State co-operative banks, 445 central co-operative banks and 471 primary co-operative banks were inspected during January 1, 1968-June 30, 1969 [including 134 banks inspected by the officers of the State co-operative banks on behalf of the Reserve Bank under Section 35(1) of the Banking Regulation Act, 1949].

Qualitative Improvements in the Working of Banks

101. The progress made by the banks in the rectification of defects noticed in their structure and methods of working may be briefly mentioned. Between the end of June 1968 and the end of June 1969, one bank was amalgamated under Section 45 of the Banking Regulation Act, 1949 while two banks transferred their liabilities and assets to other banks. During the same period the number of banks working under directions issued by the Reserve Bank, decreased from 48 to 43, while those subject to the Reserve Bank's observation, formal or informal, declined from 44 to 42. Further, one non-scheduled bank was granted a licence under Section 22 of the Banking Regulation Act, 1949. The financial position and methods of operation of these banks are also being reviewed by the Bank from time to time after their periodical inspections. The banks have generally been responsive to the Bank's instructions in the matter of rectification of defects. Some structural defects, however, by their very nature do not permit early rectification, for example, inadequate reserves, low earning capacity, concentration of advances and heavy load of stagnant advances including suit filed and decreed debts. Certain other defects relating to organisational aspects like lack of adequate supervision and control by the Head Office over branches, and guidance to offices in the matter of grant and control of advances will also take time for rectification, as the bank concerned has to train up its staff in such matters. The inspections revealed that banks in general have shown improvements in respect of such structural defects also.

Bank Mergers

102. The process of strengthening the banking structure in the country through a process of amalgamation or the transfer of liabilities and assets was continued during the period under review and the total number of banks absorbed in this manner was 4 (January 1968-June 1969) as compared to 9 in 1967 (Table 10). The total number of commercial banks, operating in the country

TABLE 10

BANK MERGERS, AMALGAMATIONS AND TRANSFERS OF ASSETS AND LIABILITIES

Year	Voluntary Amalgamations under Section 44A of the Banking Regulation Act, 1949	Compulsory Mergers under Section 45 of the Banking Regulation Act, 1949	Other Mergers*	Transfer of Assets and Liabilities under Section 293(1)(a) of the Companies Act, 1956	Total
1960	2	—	—	5	7
1961	1	30	2	3	36
1962	3	1	2	5	11
1963	2	1	4	15	22
1964	7	9	1	62	79
1965	5	4	3	21	33
1966	—	—	2	5	7
1967	—	—	3	6	9
1968-1969 June ..	—	2	—	2	4
Total	**20**	**47**	**17**	**124**	**208**

* Banks taken over by the State Bank of India and/or its subsidiaries.

at the end of June 1969 was 89 @ of which 73 were scheduled banks.

103. Transfer of agreed assets and liabilities continued to be the main method for promoting the consolidation of banks.

104. Two banks (one each in Uttar Pradesh and Mysore State) transferred their assets and liabilities to other banks during the period January 1968-June 1969 under Section 293(1)(a) of the Companies Act, 1956 ; there were 6 such transfers in 1967.

105. During the period January 1968-June 1969, one bank *viz.*, Chawla Bank Ltd. was granted moratorium under Section 45 of the Banking Regulation Act, 1949 and the bank has since been amalgamated with the New Bank of India Ltd. with effect from June 23, 1969. This brings the total number of banks granted moratoria since September 1960 to 58 with deposits amounting to Rs. 26.19 crores.

106. Of these 58 banks which were granted moratoria, 47 were amalgamated with other banks. Among these, depositors of 28 banks were given full credit for the entire deposits outstanding in the books of the transferee banks at the very commencement of the relative schemes of amalgamation. The depositors of 11 other banks received credits in the books of the transferee banks in proportion to the readily realisable assets in addition to the preferential payment made to each depositor of the amount standing to his credit or Rs. 250 whichever was less. Of these 11 banks, the depositors of 4 banks have since received full payment. In the case of the 8 banks which were merged with other banks after the establishment of the Deposit Insurance Corporation in 1962, the depositors received *pro rata* credit to the extent of the readily realisable assets of the transferor bank ; besides, in cases where the amount of *pro rata* credit was short of Rs. 1,500 or the balance in the depositors' account whichever was less, the difference was made good by the Deposit Insurance Corporation as provided for in the relative schemes.

107. Out of the remaining 11 banks which were under moratoria but were not amalgamated with other banks, the Government of India has (as indicated in the previous year's Report) framed schemes of administration in respect of two foreign banks *viz.* the Habib Bank Ltd. and the National Bank of Pakistan whose assets had been vested in the Custodian of Enemy Property in India. According to these schemes, payments are being made to the depositors/creditors at stipulated rates. One bank was allowed to go into voluntary liquidation and 3 banks were finally ordered to be wound up on an application made by the Reserve Bank under Section 38 of the Banking Regulation Act, 1949. One bank was allowed to amalgamate voluntarily with

@ Excluding Chawla Bank Ltd.

another bank under Section 44A of the Banking Regulation Act, 1949, while in the case of another, a scheme of arrangement was sanctioned by the Court and an order was passed for its dissolution. The Government allowed moratoria to lapse in the case of 2 banks on their directors giving a guarantee undertaking to make payments from their personal assets, if necessary, while in the case of one bank the moratorium was allowed to lapse on its expiry and simultaneously the bank was refused licence under Section 22 of the Banking Regulation Act, 1949.

108. In terms of the scheme of amalgamation under Section 45 of the Banking Regulation Act, 1949, the shareholders of the transferor banks are required to be paid the surplus amount left with the transferee banks after paying the depositors in full. The shareholders of 10 transferor banks have been paid in full, while *pro rata* payments are being made to the shareholders of 10 other transferor banks.

Schemes of Arrangement

109. The High Court, Delhi, granted permission to the Punjab and Kashmir Bank Ltd. to negotiate with any bank other than the State Bank of Patiala for the acquisition of the former's New Fund business and directed it to submit a proposition in this behalf to the Court. The proposal for the acquisition of the bank's business in the New Fund by the State Bank of Patiala has since been dropped and the bank is negotiating with the New Bank of India for transfer to that bank of its business in the New Fund. The Commercial Bank Ltd., Kolhapur, filed a company petition in the High Court at Bombay requesting for further extension of time upto December 31, 1969 for making payment of the balance of the fifth and final instalment, which was payable to the depositors under the scheme of arrangement on or before April 1, 1968. It also sought the Court's permission for spending Rs. 10,000 towards Court and establishment expenses out of the amounts of the instalments declared but remaining unpaid to the depositors. A moratorium order under Section 45(2) of the Banking Regulation Act, 1949 was served on the Chawla Bank Ltd., as at the close of business on March 22, 1969. The Chawla Bank Ltd., has since been amalgamated with the New Bank of India Ltd., under Section 45 of the Banking Regulation Act, 1949 with effect from June 23, 1969. The Sahukara Bank Ltd., which has been working under a scheme of arrangement sanctioned by the High Court of Punjab, expects to pay off its liabilities under the scheme of arrangement and wind up the 'Closed Fund' out of the sale proceeds of the forfeited shares, amounting to Rs. 1.10 lakhs. The New Fund business of the Himalaya Bank Ltd., has been acquired by the State Bank of Patiala and the Manager appointed under Section 38(9) of the State Bank of India (Subsidiary Banks) Act, 1959 for the purpose of winding up the Old Fund has proposed to make *pro rata* payment to all creditors of the Old Fund at the rate of 4 per cent.

Licensing of Banks

110. During the period under review, licences granted earlier to four banks to carry on banking business were cancelled as three of them transferred their liabilities and assets to another bank while the fourth one was amalgamated with another bank ; further, two banks which transferred their liabilities and assets to other banks, were refused licences. One bank was granted a licence during this period. At the end of June 1969, the total number of licensed banks stood at 54 (51 scheduled and 3 non-scheduled banks) excluding 8 scheduled banks which do not require a licence. During the period July 1968 to June 1969, directions (*i.e.* either in supersession of the existing ones or in continuance of the existing ones with certain minor changes) were issued to 28 banks. The number of banks submitting reports to the Reserve Bank on the progress made by them in remedying the defects pointed out to them, stood at 68 at the end of June 1969, while the number of banks working under directions stood at 43 ; of the above, observers were deputed by the Bank to 33 banks in terms of Section 36(1)(d)(ii) of the Banking Regulation Act, 1949. The banks so far licensed and the banks not requiring a licence *i.e.*, the State Bank of India and its subsidiaries accounted for 98.3 per cent of the deposits of commercial banks in India at the end of June 1969. On a review of the position of unlicensed banks it was felt that there was improvement in regard to the management and working of

some of them and the question of issuing licences to them is under consideration.

111. In respect of the co-operative banks, licences were issued to commence banking business to 1 central co-operative bank and 4 primary co-operative banks during January 1968-June 1969.

Liquidation of Banks

112. During the period under review (January 1968-June 1969) 6 non-scheduled banks were dissolved by the High Courts. Five banks went into voluntary liquidation after obtaining a certificate from the Reserve Bank under Section 44(1) of the Banking Regulation Act, 1949, while one bank went into Court Liquidation. Certificates under Section 44(1) of the Banking Regulation Act, 1949, were issued to 11 non-scheduled banks to enable them to go into voluntary liquidation. The Bank scrutinised 285 returns submitted by the liquidators of banks under Section 45(R) of the Banking Regulation Act, 1949, with a view to ensuring that the legal requirements were complied with and that the liquidation proceedings were not unduly delayed ; of these 11 banks, 8 banks have transferred their assets and liabilities to other banks.

Deposit Insurance

113. The number of insured banks declined from 91 at the end of December 1967 to 90 as on June 30, 1968 as a result of amalgamation of one bank with another insured bank. The number of insured banks was further reduced to 87 as on June 30, 1969 as a result of transfer by two banks of their deposit liabilities and equivalent assets to other insured banks and of amalgamation of one bank with another. The liability of the Corporation in respect of insured deposits did not arise in the case of first two banks. The Corporation's liability in respect of the third mentioned bank will be determined on receipt of the list of depositors of that bank. The amount of claims met by the Corporation since its inception in 1962 was reduced from Rs. 57.21 lakhs in respect of 11 banks at the end of December 1967 to Rs. 56.85 lakhs upto June 30, 1969 as it was relieved of its liability towards certain untraceable depositors of a bank. The repayments received by the Corporation upto June 30, 1968 amounted to Rs. 35.02 lakhs and to Rs. 35.72 lakhs by June 30, 1969. As a result of the increase in the limit of insurance cover from Rs. 1,500 to Rs. 5,000 per depositor with effect from January 1, 1968, the percentage of fully protected accounts to total number of accounts increased from 76.4 at the end of September 1967 to 90.9 at the end of September 1968 and the percentage of insured deposits to total deposits increased from 26.2 to 50.4 for the same period. Although there has been an increase in the amount of deposits covered by insurance, there has been no rise in premium rates.

114. The Deposit Insurance Corporation (Amendment) Bill, 1967, reference to which was made in the previous Report, was passed by the *Lok Sabha* and the *Rajya Sabha* and received the assent of the President on December 27, 1968. The Amendment Act extends the scheme of deposit insurance to eligible co-operative banks *i.e.*, State co-operative banks, central co-operative banks and primary co-operative banks having paid-up capital and reserves of Rs. 1 lakh and over and the law governing which provides, *inter alia*, that the Reserve Bank's prior consent is necessary for reconstruction, amalgamation or winding up of a co-operative bank. The Corporation will extend insurance cover to deposits in co-operative banks, in suitable stages, as and when the States which have agreed to amend their co-operative laws, pass the enabling legislation.

Changes in Branch Licensing Policy of the Reserve Bank

115. The control over branch expansion exercised by the Reserve Bank has, *inter alia*, for its object the spread of commercial banks' offices in a planned manner so as to cover the semi-urban and rural areas on an adequate scale, besides the urban centres. In the wake of social control of banks, the problem of expansion of the branch network of banks in the country for (i) widening the credit and banking facilities in areas hitherto underdeveloped, (ii) for mobilising deposits and (iii) for the geographical extension of banking facilities, has assumed added importance and significance.

116. Consequently, in this connection the branch licensing policy came up for discussion at the first meeting of the National Credit Council in March 1968. Following this and after discussions with banks, the branch licensing procedures were reviewed by the Bank in May 1968 and certain modifications were made in the guiding principles with a view to adopting a more flexible policy. The commercial banks were urged to make a continuous study of the banking needs and potential of the various regions and to aim at opening a number of branches which should be at least one-third more than those opened by them during the previous two-year programme period. As a further measure to step up opening of branches in underdeveloped areas, the All-India and large regional banks were required to open a reasonable number of branches in such areas (not less than 10 per cent of the total). Within the overall target, at least 50 per cent of the offices should be at unbanked centres; besides a like percentage should be at rural and semi-urban centres. Banks were given the freedom to select centres of their choice where they found scope for establishing additional bank offices and requests for allotment of centres were to be considered on 'first come, first served' basis, except in respect of (a) small places having a population of 5,000 or less (where the suitability of the places for offices of co-operative banks was to be considered), (b) bigger cities having a population of one million and above and port towns and (c) places regarded as adequately banked on population basis. These cases were to be reserved for detailed consideration.

117. Under the current third expansion programme of the Indian commercial banks in the private sector (August 1967-December 1970), emphasis has been laid on the opening of offices in the semi-urban centres (*i.e.* centres with population above 10,000 and upto one lakh) and rural centres (*i.e.* centres with population upto 10,000) with the main object of mobilising deposits in these areas and extending credit facilities to the priority sectors like agriculture and small-scale industries.

118. The branch licensing policy was again reviewed by the Central Board of Directors of the Bank in November 1968 and with a view to intensifying the availability of banking services, the population criterion, which was till then one bank office for 10,000 population was relaxed to one bank office per 5,000 population, in case of centres with population upto 5 lakhs. Subsequently, the National Credit Council suggested that all the unbanked towns with population of 10,000 and above should be covered in the branch expansion programme of banks. In response to this, the Bank's policy was further liberalised in April 1969, in terms of which, with the exception of metropolitan centres (*i.e.* those with population of a million and over) and port towns, banks are no longer required to seek the Reserve Bank's prior clearance for taking up a centre for the opening of an office but have only to intimate to the Bank, the names of the centres proposed to be taken up. This information is circularised periodically to the other banks so as to avoid unintended multiplication of bank offices, where they are not warranted by the business potential. Licences are issued on the basis of the applicant bank's actual performance, in regard to the opening of branches at unbanked centres and in under-developed States, and about which the Bank is satisfied. The liberalisation in the policy was made, on an experimental basis, upto the end of 1970, with a view to speeding up branch expansion by the Indian commercial banks; the liberalised policy does not, however, apply to foreign banks. As a part of this liberalised programme, a list of 100 towns with a population of 10,000 and over but devoid of commercial banking facilities has been circularised to the Indian commercial banks and they have been asked to cover all the towns with their offices by the end of 1970. In order to ensure a balanced branch expansion on an All-India basis (*i.e.* including especially the underdeveloped States), in the light of the various liberalisations as above, the branch expansion programme upto the 31st December 1969 of each of the major banks has been discussed by the Bank with it, with a view to setting right any imbalances in the programme, between banked and unbanked centres, and offices in the developed and underdeveloped States.

119. With a view to identifying centres with banking potential in the semi-urban and rural areas for the purpose of opening commercial bank offices, the Bank has under-

taken surveys of certain selected districts in different States, in association with some of the Indian commercial banks. The districts selected are, by and large, those which are noted for agricultural development [including the 52 districts covered by the Intensive Agricultural Area Programme (IAAP)] and/or are important centres of small-scale industries but are deficient in banking facilities. So far, the surveys of 44 districts in 15 States have been completed and 179 unbanked and 28 under-banked centres have been selected as suitable for establishment of commercial bank offices. Licences have been issued for opening branches at 79 of these centres (66 at unbanked centres) ; of these 24 offices (20 at unbanked centres) have been opened. Action is being taken by the Bank to allot the remaining centres. The Surveys of 7 districts in 3 States were in progress as at the end of June 1969.

120. In order to encourage the operation of mobile banks in the semi-urban and rural areas, the earlier procedure of permitting them to visit, from the base office, only certain specified centres have been recently modified and the mobile vans are now free to move anywhere within their area of operation as defined in terms of a radius of specified number of kilometres from the base office. At present 12 mobile offices are operated by 5 Indian commercial banks in different parts of the country. In order to enable banks to serve economically a cluster of villages, which may have a low business potential, the Bank has commended to the Indian commercial banks the scheme of "Satellite Offices" which envisages the establishment of offices at fixed premises in the surrounding villages, to be operated from a regular branch office at a central village. Some of the staff attached to the regular branch in the central village would visit the "Satellite Offices" on certain pre-fixed days in a week during specified hours, for this purpose, there being no separate staff posted at the "Satellite Offices." In order to encourage banks to open "Satellite Offices," some benefits will be extended to them in respect of unbanked centres, by treating a certain proportion of such offices as offices at unbanked centres. Banks are yet to work upon the proposal of "Satellite Offices."

121. The policy regarding licensing of new branches is under constant review of the Bank and the encouragement given to the Indian commercial banks in regard to opening new branches is one of the major factors behind the rapid growth in the number of bank branches. In 1968, the Indian commercial banks opened as many as 664 new offices, as against 400 offices in 1967. Of these, the State Bank of India and its subsidiaries accounted for 162 offices. Of the total number of offices opened during 1968, as many as 489 were in semi-urban and rural areas (i.e., in centres with population of 1,00,000 and below) and as many as 365 in hitherto unbanked centres. During 1969, the Indian commercial banks have opened as many as 522 offices (including 275 at unbanked centres) upto June 30, 1969.

122. The applications of the State Bank of India and its subsidiaries otherwise than for taking over treasury work and for other developmental purposes are generally considered on the basis of the principles applicable to Indian commercial banks in the private sector.

123. The policy of permitting foreign banks to open branches at port towns on a restricted scale is continued. The foreign banks opened 14 offices in India in 1968 and 4 offices during January-June 1969.

Branch Expansion by Commercial Banks

124. In pursuance of the policy of extending the coverage of banking in the country and providing banking facilities in hitherto unbanked areas, the Reserve Bank granted permission to commercial banks during January 1968 to June 1969 to open 1,726 offices. The number of offices actually opened by scheduled commercial banks during January-June 1968 was 222 of which 138 were at unbanked centres ; during July 1968-June 1969 the banks opened 959 offices of which 491 were at unbanked centres. Of the new offices opened during January-June 1968, the State Bank of India and its subsidiaries accounted for 19 offices at banked centres and 56 offices at unbanked centres ; during July 1968-June 1969, the State Bank of India and its subsidiaries accounted for 58 offices at banked

centres and 97 offices at unbanked centres. Allowing for the change in the number of offices due to amalgamations, mergers, transfers of assets and liabilities, closure of offices etc., the number of offices of scheduled commercial banks increased by 228 during January-June 1968 and by 951 during July 1968-June 1969. Offices of non-scheduled banks, however, declined by 6 during January-June 1968 but increased by 15 during July 1968-June 1969. At the end of June 1969, the total number of offices of scheduled and non-scheduled commercial banks stood at 7,995 and 218, respectively ; at the end of June 1968 the corresponding figures were 7,044 and 203, respectively (Table 11).

TABLE 11

VARIATIONS IN THE NUMBER OF OFFICES OF SCHEDULED AND NON-SCHEDULED COMMERCIAL BANKS IN 1967, 1968 AND JANUARY-JUNE 1969

	Scheduled Commercial Banks				Non-Scheduled Commercial Banks			
	1967		1968		1967		1968	
	Jan.-June	July-Dec.	Jan.-June	July-Dec.	Jan.-June	July-Dec.	Jan.-June	July-Dec.
	1	2	3	4	5	6	7	8
1. New Offices Opened	207 (36)	196 (47)	222 (37)	444 (50)	3	—	7	5
2. Changes due to amalgamations, mergers, transfers of assets and liabilities and inclusion in and exclusion from the Second Schedule to the R.B.I. Act, 1934 ..	+ 4	+ 6	+ 10	+ 1	— 6	— 6	—10	— 1
3. Existing offices closed	— 7 (—2)	— 6 (—1)	— 4 (—1)	— 6	— 2	— 1	— 3	—
4. Overall variation in the number of offices	+204	+196	+228	+439	— 5	— 7	— 6	+4
5. Number of offices at the end of the period	6620	6816	7044	7483	216	209	203	207

	All Commercial Banks				Scheduled Commercial Banks	Non-Scheduled Commercial Banks	All Commercial Banks
	1967		1968		1969		
	Jan.-June	July-Dec.	Jan.-June	July-Dec.	Jan.-June	Jan.-June	Jan.-June
	9	10	11	12	13	14	15
1. New Offices Opened	210	196	229	449	515 (23)	11	526
2. Changes due to amalgamations, mergers, transfers of assets and liabilities and inclusion in and exclusion from the Second Schedule to the R.B.I. Act, 1934 ..	— 2	—	—	—	—	—	—
3. Existing offices closed	— 9	— 7	— 7	— 6	— 3	—	— 3
4. Overall variation in the number of offices	+ 199	+189	+222	+443	+512	+ 11	+523
5. Number of offices at the end of the period	6836	7025	7247	7690	7995	218	8213

Note : 1. Figures within brackets relate to the State Bank of India.
2. Data exclude administrative, seasonal, temporary, non-banking offices and offices outside India.
3. Figures for 1968 and 1969 are provisional.

Branch Expansion of State Bank of India and its Subsidiaries

125. The State Bank of India and its subsidiaries have been vested with special responsibility for extending banking facilities in the country and in particular, for opening branches at non-banking treasury and sub-treasury centres. During the period under review, the State Bank of India continued its second and third branch expansion programmes. Under its second expansion programme, the State Bank of India opened 2 branches during July 1968-June 1969, bringing the total to 147, leaving 18 branches to be opened under this programme. It was mentioned in the previous Report that under its third branch expansion programme of opening 319 branches at non-banking treasury/sub-treasury centres in 1964-68, the State Bank had opened upto the end of 1967, 214 branches. Out of the remaining 105 branches, the bank opened 18 branches in January-June 1968 and 33 in July 1968 to June 1969, leaving 54 branches yet to be opened under this programme. In addition, it opened 17 branches during January-June 1968 and 27 in July 1968-June 1969 outside the expansion programme on commercial considerations, in pursuance of its policy of expanding banking facilities to various places in the country. Both the second and third expansion programmes were scheduled for completion by the end of 1968 but the period has been extended upto the end of 1969, in view of the difficulties experienced by the bank in securing suitable accommodation at a number of small centres selected for the purpose.

126. Besides, the subsidiaries of the State Bank of India have their own branch expansion programmes. The first expansion programme covering a period of five years ended on June 30, 1965 ; the banks opened 191 branches thereunder. Under the second expansion programme for the period July 1965-June 1970, they opened 31 and 63 branches during January-June 1968 and July 1968-June 1969, respectively, bringing the total number of branches opened so far to 212. They also opened 42 branches outside their expansion programmes during the same period under review. As on June 30, 1969, the total number of Indian offices of the State Bank of India and its subsidiaries stood at 1,569 and 893, respectively ; the corresponding figures as on June 30, 1968 were 1,495 and 800, respectively.

Branch Expansion-Other Banks

127. As regards other banks also, the Reserve Bank has been following a policy of systematic expansion of banking facilities in the country with particular reference to unbanked centres and underbanked regions. The first programme covered the period August 1, 1962 to July 31, 1965 and banks opened 606 offices of which 224 were at unbanked centres. Under the second programme which covered the two-year period August 1, 1965 to July 31, 1967, the banks had opened 617 offices (including 220 at unbanked centres) upto the end of June 1969. It may be recalled that under the above two-year programme, the Bank had issued licences for the opening of 618 offices of which 220 were to be at unbanked centres. With a view to encouraging banks to open a larger number of offices in rural and semi-urban centres and curbing the general tendency to open offices in urban centres, the Bank formulated a third branch expansion programme covering the period August 1967 to December 1970. Upto the end of June 1969, the Bank issued 1,349 licences to the Indian commercial banks in the private sector, for opening their offices, including 711 for unbanked centres. Banks have opened 843 offices, including 448 at hitherto unbanked centres, upto the end of June 1969 against these licences.

Clearing Houses

128. During the period under review, further progress was made in increasing the clearing house facilities as a part of the Bank's policy of extension of banking facilities in the country. Thus, during January-June 1968, three (including one clearing house opened in July 1966 but reported in July 1968) clearing houses were established and in the subsequent period from July 1968-June 1969, five more were opened, bringing the total number of clearing houses to 99. Of these, 9 are managed by the Reserve Bank of India, (clearing house at Hyderabad managed by the State Bank of Hyderabad has been taken over by the Reserve Bank with effect from May 1, 1969) 72 by the State Bank of India and 18 by the subsidiaries of the State Bank of India.

Indian Banks' Business Abroad

129. The number of Indian banks functioning abroad remained unchanged at 7; their offices increased by 2 to 60,* with the opening of an office each in Kenya and U. K. At the end of 1968, the largest number of foreign offices of Indian banks continued to be in Malaysia (11). The next in line were Kenya and United Kingdom with 10 and 9 offices, respectively. Since September 1965, the offices of Indian banks in Pakistan continued to vest with the Custodian of Enemy Property of that country. In the year ended December 1968 total liabilities of Indian banks abroad increased from Rs. 186 crores to Rs. 211 crores or by 13 per cent during the year. Total deposits of Indian banks abroad increased by Rs. 16 crores to Rs. 161 crores as against a decline of Rs. 12 crores during the previous year. Loans and advances increased from Rs. 58 crores to Rs. 66 crores, bills purchased and discounted from Rs. 31 crores to Rs. 37 crores and investments from Rs. 22 crores to Rs. 25 crores; money at call and short notice, however, declined from Rs. 22 crores to Rs. 19 crores. The liquid assets** increased during the year by Rs. 7 crores to Rs. 77 crores; however, their ratio to deposits remained unchanged at 48 per cent.

Credit Information

130. The Credit Information Division of the Reserve Bank continued to assist banks and other notified financial institutions, by furnishing in a consolidated form to the institutions which apply for it, information on credit facilities allowed by them to individual customers. The Division furnished (a) during the half year January-June 1968, credit information in respect of 1,065 applications to 27 applicant banks and (b) in respect of 2,096 applications to 29 applicant banks during the period July 1968 to June 1969.

* Including an office of the Bank of India at Lagos (Nigeria) which is deemed to have become a separate entity with effect from November 1968 (subsidiary with effect from May 30, 1969) and excluding one office of the Bank of Baroda opened in Fiji Islands in June 1969.

** Comprising cash in hand, balances with the Central Bank, balances in current account with other banks, money at call and short notice and bills purchased and discounted.

Training Facilities-Bankers' Training College

131. The Bank continued to sponsor and organise training courses for the supervisory personnel of commercial banks in the Bankers' Training College, Bombay. During the period July 1968 - June 1969, the College conducted three senior courses, three intermediate courses, two courses in agricultural finance, and one course each in foreign exchange, personnel and organisation and industrial finance. The total number of bank officials who received training in the College during the above period was 323; during the earlier period i.e. from January-June 1968, the College conducted two senior courses, one intermediate course, two courses in agricultural finance and one course each in foreign exchange and on personnel and organisation. Since the inception of the College in 1954, 3,212 officials received training in the different courses. The Bank also continued to arrange courses in banking for the managerial staff of State/central and urban co-operative banks with a view to equipping the key personnel of these banks with knowledge of practices and procedures of modern banking. Three courses for the managerial staff of State and central co-operative banks and two courses for the managerial staff of urban co-operative banks were conducted during July 1968-June 1969 in the College, in which 57 and 54 officials, respectively, participated; during January - June 1968, one course each for the above two categories of banks was conducted, bringing the total number of officials who have received training in the above courses till June 30, 1969 to 211 and 115, respectively.

132. In pursuance of the recommendations of the Working Group on "Training and Development of Higher Banking Personnel" constituted by the Governor of the Reserve Bank, the National Institute of Bank Management was established to serve as an apex institution to co-ordinate all training and research activity in the banking industry. Under the aegis of this institution, Steering Groups headed by senior bankers and professional persons have been constituted for making adequate preparations for the workshops on (i) Deposit mobilisation, (ii) Financing small-scale industry, (iii) Financing agriculture, (iv) Management development programmes and (v) Customer service. These

workshops are intended to develop a systematic body of knowledge in specific areas of banking and formulate appropriate training programmes. Again, with a view to imparting management training to bankers, the Institute has also arranged with the Indian Institute of Management, Ahmedabad, to design and conduct a three-tier executive development programme for the senior banking personnel of commercial banks. Further, a Study Group has been appointed to review the training programmes conducted in the Bankers' Training College, Bombay, and the training institutions of commercial banks in order to ensure that they effectively meet the current and foreseeable future needs of training of middle and senior level personnel. The Institute is also designing courses on (a) Financing small-scale industry, (b) Financing agriculture, (c) Financing exports and (d) Recruitment and testing. The Institute intends to use the latest educational technology, including programmed learning, in order to improve the impact and reduce the cost of training. Again, with a view to promoting research in bank management and related problems, Study Groups have also been constituted for making an intensive study of the following subjects : (a) Financing trade, (b) Information systems, data processing and computerisation, (c) Human relations in banking and (d) Branch-Head office relationships. Steering Groups will be constituted on (i) Financing exports, (ii) Financing major industries and (iii) Banking and Law.

Employer-Employee Relations

133. As mentioned in the Report for 1967, the dispute relating to the salaries and conditions of workmen employees of the Bank in Classes II and III was referred to for arbitration to Shri T. L. Venkatarama Aiyar who gave his Award on February 12, 1968. In terms of the Award, the revised scales of pay and allowances were given with retrospective effect from January 1, 1966 : in all other respects the provisions of the Award came into force from April 5, 1968. On the expiry of the operation of the Award for the initial period of one year, the Government of India extended the period of its operation for a further term of one year, in terms of the second proviso to sub-section 3 of Section 19 of the Industrial Disputes Act, 1947. Before the expiry of this period, the All-India Reserve Bank Employees' Association wrote to the Government of India, Ministry of Labour that the Association was not in favour of any extension being given to the Award and served a notice of strike on the Bank in the event of the Award being extended. When the Government extended the term of the Award, the Association organised demonstrations and a day's token strike on April 30, 1969.

134. Earlier, the All-India Reserve Bank Employees' Association as also the All-India Reserve Bank Workers' Federation had organised at all centres a token strike on 28th February 1968 to protest against the introduction of Section 36AD to the Banking Regulation Act, 1949 and of Section 54AA to the Reserve Bank of India Act through the Banking Laws (Amendment) Bill, 1967. In the wake of this strike, strikers in Calcutta prevented the loyal workmen staff as also the staff in the officer and supervisory grades from entering the Bank's premises. The Bank was, as a result, forced to move the Calcutta High Court for the grant of an injunction against the employees of the Calcutta Office and an interim injunction has since been granted by the Court. The workmen staff of commercial banks also organised a token strike on the same day for the same purpose.

135. Although the token strikes in the Reserve Bank mentioned above caused some dislocation of work and inconvenience to the departments of the Central and State Governments and the general public, the functions of the Bank were managed smoothly with the assistance of the available staff and the Bank's supervisory officials.

136. Negotiations were held between the management of the Reserve Bank and the representatives of the workmen employees in Class IV in connection with the revision of certain allowances, leave fare concession, medical aid etc. in the light of improvements made under the Arbitrator's Award in respect of workmen employees in Classes II and III and a settlement was signed on October 10, 1968. The previous Agreement dated February 7, 1967 reached between the Reserve Bank of India and the All-India Reserve

Bank Workers' Federation regarding scales of pay, allowances and certain other service conditions of Class IV expired on December 31, 1968. The Federation has since demanded improvement in their service conditions and has requested the Bank to start negotiations on their demands.

137. As mentioned in the Report for 1966, the Bipartite Settlement governing the wages and other service conditions of 'workmen employees' in the commercial banks reached between the management of banks and their workmen on October 19, 1966 was binding on the parties upto December 31, 1968. The workmen have since demanded improvement in their service conditions and have requested the management of banks to start negotiations on their demands.

138. Consequent upon the Bombay Local Head Office of the State Bank of India commencing disciplinary proceedings against some members of the supervising staff for dereliction of duty, the All-India State Bank of India Supervising Staff Federation, a trade union which represents the supervising staff of the bank, issued on the 12th June 1969 a sudden call to its members to proceed on an indefinite strike. In response to that call, a large number of the supervising staff proceeded on strike from the 12th June 1969 in Bombay and from different dates thereafter in other places all over the country. During the period of the strike, clerical staff in a large number of branches of the bank refused to accept supervisory powers. While skeleton services were maintained in some offices of the bank, transactions had to be suspended in a very large number of the bank's offices. The Federation called off the strike as at the close of business on the 27th June 1969, after a settlement was reached on the issues involved.

139. The work relating to the survey of employer-employee relations in banking industry which has been entrusted to two professors of the Indian Institute of Management, Ahmedabad, is in progress ; the survey is expected to be completed by the end of 1969.

The National Commission on Labour—Study Group on Banking

140. Reference was made in the previous year's Report to the constitution in December 1967 of a Study Group on banking by the National Commission on Labour set up on December 24, 1966, under the Chairmanship of Shri B. N. Adarkar, Deputy Governor of the Reserve Bank of India and consisting of representatives of banks and employees to review and report to it on industrial relations in the banking industry. The Study Group after considering all the different points of view pertaining to the field of industrial relations in the banking industry, submitted a unanimous report to the National Commission on Labour, except on the question of recognition of labour unions.

CHAPTER IV

INDIAN BANKING—A REVIEW

141. The nationalisation of the 14 major Indian banks which was announced on July 19, 1969 is a major landmark in the history of banking in India and it may be useful at this stage to view in retrospect the development of banking over the last two decades, since the enactment of the Banking Regulation *(formerly the Banking Companies) Act, 1949.* This was a period which also covered the era of planned economic development in the country. Major changes in banking structure and policy took place in this span of years as the banking system sought to adapt itself to the changing economic scene. The period also witnessed the Reserve Bank's efforts towards institutionalisation of savings in order to adapt the credit system to the needs of a developing economy and the consolidation and strengthening of banking structure and organisation with a view to improving the quality of its service and the widening of the geographical and functional spread of its activity.

142. Perhaps the most striking feature of the changed banking scene was the sharp decline in the number of functioning banks (Tables 12 and 13). Between 1951 and 1968 the number of scheduled commercial banks declined from 92 to 73 and of non-scheduled commercial banks from 474 to 17. When banks developed weaknesses they were merged, so that although they lost their separate identity their business was put on a better footing. The process of consolidation has thus contributed to the improvement in the quality of banking business. The growth of banking facilities in depth and range is indicated more correctly by the increase in the number of bank offices. Over the period there has been a near doubling of bank offices. The process of branch expansion has been speeded up in recent years and more branches are being opened at unbanked centres. Between 1951 and 1961 the number of bank branches rose by 861 ; during the period 1961 to 1968, the number of offices rose by 2,678, the total being 7,690 in December 1968. In the first half of 1969, another 526 new offices have been opened, over half of them in unbanked centres.

TABLE 12

NUMBER OF COMMERCIAL BANKS OPERATING IN INDIA

(As at the end of December)

	1951	1956	1961	1966	1968
1. Indian scheduled commercial banks ..	76	72	67	61	58
2. Foreign banks	16	17	15	15*	15*
3. Non-scheduled commercial banks	474	334	210	27	17
4. All commercial banks	566	423	292	103*	90*

* Includes two banks which are under the Custodian of Enemy Property.

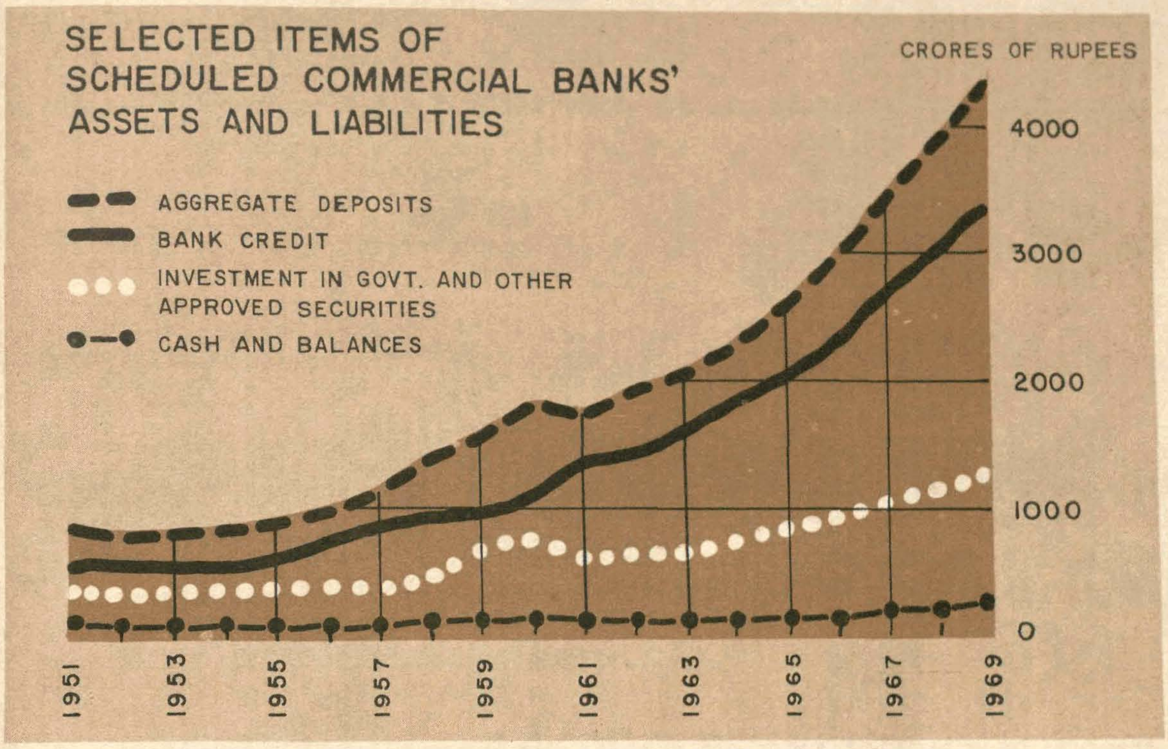
TABLE 13

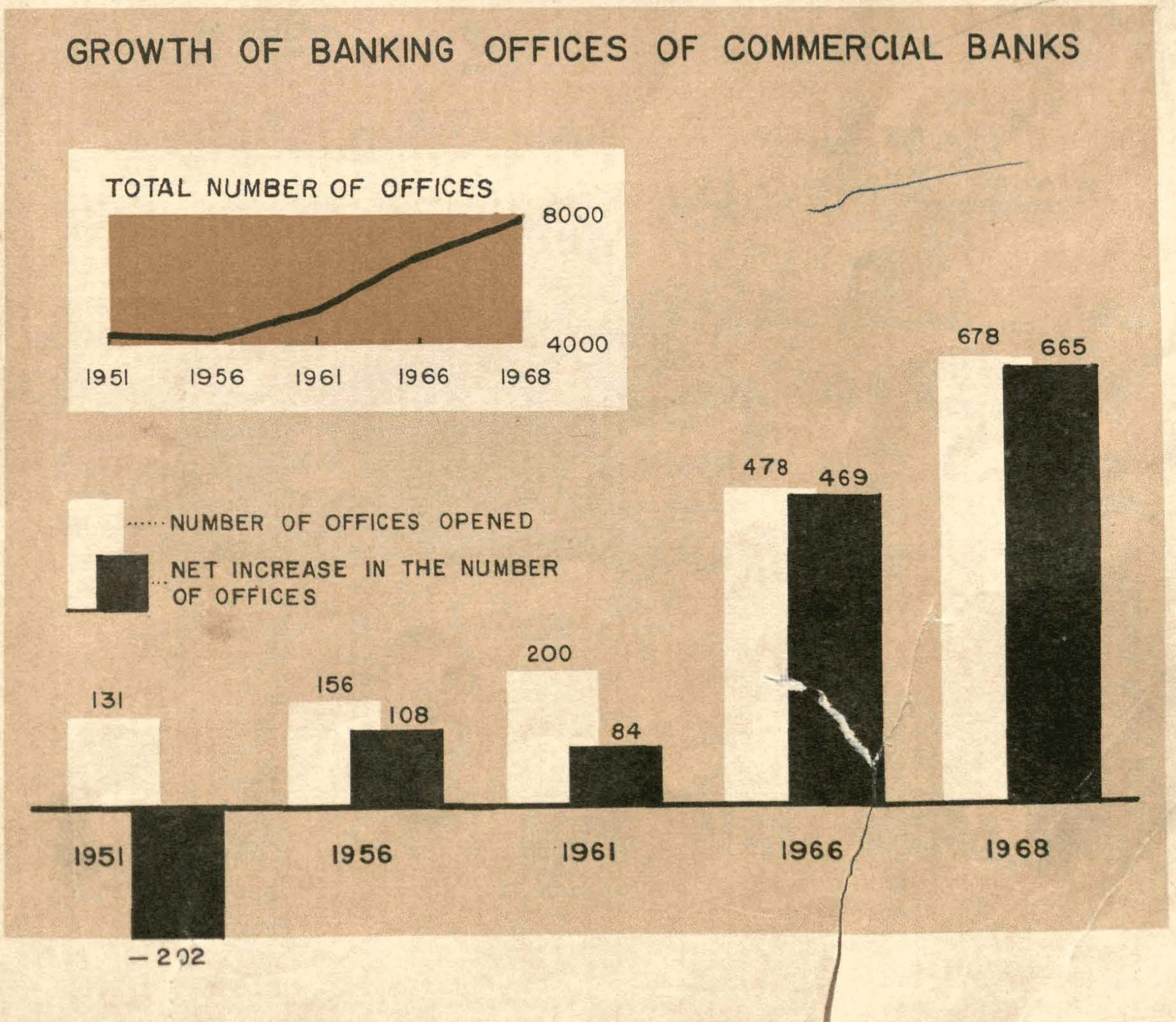
NUMBER OF OFFICES OF SCHEDULED AND NON-SCHEDULED COMMERCIAL BANKS

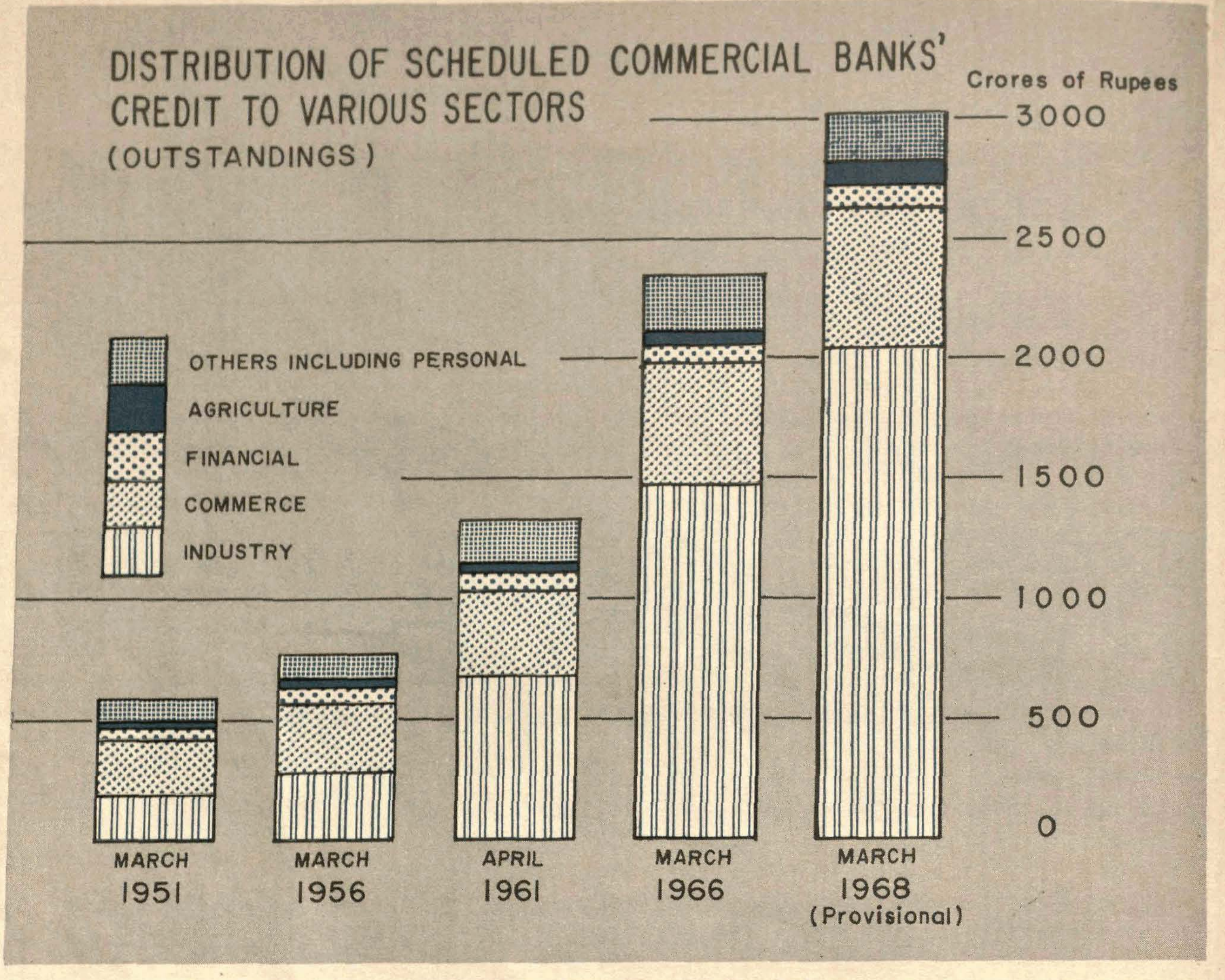
(As at the end of December)

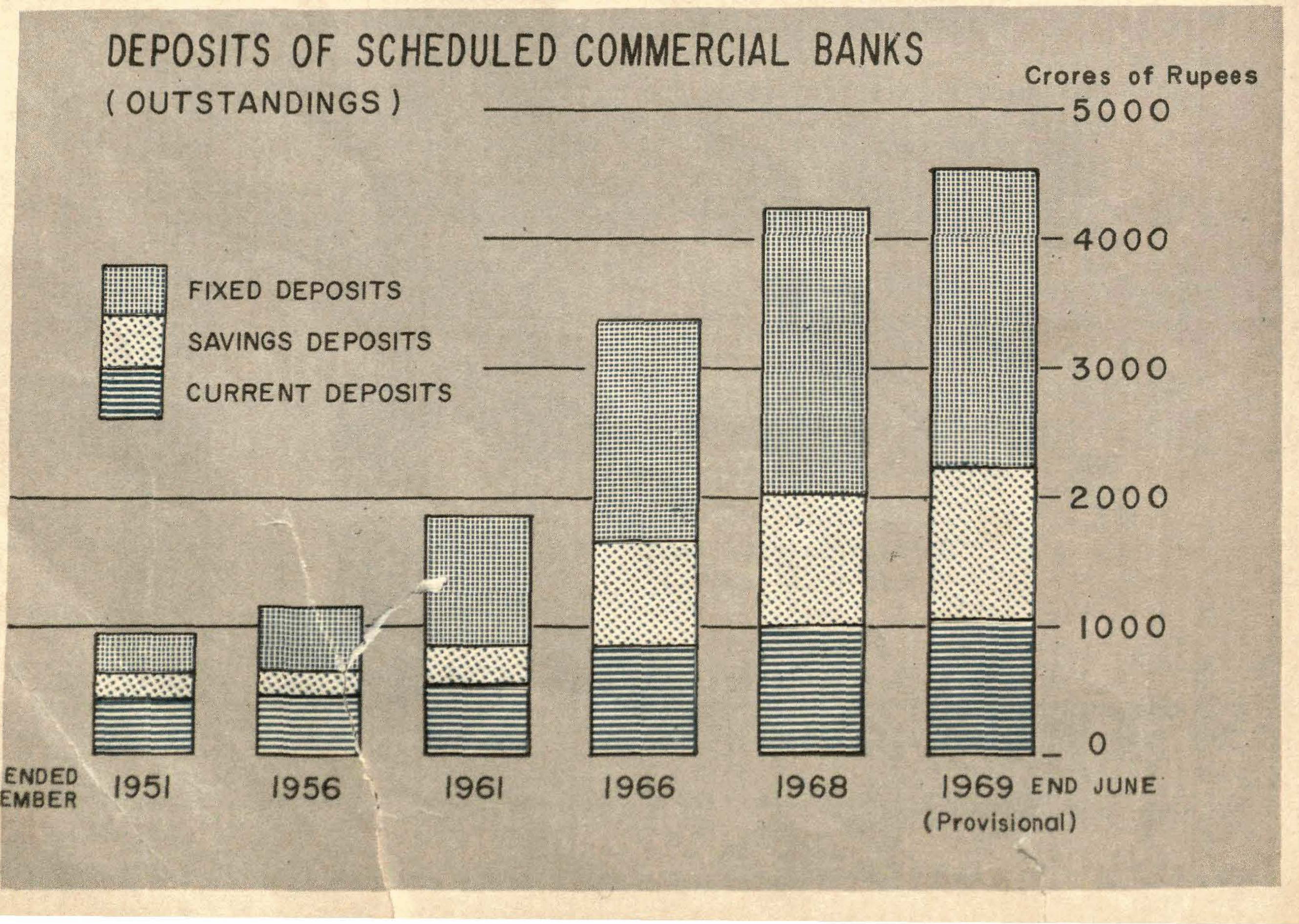
	1951	1956	1961	1966	1968
1. State Bank of India and subsidiaries	643	850	1,436	2,076	2,379
2. Other scheduled commercial banks	2,004	2,116	2,954	4,340	5,104
3. Non-scheduled commercial banks	1,504	1,101	622	221	207
4. All commercial banks	4,151	4,067	5,012	6,637	7,690

Note : Figures for 1951, 1956 and 1961 are from Statistical Tables relating to Banks in India.


SELECTED ITEMS OF SCHEDULED COMMERCIAL BANKS' ASSETS AND LIABILITIES
CRORES OF RUPEES
AGGREGATE DEPOSITS
BANK CREDIT
INVESTMENT IN GOVT. AND OTHER APPROVED SECURITIES
CASH AND BALANCES
4000
3000
2000
1000
0
1951
1953
1955
1957
1959
1961
1963
1965
1967
1969


GROWTH OF BANKING OFFICES OF COMMERCIAL BANKS
TOTAL NUMBER OF OFFICES
8000
4000
1951
1956
1961
1966
1968
NUMBER OF OFFICES OPENED
NET INCREASE IN THE NUMBER OF OFFICES
131
−202
156
108
200
84
478
469
678
665
1951
1956
1961
1966
1968


DISTRIBUTION OF SCHEDULED COMMERCIAL BANKS' CREDIT TO VARIOUS SECTORS
(OUTSTANDINGS)
Crores of Rupees
3000
2500
2000
1500
1000
500
0
OTHERS INCLUDING PERSONAL
AGRICULTURE
FINANCIAL
COMMERCE
INDUSTRY
MARCH 1951
MARCH 1956
APRIL 1961
MARCH 1966
MARCH 1968
(Provisional)


DEPOSITS OF SCHEDULED COMMERCIAL BANKS
(OUTSTANDINGS)
Crores of Rupees
5000
4000
3000
2000
1000
0
FIXED DEPOSITS
SAVINGS DEPOSITS
CURRENT DEPOSITS
YEAR ENDED DECEMBER
1951
1956
1961
1966
1968
1969 END JUNE
(Provisional)

143. The policy of branch expansion has aimed, particularly in the period after 1966, at correcting the regional maldistribution in the branch network and the heavy concentration of commercial bank offices in the larger urban centres to the comparative neglect of semi-urban and rural areas. The correction of the lop-sided growth of banking has been attempted by the Reserve Bank by gearing its branch licensing policies to ensure adequate banking facilities in the unbanked areas as well as the less developed States.

144. It was, in fact, the need for a rapid growth in banking facilities in the rural and semi-urban areas that constituted the *raison d'etre* for the formation of the State Bank of India 14 years ago. A vigorous expansion of branch network was among the immediate statutory objectives of the State Bank. As against the requirement to open within a period of 5 years from its establishment (July 1, 1955) a total of 400 branches, the State Bank opened 416 branches and in the following five years as against a target of opening 300 branches by the State Bank and its subsidiaries, 309 branches were opened. Of the 1608 offices opened by the State Bank and its subsidiaries between end-December 1955 and end-December 1968, over four-fifths were in rural and semi-urban centres. This was in contrast with the position of other Indian scheduled commercial banks. Of the 2,939 offices opened in the same period by these banks, only a little over half the number of offices were opened in rural and semi-urban centres. As at the end of December 1968, the State Bank and its subsidiaries accounted for 2,379 offices or nearly one-third of offices of all scheduled commercial banks. The extension of the branch network of the State Bank and its subsidiaries did more than just provide the ordinary banking and credit facilities. Through the provision of remittance facilities, safe custody and where necessary, lending facilities to other commercial banks, it helped to provide in a sense economic overheads for other banks. Offices of other scheduled commercial banks rose between December 1956 and June 1969 by 3,417 ; as many as 1,193 offices have been accounted for in the last two and a half years. The opening of a State Bank office was thus frequently followed by opening of offices by other banks in that area.

145. The dimensional and directional changes which have marked the development in banking in India in the last 18 years can be seen from the movements in the main banking variables during this period. These are presented in Table 14. It may be seen that in March 1969, the total 'owned funds, (paid-up capital and reserves) of the scheduled commercial banks amounted to Rs. 109 crores of which the paid-up capital was Rs. 46 crores and reserves Rs. 63 crores. There has, in fact, been a steady decline in the ratio of 'owned funds' to deposits from 8.7 per cent in 1951 to 4.8 per cent in 1961 largely as a result of the sharp increase in the aggregate deposits with banks. This called for steps to strengthen the 'owned funds' position of banks. Thus, all banks have been required since 1962 to transfer 20 per cent of profits after taxation to reserves.

146. The growth of deposits during this 18-year period had been five-fold—from Rs. 835 crores in March 1951 to Rs. 4,338 crores in March 1969. As a proportion of aggregate monetary resources (currency plus deposits), deposits with commercial banks rose from 37.3 per cent to 52.6 per cent ; the per capita deposits of commercial banks went up in the same period from Rs. 24 to Rs. 81 while, as a proportion to national income (at current prices), deposits in March 1969 stood at around 15 per cent as against 9 per cent in March 1951. The share of the commercial bank deposits owned by the household sector in the total savings in financial assets (gross) rose from 1.94 per cent in 1950-51 to 12.94 per cent in 1955-56 and to 27.14 per cent in 1965-66.[1]

147. The major part of the rise in deposits, namely Rs. 2,592 crores, out of the total rise of Rs. 3,503 crores, occurred after 1961. The ratio of deposits to national income however, was steady around 14 per cent between 1961 and 1968 and rose only slightly to 15 per cent in March 1969. The rise in time deposits far exceeded that in demand deposits : the former rose by Rs. 2,124

1. *Source :* Report on Currency and Finance for the year 1968-69.

TABLE 14

SELECTED ITEMS OF SCHEDULED COMMERCIAL BANKS' ASSETS AND LIABILITIES AS AT THE CLOSE OF LAST FRIDAY OF MARCH

(Amounts in Rs. Crores)

Items	1951	1956	1961	1966	1969
1. Paid-up Capital[1]	33.3	32.5	36.5	44.4	46.0
2. Reserves	25.3	31.5	37.3	51.7	63.0
3. Demand Deposits[2]	555.2	586.4	719.7	1426.9	1934.1
4. Time Deposits[2]	280.1	403.2	1026.3	1523.0	2404.2
5. Aggregate Deposits[2] (3 + 4)	**835.3**	**989.6**	**1746.0**	**2949.9**	**4338.3**
6. Borrowings from the Reserve Bank	12.4	65.1	94.5	73.5	105.6
7. Cash in Hand	35.0	35.8	45.6	73.3	108.7
8. Balances with the Reserve Bank	58.3	48.9	71.0	97.5	166.2
9. Total of Cash and Balances	93.3	84.7	116.6	170.8	274.9
10. Money at call and short notice	7.2	6.3	20.8	57.5	49.9
11. Loans, cash credits and overdrafts	473.9	592.0	1111·0	1945.8	2794.2
12. Bills purchased & discounted (Inland and Foreign)	42.4	116.3	208.6	342.4	602.1
13. Total Bank Credit[3] (11 + 12)	**516.3**	**708.3**	**1319.6**	**2288.2**	**3396.3**
14. Investment in Government securities ..	315.5	359.9	558.6	810.7	1054.6

As percentages of Aggregate Deposits

Paid-up Capital and Reserves[4]	8.7	7.8	4.8	*3.7*	*2.8*
Cash in hand and Balances with Reserve Bank	*11.2*	*8.6*	*6.7*	*5.8*	*6.3*
Total Bank Credit	*61.8*	*71.6*	*75.6*	*77.6*	*78.3*
Investment in Government securities	*37.8*	*36.4*	*32.0*	*27.5*	*24.3*

Note: Compiled from the information supplied under Section 42(2) of the Reserve Bank of India Act, 1934 except for deposits and credit figures for 1951 and 1956 and for investments for 1951, which are based on returns under Form XIII.

1. Figures relate to Banking Companies incorporated in India.
2. Excluding inter-bank deposits.
3. Excluding credit due from banks.
4. Relate to Indian banks only.

crores while the latter by Rs. 1,379 crores. Spread of banking habit is reflected in the growth of deposit accounts@ and their ownership distribution. During the period between December 1951 and March 1968, the number of deposit accounts rose by 128.7 lakhs to 161.6 lakhs (Table 15). Of these, personal accounts (for all categories of deposits) rose by 112.4 lakhs to 142.0 lakhs, as many as 84.7 lakhs of these being savings accounts.

@ These, however, do not represent the number of depositors.

The rise in the number of business accounts was relatively smaller, namely, 7.5 lakhs (from 1.8 lakhs to 9.3 lakhs). The average amount per deposit account in respect of 'personal' deposits rose from Rs. 1,313 in 1951 to Rs. 1,612 in 1968. On the other hand, the average amount per business account declined from Rs. 16,782 in December 1951 to Rs. 9,840 in March 1968. This latter reflects in part, a rapid rise in the debits to deposit accounts of business.

TABLE 15
OWNERSHIP PATTERN OF DEPOSITS OF SCHEDULED COMMERCIAL BANKS

(Number of accounts in thousands)
(Amount in rupees crores)

As on	December 31, 1951		December 31, 1956		April 28, 1961		March 31, 1968†	
No. of reporting banks	85		87		84		70	
Sectors	Accounts	Amount	Accounts	Amount	Accounts	Amount	Accounts	Amount
1. Business	179	300.4	206	338.0	629	564.0	934	919.1
2. Personal (Individuals)	2961*	388.9*	3732*	520.8*	5322	809.5	14196	2288.0
3. Professional	@@	@@	@@	@@	@@	@@	220	61.4
4. Government and quasi-Government bodies ..	@@	@@	19	111.5	20	126.0	35	227.2
5. Others	94	132.3	67*	104.5*	143	194.6	723	498.9
Total	**3234**	**821.6**	**4024**	**1074.8**	**6114**	**1694.1**	**16108**	**3994.6**

† Provisional.
* Includes unclassified deposit accounts of less than Rs. 500/-.
@@ Separate data for these items are not available.
Source : Survey of Ownership of Deposits.

148. The share of the State Bank of India and its seven subsidiaries as well as of the 14 major Indian banks with deposits of over Rs. 50 crores as of March 1969, was substantial (86 per cent) in the rise in deposits of all scheduled commercial banks, between March 1956 and March 1969 (Table 16). Deposits of the State Bank and its subsidiaries rose from Rs. 279 crores to Rs. 1,219 crores while that of the 14 banks from Rs. 477 crores to Rs. 2,404 crores. The rate of deposit rise was rapid after 1963 owing, among other things, to the branch expansion programmes as well as the mergers of many smaller banks with some of the 14 bigger banks.

TABLE 16
SELECTED ITEMS OF LIABILITIES AND ASSETS OF STATE BANK GROUP AND MAJOR INDIAN SCHEDULED COMMERCIAL BANKS

(Rupees Crores)

	March 1956			March 1969		
	S.B.I. and sub-sidiaries**	Major Indian banks with deposits of over Rs. 50 crores*	All scheduled com-mercial banks**	S.B.I. and sub-sidiaries	Major Indian banks with deposits of over Rs. 50 crores	All scheduled com-mercial banks
1. Paid-up capital	10.1	15.5	33.7	10.7	28.9	46.0
2. Reserves	10.8	15.5	32.9	16.9	38.4	63.0
3. Aggregate deposits	278.9	476.8	1010.2	1218.6	2404.3	4338.3
4. Cash and balances	21.0	42.6	85.8	74.3	161.1	274.9
5. Total bank credit	165.0	326.5	716.8	993.7	1780.0	3396.3
6. Investments in Government securities	123.1	175.3	372.0	359.0	523.3	1054.6
7. Money at call and short notice	0.4	0.7	6.4	18.6	22.4	49.9

* This classification is on the basis of the position in regard to deposits of these banks as on March 31, 1969.
** Including State Banks of Patiala and Saurashtra which were non-scheduled banks in 1956. As a result figures in this column may not agree with the figures given in Table 15.

149. A noteworthy feature in regard to the geographical expansion of banking is the pace of deposit rise in the smaller towns and in the semi-urban and rural areas. Deposits at centres with population below 1 lakh rose from Rs. 126 crores in 1951 or 16.2 per cent of total deposits to Rs. 1,153 crores in September 1968 or 28.5 per cent of total deposits indicating a faster rate of growth in deposits at such centres compared to the average for the system. In absolute amounts, the rise in deposits at the former centres was smaller, namely, Rs. 1,027 crores as compared with the rise of Rs. 2,243 crores at centres with population above 1 lakh. As a proportion of total deposits, those at smaller centres recorded a rise from 16.2 per cent in 1951 to 28.5 per cent in September 1968, while that of deposits at larger centres came down from 83.8 per cent to 71.5 per cent (Table 17).

TABLE 17
DISTRIBUTION OF DEPOSITS OF SCHEDULED COMMERCIAL BANKS IN INDIA BY POPULATION GROUPS

(Rs. crores)

Year	Centres with population below 10,000	Centres with population between 10,000 and 1 lakh	Centres with population over 1 lakh	Total
1951	9.2	116.5	651.3	777.0
1956	15.9	169.9	804.4	990.2
1961	49.1	304.2	1142.0	1495.3
1966	108.3	706.5	2165.3	2980.1
End-September 1968 (Outstanding) ..	229.2	923.4	2893.7	4046.3

Note: (1) Figures for the years 1951 and 1956 relate to deposits as at the end of the year.
(2) Figures for the years 1961 and 1966 relate to month-end averages during the year.

(*Source:* Survey of Debits to Deposit Accounts with Banks for the years 1951 to 1966 and Monthly Survey of Bank Deposits for end-September 1968).

150. The growth of deposits has been uneven as between different States (Table 18). This is true also of the number of offices and credit disbursal. The larger part of deposit growth was concentrated in a few States like Maharashtra, West Bengal and Tamil Nadu. Some of the other States which showed rapid deposit expansion during the 13 years ended 1968 were Gujarat, Mysore, Punjab and Uttar Pradesh. On the other hand, deposit growth in Assam, Madhya Pradesh, Orissa and Jammu & Kashmir was well below the national average. Even in the more developed States of Maharashtra and West Bengal, deposit growth was lopsided as between different areas, deposits being concentrated in metropolitan centres of Bombay and Calcutta, respectively.

151. While aggregate deposits of the scheduled commercial banks rose in the last 18 years by 420 per cent (at a compound rate of 9.5 per cent), the credit portfolio of these banks rose even faster by over 550 per cent (or at a compound rate of 11 per cent). The credit-deposit ratio in March 1969 stood at as high as 78 per cent as against 62 per cent in 1951. The sharper expansion in bank credit reflects partly the pace of growth in the organised industrial sector to which the commercial banks have hitherto largely catered as well as the increasing reliance by the corporate sector on bank credit in proportion to other sources of funds. This is also revealed in the distribution of credit expansion as between the various sectors. The rise in industrial credit was particularly sharp, its share in the incremental credit expansion being as high as 75 per cent. Consequently, as a proportion of total credit, lending to industry rose from about a third in 1951 to over two-thirds of a vastly expanded total (Table 19). The total credit to industries rose from Rs. 199 crores in March 1951 to Rs. 2,068 crores in March 1968. Within the industrial sector, the share of

TABLE 18
STATE-WISE DISTRIBUTION OF DEPOSITS AND ADVANCES

(Rupees Crores)

States	1951 Deposits	1951 Bank Credit	1956 Deposits	1956 Bank Credit	1961 Deposits	1961 Bank Credit	1966 Deposits	1966 Bank Credit	End September 1968 Deposits	End September 1968 Bank Credit
Andhra Pradesh*	18.5	11.7	35.0	30.7	43.7	40.3	100.1	72.1	142.5	105.6
Assam	4.6	1.3	5.6	1.6	12.0	2.8	30.9	9.9	34.7	11.3
Bihar	21.3	9.4	27.3	12.6	40.9	22.8	96.1	35.2	149.5	49.9
Gujarat†	17·7	2.8	26.0	4.4	122.0	76.2	244.4	119.5	345.6	168.7
Jammu & Kashmir	3.3	0.1	5.4	0.2	5.7	0.6	15.0	1.7	17.8	1.8
Kerala@@	19.2	9.9	24.7	14.4	40.6	28.3	99.5	63.3	116.1	84.7
Madhya Pradesh@	27.0	20.2	33.5	20.9	47.4	29.9	66.6	33.6	98.4	60.3
Maharashtra**	257.1	173.4	308.3	255.9	418.4	339.0	803.7	694.0	987.1	937.5
Mysore	18.0	11.6	22.0	15.3	57.3	41.4	163.8	110.5	200.5	137.2
Orissa	1.8	1.3	2.6	0.6	7.0	3.4	25.4	8.6	24.7	12.8
Punjab@@@	37.2	9.9	50.2	13.7	73.3	30.8	177.2	63.6	229.8	66.9
Rajasthan	16.6	13.3	16.7	15.7	23.8	9.6	46.7	26.3	70.8	34.7
Tamil Nadu	60.3	56.0	84.6	75.9	106.5	107.6	208.9	239.2	251.3	298.8
Uttar Pradesh	59.6	39.1	70.3	48.1	114.0	86.5	205.5	114.9	332.4	127.0
West Bengal	165.5	177.9	199.0	215.5	267.7	297.4	407.2	355.1	564.3	674.2
Delhi	45.8	11.0	73.1	21.1	111.2	42.0	248.9	85.0	390.9	276.0
Others	3.5	0.8	5.9	1.4	3.8	1.5	40.2	32.2	89.9	55.7
Total ..	**777.0**	**549.7**	**990.2**	**748.0**	**1495.3**	**1160.1**	**2980.1**	**2064.7**	**4046.3**	**3103.1**

* Former Hyderabad State for the years 1951 and 1956.
† Former Saurashtra State for the years 1951 and 1956.
@@ Former Travancore-Cochin for the years 1951 and 1956.
@ Figures relate to former Madhya Bharat State for the years 1951 and 1956.
** Former Bombay State for the years 1951 and 1956.
@@@ Including PEPSU for the years 1951 and 1956 and Haryana for 1968.

Note: 1. Deposits and Credit are the year-end outstanding figures for the years 1951 and 1956.
(2) Deposits and Credit figures for the years 1961 and 1966 are month-end averages during the year.

Source: Survey of Debits to Deposit accounts with banks upto 1966 and the Monthly Survey of Deposits for September 1968.

industries such as iron and steel, engineering, chemicals, cement and textiles showed significant increases. Of the total industrial advances of Rs. 2,068 crores in March 1968, credit to State-owned and State-managed industrial concerns accounted for Rs. 114.0 crores. Nearly 85 per cent of the total credit to public sector industrial concerns was to engineering, iron and steel, fertiliser and fuel oil manufacturing industries and mining and electricity generation and distribution concerns; other public sector industrial concerns which received bank credit were sugar, cotton textiles, chemical products, cement, construction and shipping concerns. The credit to small-scale industries given by scheduled commercial banks also showed a sizeable rise between December 1960 and March 1968, from Rs. 28 crores to Rs. 211 crores. By June 1969 such advances are estimated to have risen further to around Rs. 295 crores with the special efforts made by banks to increase their lending to this sector. While on the subject of industrial credit, mention may be made of the emergence of term lending by commercial banks. A decade and a half ago, the Indian commercial banks confined their attention mostly to the short-term credit needs of industry. With the establishment of the Refinance Corporation for Industry which was later replaced by the I.D.B.I., banks have been able to increase their involvement in this sector. This is in addition to the contribution by the banking system to the capital stock and debentures of the specialised financial institutions. Though advances to commercial sector also increased substantially i.e. from Rs. 211 crores to Rs. 588 crores in the same period, their share in total credit fell sharply from 36 per cent to 19 per cent. Within the commercial sector also, a large rise has been on account of advances to public sector bodies such as the State Trading Corporation and the Food Corporation of India. Agricultural advances also recorded a rise from Rs. 12 crores in March 1951 to Rs. 67 crores in March 1968 largely on account of plantations. Advances to agriculture other than to plantations rose to Rs. 188 crores by June 1969 owing mainly to the steps taken by banks to increase their involvement in financing agriculture.

TABLE 19

DISTRIBUTION OF SCHEDULED COMMERCIAL BANKS' CREDIT TO VARIOUS SECTORS (OUTSTANDINGS)

(Rupees Crores)

Sector	March 1951		March 1956		April 1961		March 1966		March 1968*	
	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total
1. Industry	198.9	34.0	285.7	37.1	663.8	50.8	1471.0	62.7	2067.5	67.5
of which, to State-owned and State-managed concerns	..		..		29.0	2.2	76.0	3.2	114.0	3.7
2. Commerce	210.6	36.0	281.0	36.5	373.2	28.6	502.3	21.4	587.7	19.2
of which, to State-owned and State-managed concerns	..		..		..		54.0	2.3	107.9	3.6
3. Financial	74.0	12.7	71.9	9.3	67.1	5.1	77.6	3.3	84.2	2.7
4. Personal	39.7	6.8	51.1	6.6	87.9	6.7	107.8	4.6	113.4	3.7
5. Agriculture	12.4	2.1	15.6	2.0	40.5	3.1	56.5	2.4	67.1	2.2
6. Others	49.0	8.4	64.9	8.4	73.7	5.6	131.6	5.6	144.5	4.7
7. TOTAL	**584.6**	**100.0**	**770.2**	**100.0**	**1306.2**	**100.0**	**2346.8**	**100.0**	**3064.4**	**100.0**

* Provisional.

.. Separate figures for State-owned and State-managed concerns are not available but they are included in the total amount of credit to industry and commerce, respectively.

(*Source:* *Survey of Bank Advances, Form A-6*).

152. Along with the rise in bank credit to different sectors, there was a rise in the number of borrowing accounts (which, however, do not represent the number of borrowers) which was 3.47 lakhs in March 1951, 10.78 lakhs in April 1961, 10.19 lakhs in March 1966 and 11.27 lakhs in March 1968. The major part of the rise was accounted for by borrowing accounts in respect of individuals (i.e., personal accounts), agriculture and 'others'. Personal accounts rose by 3.92 lakhs, from 2.13 lakhs to 6.05 lakhs while accounts in the agricultural sector rose from 9,699 to 1.10 lakhs or by 1.00 lakh. On the other hand, despite the steep rise in the credit to industry, the rise in number of accounts of this sector was relatively moderate, namely, by 63 thousand (from 14 thousand to 77 thousand). In the case of commerce, the slow pace of rise in amount was accompanied by an equally slow rise in the number of borrowing accounts which rose from 68 thousand to 127 thousand, or by 59 thousand. Among the individual components of the industrial sector, the largest rise in the number of borrowing accounts was in engineering industry, the accounts in respect of which rose from 498 to 12,114 or by over 11 thousand : this was in line with the steep rise in bank credit given to this industry from Rs. 11.6 crores to Rs. 479.6 crores. Similarly, accounts in the name of cotton textile companies also rose from 1,088 to 6,349 or by 5,261. Accounts of the wholesale trade, under 'commerce', also rose from 44 thousand to 73 thousand or by 29 thousand. As regards the average amount per account, the smallest amount was, as would be expected, in respect of personal accounts : this was between Rs. 1,800 and Rs. 1,900 throughout the period. In the case of agriculture, the average amount per account declined from Rs. 12,775 in March 1951 to Rs. 6,080 in March 1968 which perhaps reflected the distribution of bank credit to smaller borrowers. The average amount per 'financial' account ranged between Rs. 82 and Rs. 89 thousand but there was a rise in that of industrial accounts from Rs. 1.48 lakhs to Rs. 2.69 lakhs and this was largely the result of the rise in average amount in the account of the sugar industry from Rs. 9.90 lakhs to Rs. 24.98 lakhs. Though the number of borrowing accounts in the sugar industry did not rise considerably, the amount of credit outstanding to it rose from Rs. 34 crores to Rs. 161 crores, which could be explained by the sustained rise in inventories this industry has to maintain under the official sugar release policy. The average amount per account in the case of engineering industry rose from Rs. 2.33 lakhs to Rs. 3.96 lakhs but that in the case of cotton mills showed hardly any change from Rs. 4.85 lakhs to Rs. 4.99 lakhs. It may be noted that of the total number of borrowing accounts of 11.27 lakhs in March 1968, the major part (9.98 lakhs or 88.6 per cent) was in respect of accounts with outstanding amount each below Rs. 10,000 only. In terms of amount of credit, these, however, accounted for only 4 per cent. Broadly, 14 per cent of loans and advances were in respect of 97.5 per cent of the number of accounts with an outstanding amount each below Rs. 1 lakh. This meant that only 2.5 per cent of total accounts with amounts of over Rs. 1 lakh each accounted for as much as 85.7 per cent of total advances by scheduled commercial banks.

153. The distribution of bank credit as between different States and population groups was also uneven. It was concentrated mostly in the more developed States such as Maharashtra, West Bengal and Tamil Nadu and in such States, again, it was concentrated in the major cities such as Bombay, Calcutta, and Madras. For example, in September 1968, Maharashtra accounted for 24.4 per cent of total deposits in the country and 30.2 per cent of total bank credit. The concentration of banking business in larger population centres was also evident in that in September 1968, as much as 45.1 per cent of total deposits and 64.8 per cent of total bank credit was concentrated in the five major cities of Bombay, Calcutta, Madras, Delhi and Ahmedabad. In spite of the rapid rise in bank offices in the rural and semi-urban centres in the last few years, the banking structure has, by and large, remained urban in character. The credit-deposit ratios have been very high in some of the more developed States such as West Bengal, Tamil Nadu and Maharashtra and low in the less developed States such as Bihar and Jammu & Kashmir. They were, however, low in some of the other States such as Gujarat, Andhra

Pradesh, Punjab and Haryana but high in some of the less developed States such as Assam and Orissa.

154. Unevenness in the spread of banking facilities was also evident in the fact that commercial bank offices were concentrated in centres of large population. At the end of 1967, of a total of 2,483 banked centres, 105 centres (4.3 per cent) with a population over 1 lakh had as many as 2,716 offices (39 per cent of total number of offices). The credit-deposit ratio was very high (89 per cent) in centres with population above 10 lakhs but was low (40 per cent) in centres with smaller population, particularly, those below 10,000. To the extent that these figures represented credit given at reporting centres which were, not necessarily, the centres where such credit was actually used, it was likely that a part of the credit given in one region could in fact have been utilised at other places.

155. The major part of credit by commercial banks has traditionally gone to industries,—particularly large and medium-scale industries—wholesale trade and other bigger borrowers. Small-scale industries, agriculture and allied activities, retail trade, self-employed and small borrowers have remained largely outside the purview of commercial banks. As at the end of 1967, more than four-fifths of scheduled commercial banks' credit was directed to industry and commerce. The share of credit to industry increased from 34 per cent of the total bank credit in 1951 to 64 per cent in 1967. The share of commerce declined from 36 per cent to 19 per cent. The bulk of credit to commerce was in respect of wholesale trade. Commercial bank lending to agriculture was negligible : excluding plantations, advances to agriculture amounted to less than 1 per cent of total bank credit, the major proportion of the finance for that sector—though inadequate in the aggregate—came from the co-operative agencies.

156. With the expansion of credit at a rate which was faster than deposit accretion, banks, while adhering to the statutory requirements in regard to investment and cash and balances, had to have greater recourse to borrowings from the Reserve Bank, State Bank of India and some of the specialised institutions. However, in the process, the investment pattern underwent a change. The ratio of investment in Central and State Government securities (including Treasury bills), to deposits which was as high as 36 per cent in March 1956 declined to 32 per cent in March 1961, to 28 per cent in March 1966 and further to 24 per cent in March 1969. The decline in the more recent phase is partly attributable to a larger share now of 'other approved' securities as distinct from Government securities in the portfolio composition of investment (17.2 per cent in March 1969 as against 2.4 per cent in December 1951). As a proportion of total deposits, such investment also rose from 0.9 per cent to 5.1 per cent in the same period. The trend towards a reduction of investment ratios in general over the period is, however, unmistakable. The Banking Regulation Act required that from September 1964 onwards, the total of a scheduled commercial bank's holdings of gold, cash, or unencumbered approved securities and balances with the Reserve Bank and State Bank and other notified banks should be not less than 25 per cent of the bank's aggregate demand and time liabilities. This was in addition to whatever statutory reserves were required to be maintained with the Reserve Bank—currently at 3 per cent—making the minimum liquidity ratio of 28 per cent. Banks have also been paring down their cash ratio from nearly 11 per cent in 1951 to a little over 6 per cent in 1969. The present cash ratio thus can be regarded as being at a level which would not permit any further reduction as it is made up of 3 per cent as statutory balances with the Reserve Bank and till cash requirements which over a wide-flung branch system would suggest a minimum of another 3 per cent in this form. Banks' recourse to the Reserve Bank's discount window has also been growing, given the limited possibilities of reshuffling of the assets portfolio, along with the faster pace of credit expansion. This has been so, especially in the busy season. Thus, as against the outstanding borrowings from the Reserve Bank of Rs. 12 crores in March 1951, the level of such borrowings rose to a peak of over Rs. 240 crores as on March 14, 1969. While earlier, these borrowings were largely seasonal in character, in the last

few years the provision of refinance for advances to the priority sectors and food procurement has blurred to some extent the seasonality in banks' access to the Reserve Bank.

157. Over the last 17 years upto March 1968, there has been some hardening of the interest rates structure in India. The Bank rate now stands at 5% as against 3% in March 1951; it had stood at 6 per cent between February 1965 and March 1968 when it was reduced to its present level. Correspondingly, bank advances rates (average rates) have also risen from 5 per cent in 1951 to nearly 8.5 per cent in April 1968. While the banks have by agreement amongst themselves set a minimum rate for advances (presently at 7 per cent) the Reserve Bank has set a ceiling rate (presently 9.5 per cent) for advances in respect of the larger Indian and foreign banks as part of its technique of preventing the higher cost of borrowing from it being passed on to the borrower in full, whenever the Bank rate is increased.

158. As part of its policy of liberalising credit facilities on a selective basis, the Reserve Bank has been making available credit for priority purposes on cheaper terms. Refinance at a concessional rate is now available on advances by banks for three priority sectors, namely, exports, agriculture and small-scale industry. In the case of export credit, the Bank has also stipulated that the rate charged by banks to the clients should not exceed 6 per cent irrespective of whether or not they avail of the refinance facilities from the Bank. An additional incentive is the export credit subsidy of 1½ per cent given by the Government of India, in force since March 1968. For advances for the other priority sectors, namely, agriculture and small-scale industry, while no ceiling rate is stipulated, the commercial banks have, according to information with the Reserve Bank been generally charging lower rates compared to their normal rates. For example, the interest charged by many banks on advances to small industries is 8½ per cent or less when such advances are guaranteed by the Credit Guarantee Organisation of the Reserve Bank of India. In the case of advances to agriculture, the rate of interest is generally between 8 and 9 per cent. When the facilities of the Agricultural Refinance Corporation are availed of, the rate charged is 8½ per cent. Again, a rate of 8-8½ per cent is charged on loans to State Electricity Boards for agricultural purposes, such as for energising pumpsets or laying low tension lines. On the other hand, several banks have indicated that they are charging rates between 9 and 9½ per cent on fresh advances to large-scale industry and trade.

159. Deposit rates (average rates) also have risen from 1.0 per cent in 1951 to 3.7 per cent in April 1968. With a view to avoiding a competitive rise in interest rates, the larger Indian banks (excluding State Bank of India) along with some foreign banks entered into an Agreement on the maximum rates on deposits of various maturity periods. A significant development has been the intervention of the Reserve Bank since 1964 in the deposit rates structure with a view to widening the spread between short-term and longer-term deposit rates. This has been done through fixing maximum rates for deposits under 3 months, prohibiting interest on current accounts and deposits under 14 days and at the same time fixing minimum rates for longer-term deposits ; the maximum rates prescribed at present are 1¼ per cent for deposits for maturities between 15 and 45 days and 2½ per cent for 46 to 90 day deposits ; the minimum rates prescribed at present are 5½ per cent for deposits with maturity between one and two years and 3½ per cent for savings bank deposits. Within the framework of this regulation, banks have by agreement amongst themselves fixed rates for various maturity periods.*

160. The effect of the main changes in the important items in assets and liabilities of the business of the scheduled commercial banks since 1951 and of the hardening in interest rates is reflected in the trends in the

* On September 1, 1969 the Reserve Bank issued a directive to all scheduled commercial banks governing their interest rates in respect of various categories of deposits pending a further study in depth and wider forum about the structure and level of deposit rates.

earnings and expenses (Table 20). Gross earnings of banks have increased substantially particularly after 1961. The total current operating earnings have gone up from Rs. 45 crores in 1951 to Rs. 335 crores in 1967. Bills and loans constituted the major source of earnings, the share of this rising from 60 per cent in 1951 to 71 per cent in 1967. On the other hand, earnings from investments declined somewhat reflecting a fall in the investment holdings of banks. On the side of expenses, a large increase occurred in absolute terms rather than in terms of the proportion in respect of establishment expenses. This was markedly so after 1961 and reflected the effect of the expansion of the branch network, additions to bank labour force and the rise in the emoluments of bank staff in accordance with the recommendations of the various Awards. The proportion of interest payments on deposits to current operating earnings has also recorded a sharp rise from 17 per cent in 1951 to 43 per cent in 1967 reflecting the deposit expansion, the shift in deposits distribution in favour of time deposits and since 1964, the impact of the higher deposit rates. As regards allocation of profits, the increase in bonus paid to staff rose from 10 per cent of profits available for allocation to 20 per cent while dividends and bonus paid to shareholders declined from 19 per cent to 15 per cent over the period.

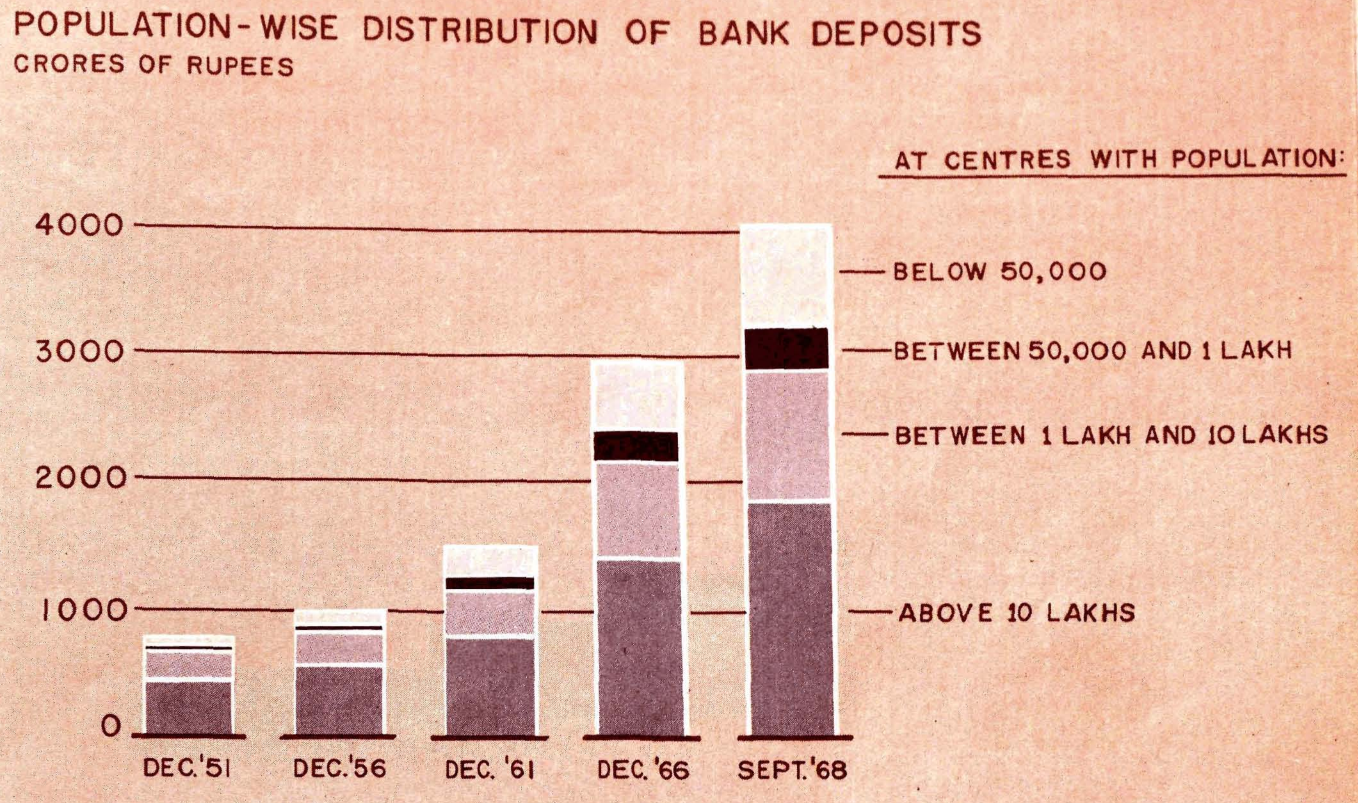
161. The institutional and structural changes that have taken place in commercial banking, as well as in co-operative credit and the specialised finance (which, however, are not discussed here) have also necessitated the enlargement of the range and magnitude of the Reserve Bank's operations and functions. A major responsibility of the Reserve Bank has been the safeguarding of the depositors' interests through a system of supervision and control over the banking system through

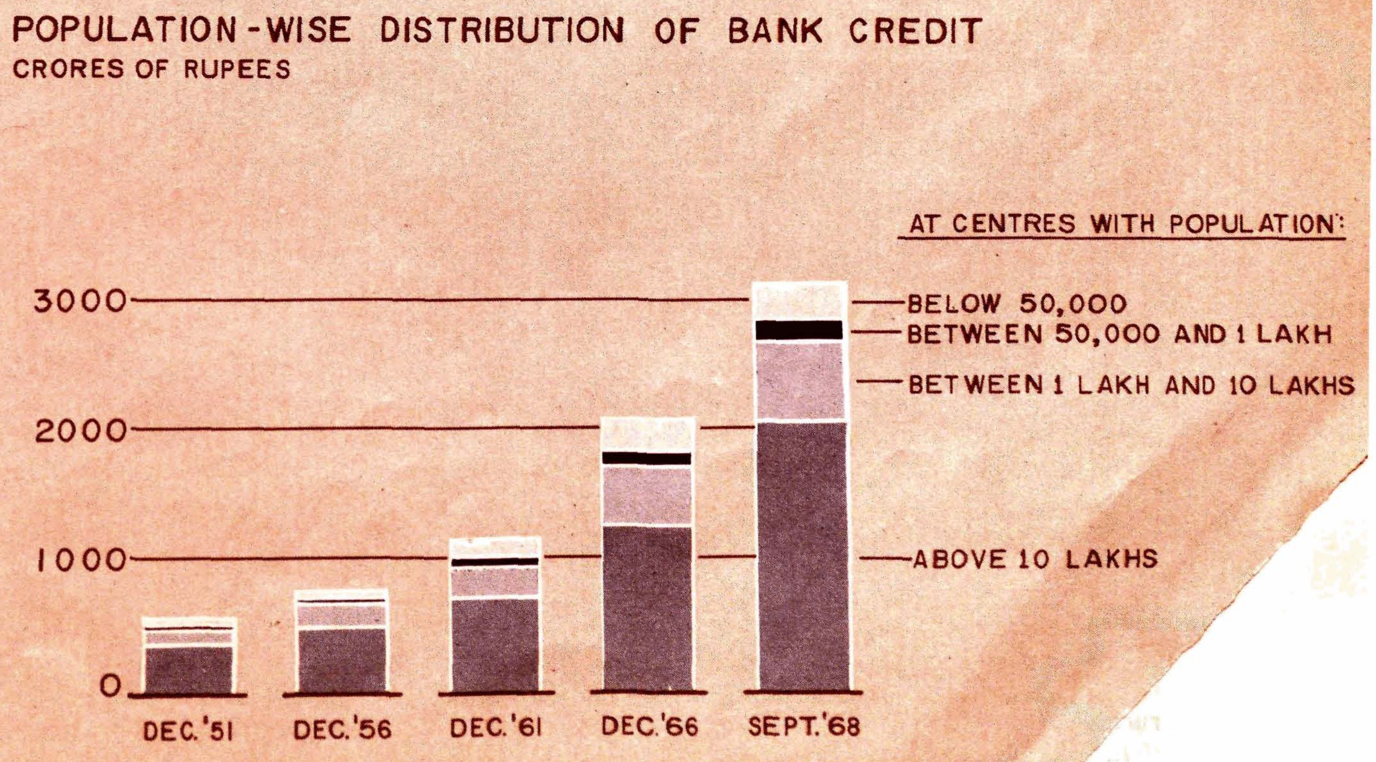
TABLE 20
EARNINGS AND EXPENSES OF SCHEDULED COMMERCIAL BANKS

(Rupees Crores)

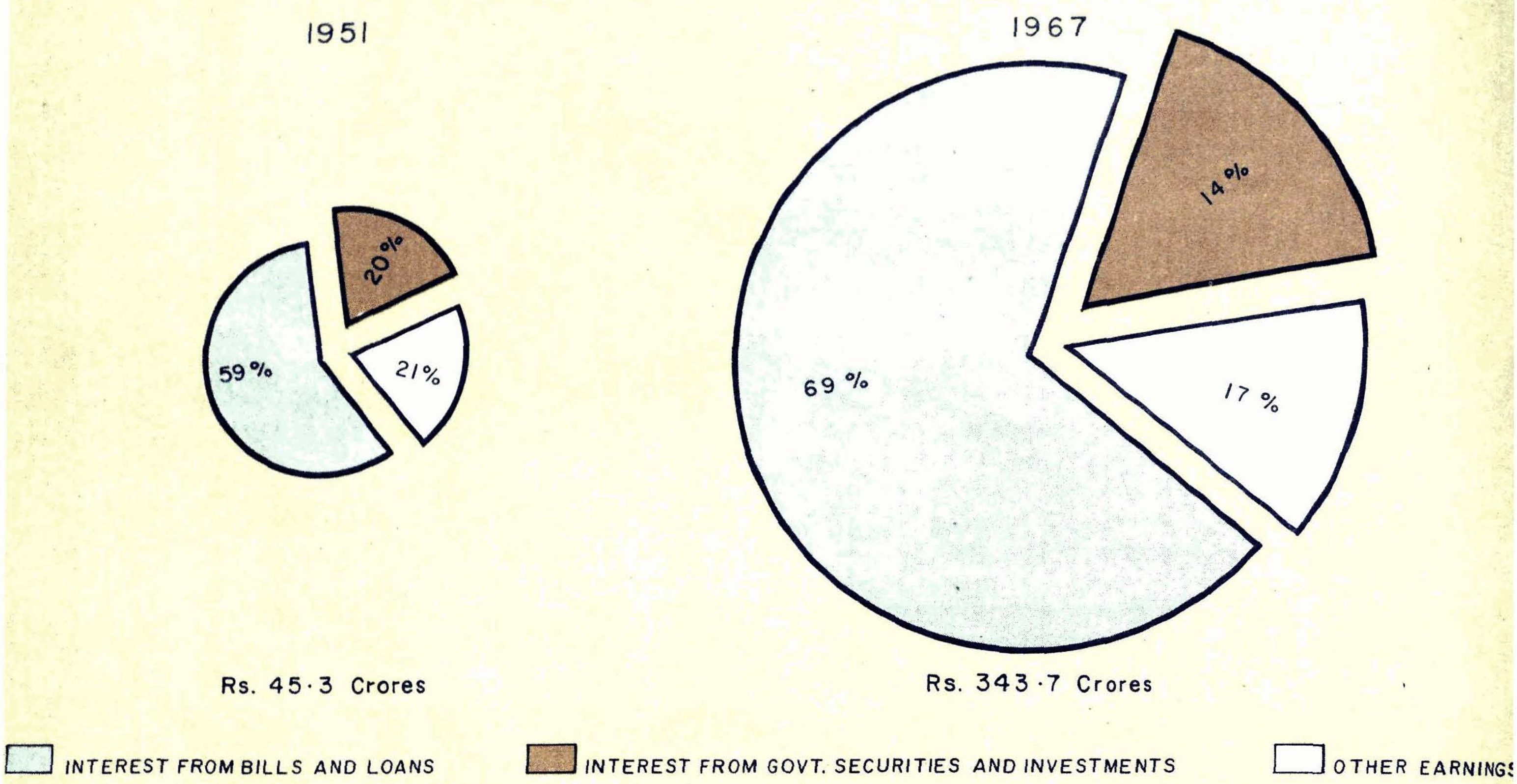
	1951	1956	1961	1966	1967
1. Number of reporting banks	87	87	77	73	70
2. Total current operating earnings	45.2	64.7	122.7	290.8	334.6
3. Total current operating expenses	31.1	50.6	94.3	255.0	298.2
4. Balance of Profit or Loss (—) before taxes	13.1	13.6	28.3	39.6	42.1
5. Surplus from previous year and taken from reserves	2.9	1.0	1.5	0.6	1.6
6. Total available for allocation	16.0	14.6	29.8	40.2	43.7
As percentage of Current Operating Earnings					
Earnings					
Bills and loans	*60*	*62*	*66*	*71*	*71*
Investments in Government securities	*18*	*16*	*14*	*13*	*12*
Other investments	*2*	*2*	*2*	*2*	*2*
Other earnings	*20*	*20*	*18*	*14*	*15*
Expenses					
Interest on deposits	*17*	*26*	*34*	*44*	*43*
Interest on borrowings and other accounts	*5*	*7*	*4*	*4*	*3*
Establishment expenses	*34*	*34*	*29*	*31*	*33*
Other expenses	*13*	*12*	*10*	*10*	*9*
Balance of profit or loss (—) before taxes	*29*	*21*	*23*	*14*	*13*
As percentage of Profits before taxes					
Provision for taxes on profits	*31*	*34*	*50*	*49*	*53*
General reserves	*7*	*11*	*13*	*10*	*7*
Dividend and bonus, etc. to shareholders	*19*	*22*	*16*	*13*	*15*
Employees' share (bonus) in profits	*10*	*13*	*12*	*17*	*20*
Allocation to other special purposes	*35*	*10*	*2*	*3*	*2*

Source: Statistical Tables relating to Banks in India.

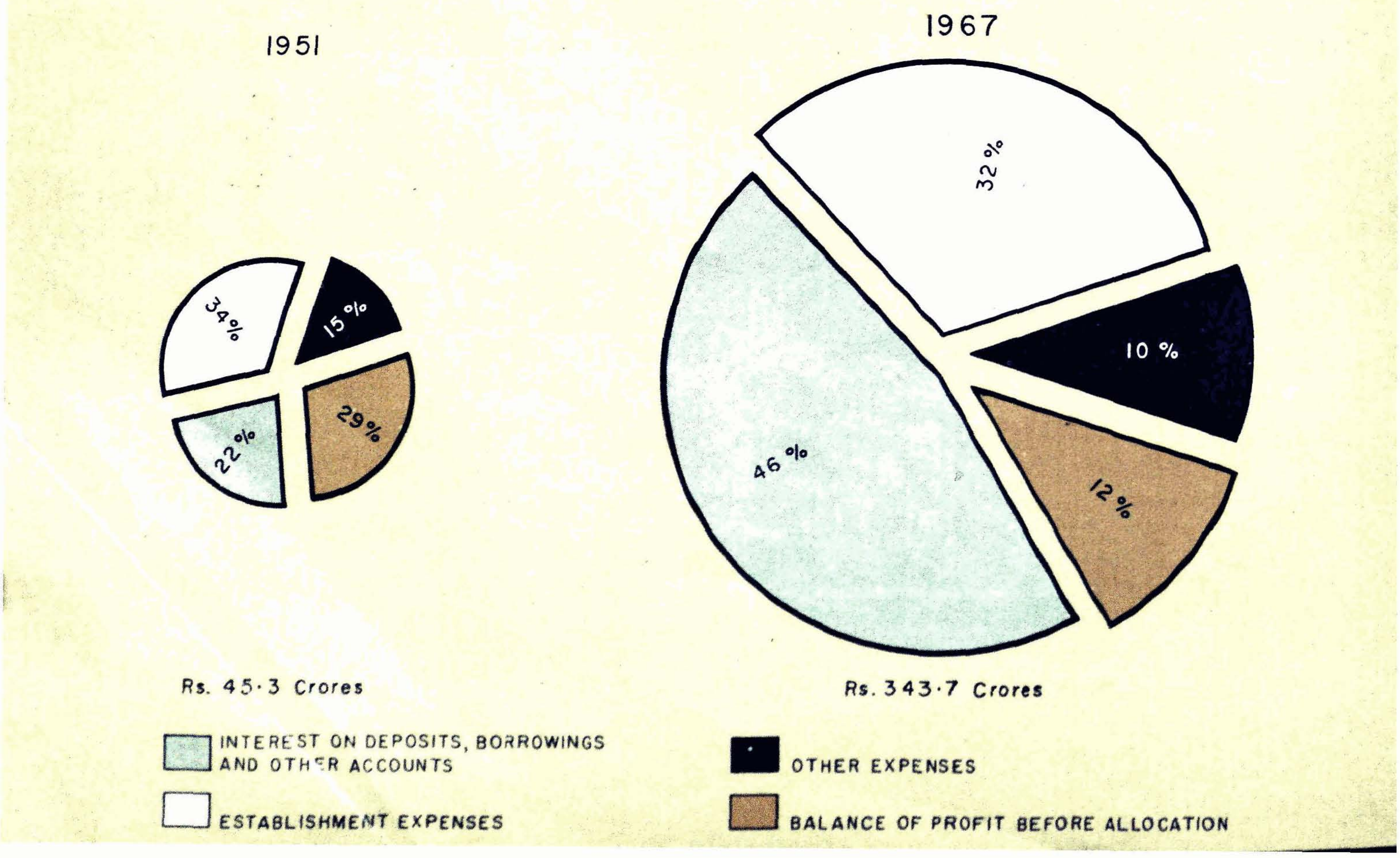

POPULATION-WISE DISTRIBUTION OF BANK DEPOSITS
CRORES OF RUPEES
AT CENTRES WITH POPULATION:
4000
3000
2000
1000
0
BELOW 50,000
BETWEEN 50,000 AND 1 LAKH
BETWEEN 1 LAKH AND 10 LAKHS
ABOVE 10 LAKHS
DEC.'51
DEC.'56
DEC.'61
DEC.'66
SEPT.'68


POPULATION-WISE DISTRIBUTION OF BANK CREDIT
CRORES OF RUPEES
AT CENTRES WITH POPULATION:
3000
2000
1000
0
BELOW 50,000
BETWEEN 50,000 AND 1 LAKH
BETWEEN 1 LAKH AND 10 LAKHS
ABOVE 10 LAKHS
DEC.'51
DEC.'56
DEC.'61
DEC.'66
SEPT.'68

COMPOSITION OF TOTAL EARNINGS



EXPENSES AND PROFIT AS PROPORTION OF TOTAL EARNINGS



the powers vested in it by the Reserve Bank of India Act and the Banking Regulation Act. A further measure of protection of the depositors has been the institution of deposit insurance since 1962. While the supervisory powers of the Bank placed emphasis on the corrective aspects of banking regulation, the Bank placed equal stress on improving the quality of management through the provision of adequate training facilities to the bank personnel. In pursuance of this function, the Bankers' Training College was set up under the aegis of the Reserve Bank in 1954. Since its inception and upto June 1969, over 3,000 bankers had received such training. The importance of trained manpower in the banking industry has received fresh emphasis with the professionalisation of top management of banks under the scheme of social control introduced last year. It was to this end that the National Institute of Bank Management has been established.

162. The foregoing paragraphs highlight the evolution of Indian banking in the last decade and a half in response to the ever-widening needs of a developing economy. There have been many changes in the functional, institutional and structural aspects of banking in this period. The coverage of the country with bank offices has been growing and there has been a rapid expansion in banking business, in terms of both deposits and advances, in the last few years. Impressive as has been the progress that has been achieved, a great deal yet remains to be done. The banking system has remained primarily urban-oriented and has catered largely to the needs of the organised industrial and trade sectors. Despite the vigorous branch expansion in recent years, there were, as in April 1969, over 600 towns out of 2,700 in the country, which were not covered by commercial banks. Out of these 600 towns, 444 did not have co-operative banking facilities either. Again, out of nearly 6 lakh villages in the country, only about 5,000 are estimated to be served by commercial banks. There was a commercial bank office, for every 73,000 of population in the country in 1967, as compared with one bank office for every 4,000 and 7,000 of population respectively in the U.K. and Canada. Commercial bank deposits, as a proportion of national income, formed 14 per cent in India as compared with 84 per cent in Japan, 56 per cent in the U.S.A. and 49 per cent in Canada. There is an uneven spread of bank offices and banking business as between different States and population groups with greater concentration in more developed regions and major cities. Banks have, undoubtedly, made a beginning in increasing their involvement in the finance of agriculture, small-scale industries, small borrowers, retail trade and self-employed, and further, more accelerated effort in these directions is vitally needed.

ANNEXURE 'A'

Seminar on Financing of Agriculture by Commercial Banks

In the context of social control of banks and the emphasis of the National Credit Co at its second meeting held at New Delhi on July 24, 1968 that commercial banks should increase their involvement in financing of agriculture and with a view to providing an exchange of views among all the interests concerned in the matter of agricultural finance, the Reserve Bank sponsored a three-day seminar on the Financing of Agriculture by Commercial Banks from December 6 to 8, 1968 at the Bankers' Training College, Bombay. The Seminar which was inaugurated by the Governor of the Bank was attended, among others, by commercial and co-operative bankers, representatives of Central and State Governments, Planning Commission, firms engaged in the production and distribution of agricultural inputs, implements and machinery, academicians and officials of the Reserve Bank and its affiliated institutions.

The Governor in his inaugural address referred to the complementary role to be played by the co-operatives and the commercial banks in providing financial assistance for modernising Indian agriculture and also observed that the flow of credit from the banking system to agriculture depended not merely on the willingness of the banks to lend and of the agriculturists to borrow but also on the existence of an organisational framework appropriate to the task as well as the requisite technical competence to evaluate and process the loans. Shri R. G. Saraiya speaking in the inaugural session welcomed the entry of the commercial banks into this field and also emphasized the role of the commercial banks in supplementing the efforts and in co-ordinating their activities with those of the co-operative banks so as to prevent unhealthy competition. Shri B. Sivaraman also speaking in the same session referred to the credit needs of the credit-worthy in certain areas for production oriented programmes where bank assistance could be provided without risks.

After the inaugural session the Seminar divided itself into three groups in which the papers prepared by experts were discussed; a brief summary of the major points discussed in the seminar is given below :

The First Group Discussion covering papers on General Aspects of Financing Agriculture by Commercial Banks was presided over by Shri J. J. Anjaria, Deputy Governor of the Bank. The discussion was focussed on two major issues : (a) the areas in which commercial banks could usefully concentrate attention at least in the early stages and (b) the ways and means of ensuring the co-ordination between the activities of commercial and of co-operative banks. A concrete suggestion in this regard was that commercial banks should concentrate at least in the early stages on opening of branches in and serving the HYVP, IADP and other similar areas where expanding technological possibilities of agriculture had created large demand for financing which could not possibly be met by the co-operative sector alone. There was, on the whole, a broad consensus that some inter-financing *i.e.*, deployment of commercial bank finance through co-operative agencies was both possible and desirable. Most speakers were also clearly against rigid or water-tight delimitation of the fields of interest or responsibility, territorial or functional, as between the two sectors. The arrangements already made for mutual consultation at the national level were welcomed but it was emphasized that the crux of the problem was effective organisation of such consultations at the district-level.

Group Discussion II covered Organisational and Other Aspects and was presided over by Shri B. Venkatappiah, Member, Planning Commission. The Group generally did not consider that any radical structural re-organisation of the Indian banking system was required to be undertaken merely in the context of agricultural credit. On the problem of ensuring the viability of the rural branches of commercial banks (through which the cultivator had to be served), it was agreed that, to reduce costs, the maximum use should be made of the Government extension organisation, on the one hand, and the service organisation of the suppliers of inputs and of agricultural machinery on the other. Further, the branches could increasingly pay their way if larger deposits were tapped and employed locally. Regarding the decision-making powers in regard to sanction of loans between officials at different levels, it was generally agreed that gradual progress had to be made towards delegation of authority and decentralisation if rural credit had to be dispensed in a satisfactory manner, though reference to higher levels might be found useful in the initial stages. In respect of the important problem of personnel for agricultural credit, the Group considered that the services offered by (i) the various agricultural universities or (ii) the Government staff with good experience of extension work could be utilised effectively for this purpose. The Group strongly emphasised the need for a close co-ordination between the State Governments in relation to their programmes on the one hand, and agricultural financing activities of the commercial banks on the other, in different contexts. A significant development from the point of view of organisation was the establishment of the Agricultural Finance Corporation Ltd. The other context in which the need for co-ordination was forcefully stressed in the discussions in the Group related to the supply of inputs, etc., as also the infra-structure of marketing, processing and storage facilities. The Group in particular emphasised on the need for a substantial expansion of the storage facilities not only at the market centres but even for enabling the farmer to stock the produce on his own over a period of time. Reference was also made to the problems of small cultivators in more than one context, particularly in view of the fact that they were large in number and contributed appreciably to production in certain areas.

The Third Group Discussion covering Direct and Indirect Financing of Agriculture was presided over by Shri T. A. Pai, Chairman of the Syndicate Bank. Shri P. N. Damry, Deputy Governor of the Bank acted as the Co-Chairman of this Group.

It was noted that over 70 per cent of the credit needs of the farmer were being met at present by the private moneylender. Since he could not be replaced by institutional credit agencies, commercial or co-operative in the near future, the present problem was to find out additional resources for modernisation of agriculture, which in terms of long-term needs would mean rural electrification, lift irrigation, mechanisation, storage development, etc. and in terms of short-term finance, the use of fertilisers and improved seeds and pesticides. The Group felt that initially it was desirable for banks to adopt a selective area and/or project approach in the field of agricultural finance. The Group also recognised that apart from the provision of credit, agricultural finance should cover the entire spectrum from production to consumption and efficiency in the infra-structure of storage, transport and marketing. In noting the limitation of warehousing facilities available, the Group recommended for consideration, the introduction of legal measures to regulate the construction of storage accommodation and encouraging the bringing up of a storage industry by the private sector. The Group also felt that a high level Committee be set up to review various tenancy, debt relief and other legislations which came in the way of the farmers borrowing on equal terms with the other sections of the society. In the field of direct lending to the farmer by commercial banks, the Group was of the view that they should not necessarily look forward to State Government guarantees as an expedient. With a view to acquiring adequate information regarding the farmer's credit-worthiness, production capacity, repaying ability, etc. the Group recommended close contact with the farmer for which selection of field personnel from the farming community itself would be advantageous. The Group also felt it necessary for commercial banks wherever possible, to assist, the entire production cycle and asked the bankers to tackle the cost factor in agricultural finance. As regards the question whether commercial banks should or should not enter into direct financing of the small farmer, the Group suggested that every productive farmer should be considered as a credit-worthy borrower deserving finance.

Regarding indirect financing the Group noted that commercial banks had not so far made use of the Agricultural Refinance Corporation's refinance facilities to any great extent and discussed the impediments coming in the way of the commercial banks in submitting a larger number of schemes for refinance from the Corporation. The Group desired that the Corporation might make use of its good offices with (i) the State Governments to offer existing facilities to such of the commercial banks as were eager to avail of them and (ii) the various Commodity Boards in extending to the commercial banks technical assistance for schemes financed from their own resources. The Group noted that the 50 per cent margin on the security for refinance insisted upon by the Corporation could be relaxed in appropriate cases and referred to the number of relaxations to suit the particular needs of the commercial banks in financing schemes for energising wells. The Group welcomed the setting up of the Agricultural Finance Corporation Ltd. promoted by commercial banks themselves.

ANNEXURE 'B'

Summary of the Report of the Study Group on Deposit Mobilisation by Commercial and Co-operative Banks.

At its meeting held on July 24, 1968 (referred to earlier) the National Credit Council set up five Study Groups to go into specific issues pertaining to the work of the Council. One of these groups was to be concerned with the problem of deposit mobilisation. The following persons were invited to serve on this Group *viz.*, Shri T. A. Pai of Syndicate Bank as Chairman, Shri R. K. Talwar of the State Bank of India, Shri Maganbhai R. Patel of the Gujarat State Co-operative Bank, Shri C. V. Joag of the Bank of Maharashtra, Shri Bimal Chand of the Benares State Bank as Members and Shri M. Narasimham of the Reserve Bank of India as Convener.

The Study Group was required to go into the question of the various factors affecting the effective and efficient mobilisation of resources of the co-operative and commercial banking systems, the methods by which commercial and co-operative banks can extend the scope of their operations so as to enlarge the flow of resources to the organised credit system and the related question of the geographical and functional aspects of the deposit mobilisation effort.

This Study Group submitted its Report in January 1969. The following are, in brief, the main suggestions and recommendations of the Study Group. After studying (i) the problem of deposit mobilisation in terms of economic and functional factors which influence the pace and pattern of deposit growth, (ii) the behaviour of deposits of commercial and co-operative banks as well as those relating to postal savings and non-banking deposits, (iii) branch expansion and branch licensing policy, the Group suggested the need for expanding banking facilities with particular urgency in the under-banked States. The Group also considered that the banks could with advantage adopt the 'area approach' towards branch expansion. The Group felt that deposit mobilisation had relevance not only in the rural context but there was as much need for more deposits in the urban areas not necessarily by branch extension but by extension of services. Further, that the aim of the banking system should, however, be to attract funds now lying outside the organised sector or diverted into unproductive investments. The Group also suggested for consideration, *inter alia*, (i) some changes in the existing policy so as to distribute more equitably the burden of opening more branches in the semi-urban and rural areas, (ii) the possibility of a dual wage policy in respect of urban and rural branches, (iii) lower scales for new recruits at unbanked centres initially for a specified number of years. Regarding the cost of obtaining money in rural areas and the charges levied by banks on advances, the Group suggested that there was a case for dual interest rate structure.

With a view to making co-operative banks self-reliant and not depend indefinitely on concessional refinance from the Reserve Bank which may have weakened the incentive of co-operatives in respect of deposit mobilisation, the Group suggested that after an initial period of a few years (to be determined in respect of each bank), the rate of Reserve Bank refinance could be linked with the co-operative banks' own efforts to mobilise deposits.

ANNEXURE 'C'

Main Findings and Recommendations of the Study Group on Provision of Credit Facilities for Road Transport Operators.

The Group emphasised that action on the reports of the recent study groups on road transport taxation under Shri Keskar, on viable units under Shri Mullick and on road transport financing under Shri Saraiya, should be expedited. The Hire-purchase and Motor Vehicles (Amendment) Bills, now pending before the Parliament, should be passed into law and brought into force without further delay. The Group suggested that the Government of India should, as soon as the pending Hire-purchase Bill is enacted into law, fix at 90, the percentage of repayment at which the hire-purchase financier's right in respect of a commercial vehicle, as an owner, lapses, for protecting the rights of the financier or of the bank which may be refinancing him.

The current demand for assistance to road transport operators in the private sector from organised external financing agencies is about Rs. 60 crores per annum, but may be expected to double in about five years ; in view of the failure and disappearance of a number of hire-purchase finance companies, there is room for the promotion of a reasonable number of additional hire-purchase finance companies. Banks themselves can take the lead in promoting new hire-purchase finance companies as partly owned subsidiaries. The credit guarantee scheme for small-scale industries should be extended to cover direct loans by banks and the outstanding hire-purchase credit granted by approved hire-purchase finance companies. Where the size of the borrower's fleet is large, the risks involved are not likely to be great and hence commercial banks should be encouraged to grant direct loans.

The ceiling for the interest rate charged by the hire-purchase financiers to the hirers should be 10 per cent flat, subject to certain conditions. Primary urban co-operative banks should try to grant direct loans to their members against refinance from the central and apex banks and ultimately, if necessary, from the Industrial Development Bank of India. Apart from the credit needs of the operators in the private sector, the public sector road transport corporations may need about Rs. 15 to 20 crores per annum from external sources at present and this amount may be expected to increase to Rs. 50 crores by the end of March 1974 ; they should try to obtain these funds to the extent possible from the I.D.B.I.'s scheme as extended to them or by borrowing from the open market.

ANNEXURE 'D'

Refinance facilities available from the Reserve Bank of India and the Industrial Development Bank of India.

(Position as of June 30, 1969)

A. Refinance from the Reserve Bank of India

i. Refinance at Bank rate

So long as a bank's net liquidity ratio is at or above 30 per cent, scheduled commercial banks can borrow at Bank rate.

(a) In respect of packing credit for exports of products other than engineering and metallurgical goods and post-shipment credit (including rupee usance export bills), refinance is made available at Bank rate. Banks are eligible to borrow at this rate irrespective of their net liquidity ratios. Banks are required to charge a rate not exceeding 6 per cent on their lending for such exports whether or not they avail themselves of the refinance facilities.

(b) Refinance is also provided at Bank rate, irrespective of the net liquidity ratio, for the entire advances granted by banks for purposes of foodgrains procurement/distribution/storage to the State Governments/their agencies/the Food Corporation of India.

ii. Refinance at concessional rates

(a) Packing credit advances for exports of engineering and metallurgical products are refinanceable at 4½ per cent. Banks can borrow this amount at the concessional rate irrespective of their net liquidity ratios. Banks are required to charge a rate not exceeding 6 per cent on such export credit whether or not they avail themselves of the refinance facilities.

(b) Refinance is made available at 4½ per cent irrespective of net liquidity ratio upto an amount equivalent to total of a bank's short-term outstanding advances to agriculture@ and those to small-scale industries which are guaranteed by the Credit Guarantee Organisation. Refinance is provided upto the above limit against any eligible security and not necessarily against bills arising out of the bank's lending to these two sectors.

(c) Further, the total increase in commercial banks' advances to exports over the specified base period is also eligible for refinance at the concessional rate of 4½ per cent, irrespective of their net liquidity ratios.

iii. The Reserve Bank also provides discretionary accommodation at Bank rate to banks for limited periods for meeting their temporary stringency arising out of bunching of imports of raw cotton, soyabean oil, maize starch, etc. and tax payments. Such discretionary accommodation would also be available to banks experiencing genuine financial difficulties in aiding production.

iv. Relief in respect of net liquidity ratio

The level of net liquidity ratio is relevant for the calculation of penal rate of interest as well as the level of borrowings in excess of the amount eligible at Bank rate. On borrowings in excess of the Bank rate entitlement, a higher rate commencing from not less than 8 per cent, will begin to apply based on a bank's net liquidity ratio.

Refinance obtained from the Reserve Bank whether against the special schemes mentioned above or for general purposes normally impairs the net liquidity ratio. The advantage of the special schemes is that irrespective of the impairment, refinance is available at fixed rates without limit, as long as the lending by the bank which avails of the refinance conforms to the schemes. In the measures currently in force an added concession has been given in that the reduction of the net liquidity ratio can be offset in the following case : the increase in a bank's advances to exports over the specified base period is added as an item of liquid assets of the bank while computing its net liquidity ratio.

B. Refinance from the Industrial Development Bank of India

i. For Industrial Loans

Refinance is provided by the Industrial Development Bank of India at 6 per cent in respect of term loans to industrial units by eligible banks and financial institutions. A concessional rate

@ Advances to agriculture are the same as defined for the purpose of fulfilling the minimum target set by the National Credit Council for commercial banks' lending to agriculture for 1968-69. These would include, *inter alia*, advances for distribution of inputs such as chemicals fertilisers and pesticides, loans to farmers for crop finance, finance provided for fisheries, dairies, poultries, cold storage, etc. Finance provided for plantations (excepting the development loans to traditional plantations *viz.* tea, coffee, rubber and spices and short-term and development loans to other plantations) for marketing of agricultural produce including food procurement finance and the subscriptions to the land mortgage banks' debentures are not treated as agricultural advance in this regard.

of 5½ per cent is charged in respect of the above loans in case the borrowing bank or financial institution agrees to charge a rate not exceeding 8½ per cent to its clients. In order to enlarge the quantum of assistance to industrial units, the Industrial Development Bank of India reduced in July 1968 the minimum amount of loan eligible for its refinance from Rs. 5 lakhs to Rs. 2 lakhs ; also it raised the extent of refinance from 80 per cent to 100 per cent in respect of loans upto Rs. 5 lakhs.

In view of the difficulties experienced by cotton textile mills which had utilised a part of their working capital for acquisition of fixed assets in meeting their normal requirements of working capital, the I.D.B.I. agreed in May 1968 to refinance term loans granted by banks to deserving textile mills for releasing their working capital locked up in the acquisition of fixed assets, during the period of last three years ; even a longer period will be considered in deserving cases. The liberalisation which in the first instance, was operative upto the end of June 1969 has been continued for 1969-70 subject to review at the end of June 1970.

ii. For Loans to Small-scale Industrial Units

Refinance from the Industrial Development Bank of India is also available at 4½ per cent to eligible banks and financial institutions in respect of their term loans to small-scale industrial units which are covered under the Credit Guarantee Scheme, provided the lending institution does not charge interest at a rate exceeding 8 per cent. With a view to widening the flow of institutional finance to small-scale sector, the I.D.B.I. also reduced in April 1968, the minimum amount of the loan eligible for its refinance from Rs. 1 lakh to Rs. 20,000 ; further, it raised the extent of refinance from 80 per cent to 100 per cent of the loan.

In order to enlarge credit flow to the small road transport operators, the I.D.B.I. agreed in November 1968 to treat loans to such parties on par with the loans to small-scale units which are covered by the Credit Guarantee Scheme for the purpose of its refinance facilities. However, the rates of interest to be charged for such refinance would be those applicable in cases other than loans to small-scale units which are covered under the Credit Guarantee Scheme.

iii. For Sales of Indigenous Machinery on Deferred Payment Basis

Under a special scheme, the I.D.B.I. rediscounts bills/promissory notes covering sales of indigenous machinery on deferred payment basis at 4½ per cent in respect of bills/promissory notes with an unexpired usance of more than 5 years, at 5 per cent in respect of bills/promissory notes with an unexpired usance of over 3 years and upto 5 years and at 5½ per cent in respect of bills/promissory notes with an unexpired usance of 3 years or less. These facilities are available to approved banks and financial institutions. The borrowing institutions should not charge their customers more than 1 per cent above the respective rediscount rates. Further, to facilitate sales of machinery to small users, who do not generally have direct contacts with the manufacturers, to avail of the benefits under the scheme, bills/promissory notes arising out of sales of machinery to users by authorised selling agents/distributors of machinery manufacturers were also made eligible in May 1968 for rediscounting, where such agents/distributors had already paid the manufacturers for the machinery under sale. In the case of agricultural machinery and agricultural implements. the deferred payments facilities were extended to sales by the manufacturers to the selling agents/distributors/dealers of such machinery and implements as an experimental measure, which in the first instance, was operative upto the end of June 1969 has been continued for 1969-70 subject to review at the end of June 1970. These intermediaries are, in turn, expected to afford similar deferred payment facilities to the farmers in respect of their sales to them and not to charge unduly higher prices. The facilities have also been extended to sale of agricultural machinery and agricultural equipment by the manufacturers to farming enterprises which do not themselves do farming but provide mechanised services to small farmers. The facilities under the Bank's rediscounting scheme were extended in January 1969 to purchaser-users in the public sector (such as autonomous bodies like Electricity Undertakings, Transport Corporations and Government Companies), which were hitherto outside the scope of the above mentioned Scheme.

iv. For Financing of Sales of Motor Vehicles to Road Transport Operators in the Private Sector

Under another special scheme, the I.D.B.I. provides rediscounting facilities to approved scheduled banks and State co-operative banks at 5½ per cent against hire-purchase credits in respect of sales of new trucks, jeeps and passenger buses on deferred payment basis to road transport operators in the private sector provided the banks do not charge more than 8½ per cent to their customers.

v. For Financing of Exports

Refinance is provided by the I.D.B.I. at the uniform rate of 4½ per cent in respect of medium-term export credits provided by eligible banks and institutions which are required to charge in turn their customers a rate not exceeding 6 per cent. Although, this refinance facility is available normally for periods of 6 months to 5 years, the I.D.B.I. has expressed its willingness to refinance export credits in respect of capital goods upto 7 years and even upto 10 years in deserving cases.

ANNEXURE 'E'

The Agricultural Finance Corporation, Ltd.

With a view to financing top priority agricultural projects and helping the commercial banks participate actively and extensively in the development of agriculture, the Indian Banks' Association set up the Agricultural Finance Corporation. It was incorporated on April 10, 1968 under the Companies Act, 1956. One of the vital tasks of the Corporation is to facilitate the flow of increased financial resources for modernising Indian agriculture; for this purpose, the Corporation will (i) finance individuals/institutions/organisations undertaking agricultural enterprises and (ii) promote commercial banks' advances for agricultural development.

The membership of the Agricultural Finance Corporation is restricted to banks included in the Second Schedule to the Reserve Bank of India Act, 1934. Apart from these member banks which have branches all over the country, the Corporation itself proposes to open regional branches whenever considered necessary. The authorised capital of the Corporation is Rs. 100 crores divided into 100,000 shares of Rs. 10,000 each. The issued and subscribed capital is Rs. 10 crores divided into 10,000 shares of the face value of Rs. 10,000 each and the paid-up capital is Rs. 5 crores. Thirty-five scheduled commercial banks have subscribed to the share capital of the Corporation. The Board of Directors consists of 15 members representing bankers and a Government nominee.

The financing role of the Corporation includes the direct financing to farmers for production purposes which will be limited to only a few selected projects/areas, mainly with a view to gaining experience in financing new projects and to pass on the experience to the commercial banks. The Corporation would formulate a project, work out its economies and invite a consortium of banks to join with it in financing such projects. The Corporation has, however, decided to give priority to finance the infrastructure for agricultural development. The infra-structure includes tube-wells, lift irrigation schemes, energisation of irrigation wells, construction of storage structures and silos, starting and operating different types of agricultural service units, building up and strengthening the transport of agricultural produce, production, distribution, storage and marketing of agricultural inputs, etc.

The Memorandum and Articles of Association of the Corporation provide for financing almost all types of agricultural activities. However, the policy of the Corporation is to give priority to provide finances to the infrastructure for agricultural development, such as, energisation of wells, construction of storage structures, setting up and operation of a variety of agricultural services units etc., and also to such of the projects which will result in increased production in the shortest possible time. In view of this, the approach of the Corporation has been mainly selective in regard to the projects for financing. The Corporation has taken up financing of energisation of irrigation wells in the States of Andhra Pradesh, Haryana and Mysore. It is also processing a number of proposals received from the States of West Bengal, Bihar, Uttar Pradesh, Madhya Pradesh, Haryana, Rajasthan, Maharashtra, Kerala and Delhi.

The Corporation has initiated various programmes for the rapid expansion of agricultural credit in the country; among these mention may be made of the setting up of the National Level Consultative Committee for co-ordination between the commercial and co-operative banking institutions and the formation of the State Level Committees for co-ordination between these two sectors.

APPENDICES

APPENDIX — I

PARTICULARS IN RESPECT OF BANKS GRANTED MORATORIUM DURING JANUARY 1968 TO JUNE 1969 UNDER SECTION 45 OF THE BANKING REGULATION ACT, 1949

Name of the Bank	No. of offices	Name of the proposed transferee bank	Period of moratorium
(1)	(2)	(3)	(4)
1. Chawla Bank Ltd., Dehra Dun.	1	New Bank of India Ltd., (The Chawla Bank Ltd., has since been amalgamated with the New Bank of India Ltd., under Section 45 of the Banking Regulation Act, 1949 with effect from the 23rd June 1969).	From the close of business on the 22nd March, 1969 upto and inclusive of 21st June 1969.

APPENDIX — II

1. STATEMENT SHOWING THE POSITION IN REGARD TO LICENSING IN TERMS OF SECTION 23 OF THE BANKING REGULATION ACT, 1949

DURING JULY 1968 — JUNE 1969

No. of applications received during July 1968-June 1969 and those pending at the end of June 1968	No. of applications in respect of which licences were granted/refused for opening new offices		No. of licences issued for opening temporary / seasonal offices		No. of licences issued for changing the location of existing offices		No. of applications approved and the concerned banks advised to approach for release of licences when in a position to open the offices	No. of applications treated as withdrawn	Total No. of licences	
1	2		3		4		5	6	7	
	Granted	Rejected	Granted	Rejected	Granted	Rejected			Granted	Rejected
1902@ (9)	1531* (1)	—	15	—	2	—	43 (8)	61	1548	—

Note:— Figures in brackets represent the number of applications received from Indian commercial banks for opening offices outside India and are included in the main figures.

@ Applications in respect of 232 offices of banks in the private sector and 18 offices of the State Bank of India and its subsidiaries were under consideration.

* Includes 23 licences issued to banks in order to enable them to take over the existing offices of other banks and 5 conditional licences.

2. STATEMENT SHOWING THE NUMBER OF OFFICES OPENED OR CLOSED IN FOREIGN COUNTRIES BY INDIAN BANKS DURING JULY 1968 TO JUNE 1969

	United Kingdom	Fiji Islands
No. of offices opened	1	1(opened on 16-6-1969)
No. of offices closed	—*	—

—* The Lagos branch of the Bank of India in Nigeria is deemed to have been incorporated as a separate entity with effect from the 18th November 1968, under the Companies Decree (Nigeria) 1968 and has been constituted as the bank's subsidiary in that country with effect from the 30th May, 1969.

APPENDIX — III

PARTICULARS IN RESPECT OF AMALGAMATIONS AND TRANSFERS OF LIABILITIES AND ASSETS OF BANKING COMPANIES DURING JANUARY 1968 TO JUNE 1969

Name of the bank	No. of offices	Name of the transferee bank	Date of amalgamation or transfer.
1.	2.	3.	4.
I. List of banks amalgamated under Section 44A of the Banking Regulation Act, 1949.		— NIL —	
II. List of banks which have transferred their liabilities and assets to other banks.			
1. Lucknow Bank Ltd., Lucknow.	1.	Benares State Bank Ltd.	14-8-1968 (Close of business).
2. Pangal Nayak Bank Ltd., Udipi.	24	Canara Bank Ltd.	27-9-1968 (At the commencement of business).
III. List of banks amalgamated under Section 45 of the Banking Regulation Act, 1949.			
1. Amrit Bank Ltd., Amritsar.	4	State Bank of Patiala, Patiala.	3-2-1968
2. Chawla Bank Ltd., Dehra Dun.	1	New Bank of India Ltd., Delhi.	23-6-1969
IV. List of banks, the business of which has been acquired by the State Bank of India under Section 35 of the State Bank of India Act, 1955 or by its subsidiaries under Section 38 of the State Bank of India (Subsidiary Banks) Act, 1959.		— NIL —	

APPENDIX — IV

VARIATIONS IN THE NUMBER OF OFFICES OF STATE AND CENTRAL CO-OPERATIVE BANKS FOR THE PERIOD 1-1-1968 to 31-3-1969

Serial Number	Scheduled State Co-operative Banks			Non-Scheduled State Co-operative Banks			Central Co-operative Banks			All State and Central Co-operative Banks		
	31-12-67	31-12-68	31-3-69	31-12-67	31-12-68	31-3-69	31-12-67	31-12-68	31-3-69	31-12-67	31-12-68	31-3-69
1. New offices opened	3	4	—	5	4	—	198	222	101	206	230	101
2. Overall changes due to amalgamations, mergers, transfers and taking over of offices etc.	—	—	—	—	—	—	—	—	—	—	—	—
3. Existing offices closed	—3	—8	—	—2	—	—	—25	—21	—4	—30	—29	—4
4. Overall variation in the number of offices	—	—4	—	+3	+4	--	+173	+201	+97	+176	+201	+97
5. Number of offices at the end of the year	71	67	69*	83	87	85	2748	2949	3046	2902	3103	3200

Note: The revised figure has been incorporated as on 31-12-1967 due to the subsequent changes reported to us by the Regional Offices.

* Punjab and Haryana non-scheduled state co-operative banks have been scheduled with effect from 4-2-1969.

APPENDIX — V

STATEMENT SHOWING THE POSITION IN REGARD TO THE LICENSING IN TERMS OF SECTION 23 OF THE BANKING REGULATION ACT, 1949 (AS APPLICABLE TO CO-OPERATIVE SOCIETIES)

No. of applications pending as on December 31, 1967	No. of places in respect of which applications were received from January 1968 to June 30, 1969	No. of places in respect of which licences were granted/refused for opening of new offices		For opening temporary/seasonal offices		For changing the location of existing offices		No. of applications treated as withdrawn by banks	Total	
		Granted	Rejected	Granted	Rejected	Granted	Rejected		Granted	Rejected
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
7	57	38	6	—	—	6	—	2	44	6

APPENDIX — VI

POSITION REGARDING SELECTIVE CREDIT CONTROLS ON ADVANCES OF SCHEDULED COMMERCIAL BANKS AGAINST CERTAIN COMMODITIES

(As on June 30, 1969)

Commodity	Margin	Ceiling	Exemptions	Remarks
1. Paddy and Rice (Directive of March 27, 1969)	1. 25% in respect of advances (a) against receipts issued by warehouses established by Central and State Warehousing Corporations, (b) to duly appointed agents of Food Corporation of India, (c) to licensed dealers and millers in Punjab and Haryana, and (d) to wholesale dealers and fair-price shop dealers in Kerala who are authorised by the Government of Kerala to deal in paddy and rice. 2. 35% for other advances.	1. Commencing from March-April 1969, overall ceilings separately for (a) Andhra Pradesh, (b) Maharashtra and (c) 'Other States' as follows: 100% of the average aggregate level of credit maintained in the corresponding two-month period in 1968 or 80% of the level in the corresponding two-month period in 1964-65 (March to February), whichever is higher. Further, within the overall ceilings, secondary levels for non-warehouse advances have been prescribed for (a) Andhra Pradesh, (b) Maharashtra and (c) 'Other States' on the above lines. 2. In addition, (a) offices/branches in Punjab and Haryana are allowed to maintain an average aggregate level of credit in respect of licensed dealers and millers equal to 15% of the actual level of advances in the corresponding two-month period during 1964-65 (March to February) granted to such licensed dealers and millers, (b) offices/branches in Orissa are allowed to maintain an average aggregate level of credit granted to rice mills and traders in paddy and rice within that State not exceeding Rs. 1 lakh per branch/office within that State.	1. Advances granted to the following are exempted from margin and ceiling. (a) State Governments and millers and wholesale dealers who are appointed as procuring agents by a State Government subject to the condition that such procuring agents are required to act exclusively as agents of the concerned State Government and are precluded from purchasing/distributing paddy or rice or converting paddy into rice on behalf of themselves or other parties, (b) Food Corporation of India (excluding advances granted to its duly appointed agents), (c) co-operative marketing and processing societies, (d) co-operative societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the Government of Maharashtra to deal in paddy and rice, and (e) rice mills in the States of Bihar, Uttar Pradesh and West Bengal. 2. Purchase or discount of demand documentary bills drawn in connection with the movement of paddy and rice are exempted from margin and ceiling. 3. Advances against warehouse receipts of (a) those warehouses which were established by Central and State Warehousing Corporations on or after 1-1-1961	Granting of credit limit (including credit against warehouse receipts and credit against demand documentary bills drawn in connection with movement of paddy and rice) to parties other than traders dealing in foodgrains who are licensed by the Government of Maharashtra for distribution of paddy and rice in Maharashtra is prohibited.

Commodity	Margin	Ceiling	Exemptions	Remarks
		3. Over and above the levels permitted under clauses 1 and 2, each new office/branch opened on or after 1-1-1966 is allowed to maintain an additional level of credit which should not exceed Rs. 50,000 per such office.	and (b) those warehouses which were established by the Central and State Warehousing Corporations before 1-1-1961 but which have increased their original warehousing capacity since 1-1-1961 to an extent exceeding 100% by their own fresh or additional construction and not by acquisition of warehouses already existing, are exempted from ceiling except in Maharashtra. 4. Advances by offices/branches in Kerala to wholesale and fair-price shop dealers who are duly authorised by the Government of Kerala to deal in paddy and rice, are exempted from ceiling. 5. Advances against high yielding/hybrid paddy seeds produced under contract with the National Seeds Corporation Ltd., Delhi or a State Government or which bear the certification of the said Corporation or as the case may be, the concerned State Government, are exempted from margin and ceiling.	
2. Wheat (Directive of August 7, 1968)	1. 25% in respect of advances (a) against receipts issued by warehouses established by Central and State Warehousing Corporations, (b) to duly appointed agents of Food Corporation of India in so far as such limits are against the stocks of wheat dealt with by them as such agents, and (c) by offices/branches in Kerala to wholesale dealers and fair-price shop dealers in Kerala who are authorised by the Government of Kerala to deal in wheat. 2. 35% for other advances.	1. Commencing from August-September 1968, separate general ceilings for (a) Punjab, Haryana, Jammu & Kashmir, Himachal Pradesh; Delhi and Chandigarh together, and (b) 'Other States' as follows: 110% of the average aggregate level of credit maintained in the corresponding two-month period during the year 1967 or 100% of the average aggregate level of credit in the corresponding two-month period during the year 1964-65 (August to July), whichever is higher. 2. In addition to the above ceilings, each new office/branch opened on or after January 1, 1966 is allowed to maintain an additional level of credit not exceeding Rs. 50,000 per office.	1. Advances granted to the following are exempted from margin and ceiling. (a) State Governments and agents duly appointed by State Governments and dealing exclusively on Government account for procurement/distribution and for allied operations, (b) Food Corporation of India (excluding advances granted to its duly appointed agents), (c) co-operative marketing and/or processing societies, and (d) roller flour mills. 2. Advances against receipts of warehouses established by Central and State Warehousing Corporations are exempted from ceiling. 3. Advances against hybrid seeds which bear the certification	

Commodity	Margin	Ceiling	Exemptions	Remarks
			of the National Seeds Corporation Ltd., Delhi, are exempted from margin and ceiling. 4. Advances by branches/offices in Kerala to wholesale and fair-price shop dealers in Kerala, who are duly authorised by the Government of Kerala to deal in wheat, are exempted from ceiling. 5. Advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of wheat are exempted from ceiling and margin.	
3. Other Foodgrains (Directive of May 27, 1968 as amended by the directive of February 27, 1969)	1. 25% for advances against receipts issued by warehouses established by Central and State Warehousing Corporations. 2. 35% for other advances.	1. Commencing from May-June 1968, separate general ceilings for (a) Maharashtra, (b) Madhya Pradesh, (c) Uttar Pradesh and (d) 'Other States' as follows: 100% of average aggregate level of credit in the corresponding two-month period in 1967 or 1964-65 (May to April), whichever is higher. Further, within the general ceilings, secondary levels for non-warehouse advances have been prescribed for (a) Maharashtra, (b) Madhya Pradesh, (c) Uttar Pradesh and (d) 'Other States' on the above basis. 2. Over and above the levels mentioned above, each new office/ branch opened on or after January 1, 1966 is allowed to maintain an additional level of credit not exceeding Rs. 50,000 per office.	1. Advances granted to the following are exempted from margin and ceiling: (a) State Governments for procurement/distribution and for allied operations, (b) Food Corporation of India (excluding advances granted to its duly appointed agents), and (c) co-operative marketing and/ or processing societies. 2. Advances against hybrid seeds which bear the certification of the National Seeds Corporation Ltd., Delhi, are exempted from margin and ceiling. 3. Advances against American maize specified as yellow corn No. 2, imported under P.L. 480 agreement for use as industrial raw material for manufacture of starch, dextrose, glucose, etc. for the textile, chemical, pharmaceutical and other industries are exempted from margin and ceiling. 4. Advances against warehouse receipts of (a) those warehouses which were established by Central and State Warehousing Corporations on or after January 1, 1961 and	Granting of credit limit against the security of jowar and nagli (ragi) (including credit provided against warehouse receipts of any warehouse and credit against demand documentary bills drawn in connection with the movement of jowar and nagli) to parties other than traders dealing in foodgrains who are licensed by Government of Maharashtra for distribution of jowar and nagli in the State of Maharashtra, is prohibited.

Commodity	Margin	Ceiling	Exemptions	Remarks
			(b) those warehouses which were established by Central and State Warehousing Corporations before January 1, 1961 but which have increased their original warehousing capacity since January 1, 1961, to an extent exceeding 100% by way of their own fresh or additional constructions and not by acquisition of warehouses already existing are exempted from ceiling. 5. Advances against jowar and *nagli (ragi)* in Maharashtra to co-operative societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies, Act, 1960 and authorised by the Government of Maharashtra to deal in the above commodities are exempted from margin and ceiling. 6. Advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of 'other foodgrains' are exempted from margin and ceiling. 7. Advances against maize granted to starch manufacturing units are exempted from margin and ceiling.	
4. (a) Groundnuts and (b) 'Other Oilseeds' including gingelly seeds but excluding cottonseeds (Directive of May 22, 1969)	Margins separately in respect of (1) groundnut and (2) 'Other Oilseeds' including gingelly seeds as follows: (a) 25% for advances to solvent extraction units and/or integral oil expeller mills with solvent extraction plants. (b) 35% for advances against warehouse receipts issued by the warehouses established by the Central and State Warehousing Corporations. (c) 40% for advances to registered oil mills, and (d) 50% in respect of advances to others.	Commencing from May-June 1969, two separate ceilings for (1) groundnuts and (2) 'Other Oilseeds' including gingelly seeds as follows: (a) for advances against receipts issued by the warehouses established by the Central and State Warehousing Corporations: 80% of the average aggregate level of such credit maintained during the corresponding two-month period of 1967. (b) for non-warehouse advances: 80% of the average aggregate level of such credit maintained during the corresponding two-month period of 1967.	1. Advances to vanaspati manufacturers are exempted from margin. 2. Advances to solvent extraction units and/or integral oil expeller mills with solvent extraction plants are exempted from ceiling. 3. Credit limits in favour of exporters of oilseeds, de-oiled and/or defatted cakes in respect of oilseeds and/or extractions of oilseeds, in respect of specific firm export contracts and/or against export bills are exempted from margin and ceiling. 4. Advances against non-edible oilseeds other than linseed and	

Commodity	Margin	Ceiling	Exemptions	Remarks
			castorseed are exempted from margin and ceiling. 5. Advances against the security of or by way of purchase of demand documentary bills drawn in connection with the movement of oilseeds are exempted from margin and ceiling. 6. Advances against receipts of (a) warehouses established by Central and State Warehousing Corporations on or after January 1, 1961 and (b) warehouses which were established before January 1, 1961 but have increased their original capacity since January 1, 1961, by not less than 100% by their own fresh or additional constructions and not by acquisition of warehouses already existing, are exempted from ceiling.	
5. Vegetable Oils (including Vanaspati) (Directive of May 22, 1969)	1. 25% for advances to solvent extraction units and/or integral oil expeller mills with solvent extraction plants. 2. 40% for advances to vanaspati manufacturers and registered oil mills. 3. 50% for advances to others.	Commencing from May-June 1969, separate ceilings for (a) vanaspati manufacturers and registered oil mills and (b) others as follows: 80% of the average aggregate level of advances actually maintained during the corresponding two-month period of 1967.	1. Margin and ceiling restrictions do not apply to advances granted (a) to vanaspati manufacturers against stocks of soyabean oil and cottonseed oil imported under P.L. 480 agreement and sunflower oil imported as gift from the Government of U.S.S.R., (b) against stocks of indigenous cottonseed oil, (c) against stocks of non-edible vegetable oils excluding castor oil and linseed oil, (d) against stocks of vegetable oils (including vanaspati) in favour of exporters of de-oiled and/or de-fatted cakes in respect of specific firm export contracts and/or against export bills, (e) against stocks of vanaspati held by vanaspati manufacturers for being delivered to the Army Purchase Organisation, Ministry of Food and Agriculture, Government of India, and (f) against the security of or by way of purchase of demand do-	

Commodity	Margin	Ceiling	Exemptions	Remarks
			cumentary bills drawn in connection with the movement of vegetable oils (including vanaspati). 2. Advances against the stocks of vegetable oils (including vanaspati) to solvent extraction units and/or integral oil expeller mills having solvent extraction plants are exempted from ceiling.	
6. Sugar (*Directive* of April 27, 1963 as amended on August 30, 1963)	45% on each credit limit or advances *granted against* the security of sugar to (a) parties other than those manufacturing sugar and (b) parties manufacturing sugar in respect of stocks which have left the factory or mills premises and on which excise duty has been paid.	No ceiling control	Advances granted against stocks of sugar to consumers' co-operative stores are exempted from margin control.	
7. Gur (Directive of November 2, 1967)	50% for all parties	Commencing from November-December 1967, 70% of the average aggregate level of credit actually maintained in the corresponding two-month period of 1966-67 (November 1966 to October 1967)	Advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of *gur* are exempted from margin and ceiling.	
8. Cotton and Kapas (Directive of November 26, 1968, as amended by the directive of May 3, 1969)	50% for parties other than cotton mills or growers' co-operative societies.	1. For the six-month period November 1968 to April 1969 in respect of parties other than cotton mills: 110% of the peak level of credit maintained in the corresponding six-month period (November-April) of 1967-68. 2. For the six-month period May 1969 to October 1969 in respect of parties other than cotton mills or growers' co-operative societies: 85% of the peak level of credit maintained in the corresponding six-month period (May-October) of 1968.	Following types of advances are exempted from the margin and ceiling: 1. Advances to cotton mills and growers' co-operative societies. 2. Advances against imported cotton and kapas. 3. Advances against indigenous cotton and kapas of exportable varieties. 4. Advances against ISC-67 cotton and Andrews cotton. 5. Advances in respect of pre-shipment credit for cotton exports provided the advances are made in respect of a firm export order and are repaid on negotiation of the relevant export bill on shipment. 6. Advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with	Margin of 50% is to be made effective not later than May 20, 1969 in terms of the directive of May 3, 1969.

Commodity	Margin	Ceiling	Exemptions	Remarks
			the movement of cotton and kapas. 7. Advances against export bills relating to export of cotton and kapas from India.	
9. Raw jute (Directive of October 26, 1968)	35% for advances to parties other than jute mills.	Ceiling for advances against raw jute: (a) For the three-month period October-December 1968: 120% of the peak level of such advances during the corresponding three-month period of 1967. (b) For each three-month period commencing from January 1969: 100% of the peak level of such advances during the corresponding three-month period of 1968.	1. Advances against raw jute to mills are exempted from margin and ceiling. 2. Advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of raw jute are exempted from margin and ceiling.	
10. Jute goods (Directive of October 26, 1968)	For advances against Pucca Delivery Orders for jute goods: 50% of the value of the relative orders.	No ceiling control	Advances granted against Pucca Delivery Orders for jute goods to (i) exporters against export contracts registered with the Export Contracts Registration Committee attached to the Office of Jute Commissioner and (ii) persons who have sales commitments to the Director General of Supplies and Disposals, Government of India, are exempted from margin.	

POSITION REGARDING SELECTIVE CREDIT CONTROL ON ADVANCES BY CO-OPERATIVE BANKS AGAINST CONTROLLED COMMODITIES

(As on June 30, 1969)

Commodity	Margin	Ceiling	Exemptions	Remarks
1. Cotton & Kapas (Directive of December 11, 1968)	For parties other than co-operative cotton mills: 1) 40% against hypothecation of stocks, and 2) 25% against pledge of stocks.	1. For a State Co-operative bank not operating in a Union Territory:	The following advances are exempted from margin and ceiling. 1. Advances to co-operative cotton mills. 2. Advances against imported cotton and kapas. 3. Advances in respect of pre-shipment credit for cotton	

Commodity	Margin	Ceiling	Exemptions	Remarks
		10% of its total liabilities in India as on the last Friday of October 1968. 2. For a State co-operative bank operating in a Union Territory or a Central co-operative bank: 20% of its total liabilities in India as on the last Friday of October 1968. 3. A State co-operative bank or a Central co-operative bank is allowed to maintain credit limits in excess of the levels stipulated in 1 and 2 above to the extent of its borrowings from the Reserve Bank of India or the State co-operative bank, respectively, for the purpose of marketing of cotton and kapas.	exports provided advances are made in respect of a firm export order and are repaid on negotiation of the relevant export bill on shipment. 4. Advances against exportable varieties of cotton. 5. Advances against the security of or by way of purchase or discount of export bills relating to export of cotton or kapas from India. 6. Advances against ISC-67 cotton and Andrews cotton. 7. Advances to co-operative marketing societies (i.e. any co-operative society which undertakes marketing of cotton and kapas) which act merely as agents on behalf of their members, are exempted from margin.	
2. Gur (Circular letter dated November 10, 1967)	1. 25% for advances against pledge of stocks. 2. 40% for advances against hypothecation of stocks.	The maximum outstandings during the year 1967-68 should not exceed 75% of the maximum level of outstandings reached during the year 1966-67.		

APPENDIX VII

List of Circulars to Scheduled Commercial Banks.

Circular No.	Date	Subject
1. DBOD. No. Sch. 62/C. 96-68	January 11, 1968	Borrowings from RBI.
2. DBOD. No. EFS 61/C. 450-68	January 13, 1968	Memorandum regarding Working Group on Unsecured and Share Advances
3. DBOD. No. B.M. 156/C. 297(K)-68	January 24, 1968	Ceiling rate on Export Bills
4. DBOD. No. Sch. 189/C. 96-68	February 3, 1968	Review of Credit Policy for the busy season
5. DBOD. No. EFS. 213/C. 249-68	February 13, 1968	Advances against real estate
6. DBOD. No. EFS. 1068/C. 249-68	June 19, 1968	Advances against real estate
7. DBOD. No. Sch. 327/C. 96-68	March 2, 1968	Reduction in Bank rate
8. DBOD. No. Sch. 328/C. 96-68	March 2, 1968	Interest rates on deposits
9. DBOD. No. Sch. 329/C. 96-68	March 2, 1968	Ceiling rate on advances
10. DBOD. No. Sch. 2016/C. 96-68	June 22, 1968	Maximum rate of interest on advances
11. DBOD. No. Sch. 359/C. 96(S)-68	March 7, 1968	Norms relating to unsecured advances and guarantees
12. DBOD. No. Sch. 379/C. 96(S)-68.	March 11, 1968	A Copy of Press Note of 11-3-1968—Purchase and discount of export bills.
13. DBOD. No. Sch. 404/C. 96-68	March 14, 1968	Reduction in Lending rates
14. DBOD. No. Sch. 951/C. 96-68	May [redacted] 30, 1968	Reduction in Lending rates
15. DBOD. No. BM. 430/C. 96-68	March 16, 1968	Advances to scheduled banks under Section 17(3A) and 17(4)(c) of the Reserve Bank of India Act, 1934.
16. DBOD. No. Sch. 421/C. 96(S)-68	March 19, 1968	Advances against supply bills drawn on Central and State Governments

17. DBOD. No. Sch. 481/C. 96S-68	March 30, 1968	Advances against supply bills drawn on the State owned undertakings
18. DBOD. No. B.M. 558/C. 297A-68	April 6, 1968	Packing credit facilities to exporters
19. DBOD. No. B.M. 1489/C. 297A-68	November 7, 1968	Packing Credit Advances
20. DBOD. No. B.M. 126/C. 297 (M)-69	January 27, 1969	Packing Credit — Ceiling rate on advances
21. DBOD. No. B.M. 254/C. 297A-69	February 14, 1969	Packing Credit Advances
22. DBOD. No. B.M. 422/C. 297A-69	March 10, 1969	Packing credit advances relating to export of tobacco
23. DBOD. No. 783/C. 297A-68	May 17, 1968	Extension of Bill Market Scheme for refinancing packing credit advances relating to export of jute goods
24. DBOD. No. B.M. 785/C. 297A-68	May 18, 1968	Extension of Bill Market Scheme for refinancing packing credit advances relating to export of cashew nuts
25. DBOD. No. B.M. 804/C. 297A-68	May 23, 1968	Extension of Bill Market Scheme for refinancing packing credit advances relating to exports of textiles to the U.K.
26. DBOD. No. B.M. 853/C. 297A-68	June 5, 1968	Extension of Bill Market Scheme for refinancing packing credit advances relating to exports of hides and skins
27. DBOD. No. B.M. 928/C. 297A-68	June 15, 1968	Extension of Bill Market Scheme for refinancing advances against food procurement operations
28. DBOD. No. B.M. 974/C. 297A-68	June 27, 1968	Extension of Bill Market Scheme for refinancing packing credit advances relating to the export of cashew nuts
29. DBOD. No. B.M. 990/C. 297A-68	July 3, 1968	Extension of Bill Market Scheme for refinancing packing credit advances relating to the export of coffee

30. DBOD. No. B.M. 1179/C. 297A-68	August 19, 1968	Extension of Bill Market Scheme for refinancing packing credit advances relating to export of cashew nuts
31. DBOD. No. B.M. 1243/C. 297A-68	September 12, 1968	Extension of Bill Market Scheme for refinancing packing credit advances relating to exports
32. DBOD. No. B.M. 1251/C. 297A-68	September 14, 1968	Extension of Bill Market Scheme for refinancing advances by scheduled commercial banks to co-operative banks for financing small-scale industrial units.
33. DBOD. No. EFS. 1018/C. 249-68	June 11, 1968	Unsecured advances.
34. DBOD. No. B.M. 932/C. 297A-68	June 15, 1968	The Export Credit (Interest Subsidy) Scheme, 1968
35. DBOD. No. B.M. 1526/C. 297 (M)-68	November 13, 1968	Export Credit (Interest Subsidy) Scheme, 1968
36. DBOD. No. B.M. 287/C. 297(M)-69	February 19, 1969	Export Credit (Interest Subsidy) Scheme, 1968
37. DBOD. No. Ref. 407/C. 260-68	June 17, 1968	Working Group on bank credit to the cotton textile industry
38. DBOD. No. Sch. 2150/C. 96-68	July 12, 1968	Net Liquidity Ratio
39. DBOD. No. CAS. 1185/C. 446-68	July 22, 1968	Credit Limits
40. DBOD. No. CAS. 194/C. 446-69	January 27, 1969	Credit Limits
41. DBOD. No. Sch. 2342/C. 96(S)-68	August 8, 1968	Advances against book debts
42. DBOD. No. Sch. 2381/C. 96Z-68	August 14, 1968	Bank Guarantees
43. DBOD. No. Sch. 1001/C. 96Z-69	June 23, 1969	Bank Guarantees
44. DBOD. No. Sch. 2481/C. 96-68	August 30, 1968	Governor's meeting with bankers — mid-season review of banking trends
45. DBOD No. EFS. 645/C. 452-68	April 22, 1968	Credit-deposit ratio
46. DBOD. No. EFS. 2688/C. 452(E)-68	October 12, 1968	Credit-deposit ratio

47. DBOD. No. Sch. 2795/C. 96-68	October 26,1968	Governor's letter to banks — busy season policy — 1968-69
48. DBOD. No. Sch. 2803/C. 96-68	October 29, 1968	Refinance facilities — small-scale industries
49. DBOD. No. Sch. 3094/C. 96-68	December 12, 1968	Clarifications regarding refinance facilities
50. DBOD. No. B.M. 25/C. 297(M)-69	January 8, 1969	U.K. Import — Deposit Scheme
51. DBOD. No. B.M. 78/C. 297(M)-69	January 20, 1969	Refinancing of Pre-shipment Credit
52. DBOD. No. Leg. 39/C. 233-69	February 1, 1969	Banking Regulation Act, 1949 — restriction regarding loans and advances
53. DBOD. No. Sch. 243/C. 96-69	February 6, 1969	Refinance Mechanism
54. DBOD. No. B.M. 426/C. 297A-69	March 10, 1969	Refinancing packing credit advances relating to export of dressed bristles
55. DBOD. No. B.M. 588/C. 297A-69	March 26 ,1969	Refinancing packing credit advances relating to export of ores through the Minerals and Metals Trading Corporation
56. DBOD. No. B.M. 682/C. 297K-69	April 7, 1969	Export Credit
57. DBOD. No. Sch. 521/C. 96-69	March 28, 1969	Scope of agricultural advances
58. DBOD. No. Ref. 335/C. 456-69	March 29, 1969	National Credit Council targets for lending to agriculture and small-scale industries
59. DBOD. No. Ref. 380/C. 456-69	April 9, 1969	,, ,, ,,
60. DBOD. No. Ref. 527/C. 456-69	May 13, 1969	,, ,, ,,
61. DBOD. No. Ref. 535/C. 456-69	May 13, 1969	,, ,, ,,
62. DBOD. No. Ref. 585/C. 456-69	May 21, 1969	,, ,, ,,
63. DBOD. No. Ref. 594/C. 456-69	May 23, 1969	,, ,, ,,

64. DBOD. No. CAS. 733/C. 446-69	April 8, 1969	Credit Regulation Scheme
65. DBOD. No. Ref. 436/C. 456-69	April 19, 1969	Advances against immovable property
66. DBOD. No. CAS. 969/C. 446-69	May 12, 1969	Credit authorisation scheme
67. DBOD. No. Sch. 869/C. 96-69	May 30, 1969	Governor's meeting with bankers — slack season policy for 1968
68. DBOD. No. B.M. 919/C. 297A-69	June 6, 1969	Post-shipment finance
69. DBOD. No. B.M. 931/C. 297P-69	June 9, 1969	Refinance under Section 17(3A) of the R.B.I. Act, 1934 — Pre-shipment Credit Scheme
70. DBOD. No. B.M. 984/C. 297P-69	June 19, 1969	„ „ „
71. DBOD. No. B.M. 1040/C. 297P-69	June 27, 1969	Refinance under Section 17(3A) of R.B.I. Act, 1934 — Pre-shipment Credit Scheme — Export of leather and leather goods through S.T.C.
72. DBOD. No. Sch. 940/C. 96-69	June 10, 1969	Calculation of excess borrowings
73. DBOD. No. B.M. 956/C. 297A-69	June 16, 1969	Extension of Bill Market Scheme
74. DBOD. No. B.L. 812/C. 168-68	May 10, 1968	Bank's branch licencing policy
75. DBOD. No. B.L. 490/C. 168-69	February 11, 1969	Branch Expansion Programme
76. DBOD. No. B.L. 1743/C. 168-69	May 20, 1969	
77. DBOD. No. Cre. 1166/C. 218(H)-69	May 22, 1969	Advances against Oilseeds (excluding cotton-seeds)
78. DBOD. No. Cre. 1167/C. 218(H)-69	May 22, 1969	Advances against Vegetable Oils (including Vanaspati)
79. DBOD. No. Cre. 2321/C. 218-68	August 7, 1968	Advances against wheat
80. DBOD. No. Cre. 2939/C. 218(N)-68	October 26, 1968	Advances against raw jute and jute goods.
81. DBOD. No. Cre. 3252/C. 218(F)-68	November 26, 1968	Advances against cotton and kapas

82. DBOD. No. Cre. 952/C. 218(F)-69	May 3, 1969	Advances against cotton and kapas
83. DBOD. No. Cre. 1567/C. 218-68	May 27, 1968	Advances against other food-grains (i.e. other than paddy, rice and wheat)
84. DBOD. No. Cre. 484/C. 218-69	February 27, 1969	" " "
85. DBOD. No. Cre. 718/C. 218-69	March 27, 1969	Advances against paddy and rice

TEXT OF CIRCULARS

1. DBOD. No. Sch. 62/C. 96-68. January 11, 1968. Borrowings from the Reserve Bank of India.

Please refer to our circular letter DBOD. No. Sch. 1994/C. 96-65 dated the 11th December 1965. It has been decided that amounts of promissory notes rediscounted by the Industrial Development Bank of India under the scheme in respect of sales of motor vehicles to road transport operators in the private sector, being in the nature of contingent liabilities, will not be taken into account while computing "net liquidity" position for the purpose of borrowings from the Reserve Bank of India.

2. DBOD. No. EFS. 61/C. 450-68. January 13, 1968.

MEMORANDUM

In continuation of our letter DBOD. No. EFS. 1102/C. 450-67 dated the 18th November, 1967 we enclose a further memorandum prepared in the Reserve Bank in consultation with the members of the Working Group on Unsecured and Share Advances which may please be adopted as additional guidelines on certain aspects against shares.

ENCLOSURE

Since the submission to the Governor of the interim report of the Working Group on Unsecured and Share Advances and the subsequent action the Bank has taken in conveying to the banks the guidelines in respect of share advances, the Reserve Bank has been approached by some banks to clarify the position with regard to advances against shares to managing agents / holding companies for the purpose of meeting the financial requirements of managed companies / member companies of the group as well as advances against shares to individuals.

2. With regard to loans / overdrafts granted to managing agents / holding companies, the problem has to be considered both from the point of view of the lending bank and from that of the borrowing company. The guidelines indicated to banks were conceived primarily with a view to ensuring the safety and liquidity of banks' funds as well as relating bank loans to financing genuine production or investment activity. At the same time the genuine difficulties of companies securing finance, especially in the present conditions of the capital market were realised.

3. The financial requirements of group companies may be conveniently looked at from the angle of (a) their requirements for purposes of project implementation and (b) working capital requirements. In all cases the advances should be made against readily marketable shares and after providing for adequate margins. As regards requirements for project implementation, it would be necessary for the lending banks to be informed regarding the end use of the money and the availability of finance should be contingent upon the existence of the repayment programme as it is the assurance of the generation of cash resources out of the project to be implemented that would justify the grant of a medium-term advance. It may be that the repayment schedule itself has to be liberal or that there are circumstances under which the fixation of a repayment schedule may not be feasible. The Reserve Bank's letter DBOD. No. EFS. 1102/C. 450-67 dated November 18, 1967 provides for

such contingencies but requires that a reference in such cases should be made to the Reserve Bank for its approval to either the lengthening of a repayment programme beyond 5 years or for waiving of the repayment schedule. The feature of loans to managing agents/holding companies is that the bank will not be making the finance available directly to the group companies for the project but to the managing agents/holding companies. The circular letter referred to above also pointed out that rolling over of credit should be avoided by a fresh loan being taken in effect to repay an earlier one. When the repayment is made to the managing agent/holding company by the group member in a phased manner, it should be reflected in the relevant account of the managing agent with the bank. The presumption, therefore, would be that, other things being equal, the managing agent/holding company's borrowings from a bank should be repaid out of the resources generated by the project after it enters the stage of production. However, it is possible that the loan account of the managing agent/holding company may not fluctuate if the repayment by one group member is used to release resources for another. The lending bank would, therefore, need to be kept continually informed of the repayment by the group member to the managing agent/holding company in the event that the primary loan by the bank to the latter itself remains outstanding. If the repayment of the loan is to be spread over a longer period than 5 years or it is not considered feasible to fix a repayment programme (and if the amount of the loan exceeds Rs. 5 lakhs multiplied by the number of borrowing members of the group), the bank should submit its proposals for the Reserve Bank's approval which would be granted on the merits of each case.

4. Where the funds are required for working capital purposes, the presumption is that units in the group are unable to provide adequate margin money in respect of inventory borrowing or have to borrow to meet other working capital requirements. The managed company in such cases is normally expected to endeavour to repay the amount on the basis of a repayment programme out of surplus generated from its operations. In the case of a new unit or the expansion of the existing unit such surplus should be out of the operations of the new or the expanded portion of the existing unit. Where the advance extended by the bank in such cases is in the form of overdraft or cash credit, the bank should have sufficient evidence that the concerned account is being turned over and the outstanding borrowing shows sufficient fluctuations which would indicate that it is made for working capital purposes. Where the loan or overdraft/cash credit account of the managing agent remains outstanding for over 2 years, on account of his sub-lending to a managed company and where during that period the minimum debit balance continuing for a period of not less than 30 days exceeds Rs. 5 lakhs, a reference should be made to the Reserve Bank if it is proposed to fix a repayment programme for a longer period than 5 years or to fix no repayment programme at all.

5. It is, however, recognised that where the managing agent maintains a joint pool for meeting the requirements of several managed companies as and when they arise, and funds are moved from one company to another and the bank's advance to the managing agent is in the form of an overdraft or cash credit, it may not be practicable to fix a repayment programme for the managing agent's borrowings from the bank. In such cases, it should be sufficient if the bank took due care to satisfy itself that the managing agent is utilising the advances (granted against marketable shares with adequate margins) for working capital to finance genuine production and there are sufficient fluctuations in the managing agent's account with the bank and in the accounts of the individual managed companies with the managing agent. For this purpose the bank should obtain half-yearly statements from the managing agents showing the disposition of the funds and use they are put to and wherever necessary,

the balance sheets of the managed companies should also be examined. Any such arrangement where the advance by the bank (in the sense of the minimum debit balance continuing for a period of not less than 30 days during the preceding two years) exceeds a total amount calculated on the basis of Rs. 5 lakhs for each borrowing company in the group and wherein no repayment schedule is envisaged should be subject to the approval of the Reserve Bank which may require periodical reports on the conduct of the accounts.

6. As regards accommodation against shares to individual investors whether by way of loans or overdrafts not exceeding Rs. 5 lakhs, it has been decided to leave it to banks to decide, in their discretion, whether a repayment programme should be fixed or not. The bank's judgement will depend on the marketability of the shares and the availability of adequate margins. In the case of overdrafts continuing for over 2 years, the monetary limit of Rs. 5 lakhs may be taken as referring to the minimum debit balance continuing for a period of not less than one month. The Reserve Bank's approval should be sought for repayment programmes for loans exceeding Rs. 5 lakhs and spread over a longer period than 5 years or where it is proposed not to fix a repayment programme.

3. DBOD. No. B.M. 156/C. 297(K)-68. January 24, 1968. Ceiling rate on export bills.

Please refer to paragraph 2 of Governor's circular letter DBOD. No. Sch. 1236/C. 96-67 dated August 9, 1967. It has been represented to us that some banks have been charging on their advances against export bills for collection a rate of interest higher than the ceiling rates prescribed by us in terms of our above circular. We have, therefore, to advise that the ceiling rates stipulated by us are applicable to *all* export finance extended by banks irrespective of the mode of such finance. Thus, interest/commission on advances against rupee export bills for collection should be at a rate not exceeding 7½% per annum and on those against bills drawn in currencies other than Indian rupees should be at a rate not exceeding 8 per cent per annum.

2. Under our Export Bills Credit Scheme, a bank desirous of availing itself of the facility against bills expressed in foreign currencies and Indian rupees has to communicate its agreement in writing that it shall not charge interest/commission/discount exceeding 8% and 7½% p.a. respectively on such bills. It has been decided that this agreement will not cover unpaid, unaccepted or overdue export bills against which no refinance is available from the Reserve Bank of India under the aforesaid scheme.

4. DBOD. No. Sch, 189/C. 96-68. February 3, 1968. Review of Credit Policy for the busy season.

At a meeting held in Bombay on the 29th January 1968 with the representatives of the larger Indian and foreign banks, the Governor of the Reserve Bank reviewed the current credit situation. The Governor referred to the steps already taken by the Reserve Bank at the beginning of the busy season to enlarge the flow of credit to the three priority sectors, viz. exports (both pre-shipment and post-shipment), agricultural inputs (fertilisers and pesticides) and small-scale industries (guaranteed by the Credit Guarantee Organisation). With a view to giving a further fillip to commercial banks' lending to these sectors, the Governor announced the Reserve Bank's decision to charge a concessional rate of 4½ per cent to scheduled commercial banks in respect of their borrowings equivalent to the *increase* in advances made by the banks to the three priority sectors taken together over the base period. The base period for this purpose will be the same as indicated in Governor's circular DBOD. No. Sch. 1236/C. 96-67 dated August 9, 1967 regarding the calculation of adjustments in net liquidity ratio for increase in lending to these priority sectors. As you are aware, banks already obtain a measure of relief in this matter because for the purposes of calculating their net liquidity ratios the increase in such advances is added on to their actual net liquid assets. Under the new concession a bank can borrow from the Reserve Bank an amount up to the extent of the increase at 4½ per cent. Thus, a borrowing bank would be able to obtain such concessional refinance without any impairment of its net liquidity ratio.

2. At the request of the Governor of the Reserve Bank the bankers agreed at the meeting that consequent on the above concession they would not charge more than 7½ per cent per annum in respect of packing credit for exports other than engineering and metallurgical products and in respect of post-shipment finance relating to export bills denominated in currencies other than Indian rupees. We shall be glad if you will please confirm at an early date that the new ceiling rate of interest on export finance has been put into effect by your bank. In respect of packing credit advances to exporters of engineering and metallurgical products the present ceiling rate of 6 per cent per annum charged by a bank will continue. All these ceiling rates will be applicable irrespective of whether or not the banks seek refinance from the Reserve Bank. In regard to the application of interest, the principles set out in our circular letter DBOD. No. B.M. 485/C. 297 A-67 dated October 19, 1967 may be followed.

3. In regard to the rate of interest on the borrowings from the Reserve Bank, the aggregate borrowings of a bank will be taken into account and interest on the amount equivalent to the aggregate increase in the advances by the bank to the three priority sectors mentioned above over the base period will be charged at 4½ per cent per annum irrespective of the mode of borrowing. In regard to the borrowings over and above this amount, the rates of interest agreed to by the Reserve Bank under the special schemes will continue to be charged as stipulated at present.

4. The Governor has reaffirmed the assurance he had given at the October 30, 1967 meeting that the Reserve Bank will be prepared to extend refinance at the Bank rate for limited periods in cases where it is satisfied about the need for such assistance. In view of this assurance, banks should not deny credit facilities to productive sectors.

5. DBOD. No. EFS. 213/C. 249-68. February 13, 1968. Advances against real estate.

It has come to our notice that some banks have expressed reluctance to entertain applications for advances for the construction of warehouses or godowns. You will appreciate that with the present day emphasis on extension of enlarged credit by the commercial banks for agricultural and connected purposes, perhaps the need for finance for construction of warehouses or godowns for storage facilities also exists. Although the Central and the various State Governments have set up warehouses at different places, there may be scope for private agencies also to set up warehouses or godowns with bank finance at places which are potential producing or marketing centres. While we appreciate that advances against immovable properties tend to be of a medium-term nature and banks would, therefore, like to keep these within reasonable limits, they should not adopt a general policy of discouraging such advances irrespective of their purpose. Thus, there should be no objection to their providing finance against such security for construction of warehouses or godowns or for other productive purposes. No doubt banks should observe the requisite safeguards and ensure the safety of the funds lent.

6. DBOD. No. EFS. 1068/C. 249-68. June 19, 1968. Advances against real estate.

Please refer to our circular letter DBOD. No. EFS. 213/C. 249-68 dated the 13th February, 1968 regarding advances for construction of warehouses and godowns. We have been given to understand that some banks have understood our above circular as requiring them to consider proposals for advances for construction of warehouses and godowns at producing and marketing centres only. You will appreciate that such facilities are equally necessary at distribution centres as also in port towns, where goods/commodities are required to be stored pending processing or distribution to the ultimate consumers or shipment in the case of exportable items. We, therefore, feel that banks should not have any objection to providing finance for construction of warehouses and godowns at such centres also and shall be glad if any proposals received by them for this purpose are considered on merits.

7. DBOD. No. Sch. 327/C. 96-68. March 2, 1968. Reduction in Bank rate.

The Reserve Bank has taken certain measures in recent months to liberalise credit with a view to correcting the recessionary trends in the economy. However, during the current busy season the actual credit expansion so far has been much less than expected. In keeping with the overall policy to promote economic recovery and in view of the increase in agricultural output, the Reserve Bank has come to the conclusion that a reduction in the Bank rate is desirable at the present juncture. The Bank rate is accordingly being reduced from 6 per cent to 5 per cent with immediate effect.

2. The Reserve Bank's directives on interest rates to be paid by banks on deposits and the lending rates to be charged by them are also being amended as follows:

The maximum rate for 15-45 day deposits is reduced from 1.50 per cent to 1.25 per cent per annum and that for 46-90 day deposits from 3.00 per cent to 2.50 per cent per annum. The minimum rate for one year deposits is reduced from 6.00 per cent to 5.50 per cent per annum and that for savings bank deposits from 4.00 per cent to 3.50 per cent per annum.

The maximum rate to be charged by banks on their advances is reduced from 10.00 per cent to 9.50 per cent per annum.

3. The Reserve Bank is also prescribing a ceiling of 6.00 per cent per annum for packing credit and post-shipment credit for exports. As announced by the Deputy Prime Minister in the Budget Speech, a scheme is being worked out for the grant of a subsidy to banks in this connection.

4. The concessions now available to the co-operative sector with respect to its borrowings from the Reserve Bank by way of rates lower than the Bank rate will continue to apply to the same extent. This should enable co-operative banks also to make appropriate reductions in the rates charged by them on their advances.

8. DBOD. No. Sch. 328/C. 96-68. March 2, 1968. Interest rates on deposits.

In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949 and in supersession of the directive Ref. DBOD. No. Sch. 217/C. 96-65 dated February 17, 1965 as amended by the directive Ref. DBOD. No. Sch. 1540/C. 96-66 dated October 28, 1966, the Reserve Bank of India being satisfied that it is in the public interest to do so, hereby directs that no scheduled bank shall pay on deposits of money accepted by it or renewed by it after the date of this directive, interest except in accordance with the rates specified below:—

For deposits payable upto 14 days and for deposits subject to withdrawal or repayment by notice period not exceeding 14 days	—	Rate not to exceed the rate paid on current accounts as on the date of this directive.
For deposits for 15 days to 45 days and for deposits subject to withdrawal or repayment by notice period not exceeding 45 days.	—	Rate not to exceed 1.25 per cent per annum.
For deposits for 46 days to 90 days and for deposits subject to withdrawal or repayment by notice period not exceeding 90 days.	—	Rate not to exceed 2.50 per cent per annum.
For deposits of one year and over but less than 2 years.	—	Rate to be not less than 5.50 per cent per annum.
For deposits maintained in savings accounts that is other than current accounts and fixed deposit accounts.	—	Rate to be not less than 3.50 per cent per annum.

Explanation : For the purpose of this directive the term "Savings Accounts" shall cover all deposit accounts designated as "Savings Accounts", "Savings Bank Accounts", "Savings Deposit Accounts" and such other accounts by whatever name called, which are subject to the restrictions on the number and amount of cheques/withdrawals permitted during any specific period.

2. The Reserve Bank further directs that the provisions of this directive shall not apply to State co-operative banks.

9. DBOD. No. Sch. 329/C. 96-68. March 2, 1968. Ceiling rate on advances.

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949 and in supersession of the directive Ref. DBOD. No. Sch. 216/C. 96-65 dated February 17, 1965, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest so to do, hereby directs that no scheduled bank incorporated in India and having aggregate demand and time liabilities of Rs. 50 crores or above, and no scheduled bank incorporated outside India shall charge interest on loans/advances/cash credits/overdrafts made by it or renewed by it after the date of this directive, or discount after the said date usance bills at a rate, in either case, higher than 9.50 per cent per annum.

2. The Reserve Bank further directs that no scheduled bank shall, in respect of packing credits and post-shipment credits for exports, charge interest on loans/advances cash credits/overdrafts made by it or renewed by it after the date of this directive, or discount after the said date usance bills at a rate, in either case, higher than 6.00 per cent per annum.

3. The Reserve Bank further directs that the provisions of this directive shall not apply to State co-operative banks.

10. DBOD. No. Sch. 2016/C. 96-68. June 22, 1968. Maximum rate of interest on advances.

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India being satisfied that it is necessary in the public interest so to do, *hereby directs that its directive* DBOD. No. Sch. 329/C. 96-68 dated the 2nd March 1968 shall be amended with effect from the 22nd June 1968, as follows:—

I. After paragraph 1 of the said directive, the following proviso shall be inserted, namely:—

"Provided that where under the terms and conditions relating to any such credit facility, the scheduled bank is entitled in case of default, to charge additional or penal interest over and above the normal rate chargeable if no default had been committed, the scheduled bank may charge such additional or penal interest for the period of default, notwithstanding that thereby the rate of interest actually charged exceeds 9½% per annum."

II. After paragraph 2 of the said directive, the following proviso shall be inserted, namely:—

"Provided that where under the terms and conditions relating to any such credit facility, the scheduled bank is entitled in case of default in repayment, to charge additional or penal interest over and above the normal rate chargeable if no default had been committed, the scheduled bank may charge, only for the period of default, such additional or penal interest, notwithstanding that thereby the rate of interest actually charged for the period of default exceeds 6% per annum:

Provided also that such additional or penal interest shall not be chargeable if the default has arisen as a result of the inability of the exporter, on account of reasons beyond his control, to ship the goods at the time intended, and the goods have been shipped within a reasonable time thereafter."

11. DBOD. No. Sch. 359/C. 96(S)-68. March 7, 1968. Norms on unsecured advances.

We invite your attention to our circular letter DBOD. No. Sch. 1693/C. 96S-67 dated November 8, 1967. In terms of paragraph 2 of the circular, certain types of unsecured advances are to be excluded from the total of unsecured advances, for the purposes of the norms relating to unsecured advances and guarantees indicated in our letter DBOD. No. Sch. 666/C. 96Z-67 dated May 3, 1967. Among others, advances against inland D/A bills drawn under letters of credit are to be so excluded. It has now been decided that inland D/A bills (even where such bills are not drawn under letters of credit) having a usance not exceeding 90 days should also be excluded from the total of unsecured advances for the purposes of the norms applicable to the total of unsecured guarantees and unsecured advances. The position in this regard will be reviewed after a year.

12. DBOD. No. Sch. 379/C. 96(S)-68. March 11, 1968. Purchase and discount of export bills.

We enclose for your information a copy of a Press Note dated the 11th March 1968, issued by us.

Press Note :—

To improve the availability of credit for distribution of industrial products, the Reserve Bank of India has decided that banks need not take into account their purchases or discounts of inland D/A Bills (even where such bills are not drawn under letters of credit) having a usance of not more than 90 days while applying the norms stipulated by the Reserve Bank in regard to the total of their unsecured advances and unsecured guarantees. This should enable banks which have already granted unsecured advances upto the limits hitherto regarded as permissible to extend credit further.

2. During the busy season, the credit-deposit ratios of some banks rise to a level at which they find it necessary to avoid further credit expansion, even when additional resources are available to them at Bank rate under the Reserve Bank's Bill Market Scheme. The Reserve Bank has, therefore, advised banks that purchases and discounts of export bills may be excluded while determining the credit-deposit ratio. It is hoped that, with this relaxation, banks with high credit-deposit ratios would be able to take fuller advantage of the Reserve Bank's refinancing facilities and provide larger credit to various productive sectors, including exports.

13. DBOD. No. Sch. 404/C. 96-68. March 14, 1968. Reduction in lending rates.

You will recall that at the meeting held at the Bank's office in Bombay on March 12, 1968 with the representatives of larger Indian and foreign banks the question of reducing lending rates consequent upon the reduction in the Bank rate and deposit rates was discussed. The State Bank of India indicated that it would reduce its lending rates on a selective basis depending upon the purpose for which the loan was made. The other banks proposed to effect a reduction of one-half per cent in all lending rates except where there was a contractual obligation for a fixed term, e.g. in term loans.

2. The Governor indicated that both these approaches would be acceptable to him, but that in order to ensure that there was a common yardstick which could be applied to all banks regardless of the kind of lending portfolio which each of them individually had, he would expect that the rates of interest charged by each bank on at least 80 per cent of its total lendings would be reduced by one-half per cent. This was agreed to. It was further agreed that while each bank would work out its own schedule of reductions, it would furnish to the Reserve Bank a statement indicating the reductions it would make from April 1, 1968 with reference to its outstanding credit as on March 1, 1968.

3. It has been represented that a bank having more than 20 per cent of its outstanding credit in the form of term loans and bills already purchased and discounted may be unable to

comply with aforesaid requirement that a reduction of one-half per cent should be effective from April 1, 1968 on at least 80 per cent of total credit. The Governor agrees that such a bank may make up the shortfall in relation to 80 per cent by effecting a reduction of ½ per cent in its rate of discount on fresh business by way of bills purchased and discounted. The shortfall should be made good as fresh business is done by way of bills purchased and discounted at reduced rates.

14. DBOD. No. Sch. 951/C. 96-68. May 30, 1968. Reduction in lending rates.

Please refer to paragraph 2 of our circular DBOD. No. Sch. 404/C. 96-68 dated the 14th March 1968 in terms of which the rate of interest charged by each bank on at least 80 per cent of its total lendings is to be reduced by one-half per cent. No doubt, it is open to each bank to work out its own schedule of reductions in this connection. It has, however, come to our notice that in the process, some of the banks have not reduced or do not propose reducing the rate of interest on advances against Government securities. You will, no doubt, appreciate that advances against Government securities, by virtue of their very character, should normally carry as fine a rate as possible and that this category of advances should also derive the benefit of interest reduction pursuant to the cut in the Bank rate. We shall, therefore, be glad if you will ensure that a reduction of one-half per cent in the interest rate is allowed in respect of advances against Government securities.

15. DBOD. No. B.M. 430/C. 96-68. March 16, 1968. Advances to scheduled banks under Sections 17(3A) and 17(4)(c) of the Reserve Bank of India Act, 1934.

Please refer to our circular DBOD. No. Sch. 327/C. 96-68 dated the 2nd March 1968 enclosing a copy of our directive DBOD. No. Sch. 329/C. 96-68 of even date, prescribing a ceiling of 6 per cent per annum on the lending rates to be charged by scheduled commercial banks on packing credits and post-shipment credits for exports. In this connection, we have to advise that although the ceiling rate in respect of packing credit advances for export of engineering and metallurgical products and other products has now been uniformly fixed at 6 per cent per annum, the Reserve Bank will continue to provide refinance to eligible scheduled commercial banks at 4½ per cent p.a. in respect of their packing credit advances for export of engineering and metallurgical products in terms of Governor's circular DBOD. No. Sch. 1236/C. 96-67 dated the 9th August 1967. Similarly, the borrowings equivalent to the increase in the advances by the banks to the three priority sectors viz., exports (both pre-shipment and post-shipment), agricultural inputs (fertilisers and pesticides) and small-scale industries (guaranteed by the Credit Guarantee Organisation) over the base period will continue to be eligible for refinance at 4½ per cent p. a. in terms of our circular DBOD. No. Sch. 189/C. 96-68 dated the 3rd February 1968.

2. Paragraph 5(g) of the Annexure to our circular letter DBOD. No. B.M. 388/C. 297A-67 dated the 16th August 1967 requires that before availing itself of refinance facilities from the Reserve Bank, the bank concerned will communicate its agreement in writing to the effect that it will not charge interest exceeding 6 per cent per annum on all packing credit advances relating to export of engineering and metallurgical products and 8 per cent per annum (reduced to 7½ per cent per annum with effect from the 3rd February 1968) on those relating to export of other products. Similarly, in terms of paragraph 3 of our circular letter DBOD. No. B.M. 2733/C. 297(K)-63 dated the 13th March 1963 and our circular letter DBOD. No. B.M. 390/C. 297(K)-67 dated the 16th August 1967, banks are required, before availing themselves of the facilities under the Export Bills Credit Scheme, to communicate

their agreement in writing that they shall not charge commission/interest/discount at a rate exceeding 1½ per cent per annum over the Bank rate in respect of rupee export bills and 8 per cent per annum (subsequently reduced to 7½ per cent per annum) in respect of foreign currency export bills respectively, purchased/negotiated/discounted by them. Consequent upon the issue of our directive dated the 2nd March 1968 prescribing a uniform rate of interest at 6 per cent per annum on packing credit advances for export of engineering and metallurgical products and other products and post-shipment credit (irrespective of whether the export bills are expressed in Indian rupees or foreign currencies) it is not now necessary, for the banks to give the aforesaid agreement. They should, however, confirm to the Central Department of Banking Operations and Development, Bombay, separately that the rates of interest/discount on the categories of advances/bills covered by our directive dated the 2nd March 1968 have been brought in conformity with the directive. Such confirmation should be furnished to us as early as possible but not later than the 1st April 1968.

3.* We shall also be glad to know the action taken by your bank in order to ensure that the interest element included in the rates of discount which your bank applies while discounting inland usance bills does not exceed 9.50 per cent per annum stipulated in paragraph 1 of our directive DBOD. No. Sch. 329/C. 96-68 dated the 2nd March 1968.

16. DBOD. No. Sch. 421/C. 96(S)-68. March 19, 1968. Advances against supply bills.

Please refer to our circular letter DBOD. No. Sch. 1693/C. 96(S)-67 dated the 8th November 1967. It has now been decided that advances against supply bills drawn on the Central and State Governments, which are accompanied by receipted challans may also be excluded for the purpose of the norm indicated in paragraph 4(iii) of our circular letter DBOD. No. Sch. 666/C. 96Z-67 dated the 3rd May 1967 provided the bank holds an irrevocable power of attorney registered with the concerned authorities.

17. DBOD. No. Sch. 481/C. 96S-68. March 30, 1968. Advances against supply bills.

Please refer to our circular letter DBOD. No. Sch. 1693/C. 96(S)-67 dated the 8th November 1967. It has now been decided that advances against supply bills drawn on the State-owned undertakings like Electricity Boards, Transport Corporations, etc. which are accompanied by duly authorised inspection notes or receipted challans may also be excluded for the purpose of the norm indicated in paragraph 4(iii) of our circular letter DBOD. No. Sch. 666/C. 96Z-67 dated the 3rd May1967 provided the bank holds an irrevocable power of attorney registered with the concerned authorities.

18. DBOD. No. B.M. 558/C. 297A-68. April 6, 1968. Packing credit facilities to exporters.

We enclose for your information a copy of the press note issued by us to-day.

Press Note :—

With a view to affording a measure of relief to exports, the Reserve Bank prescribed in August 1967 ceiling rates for interest charged by banks on export credit. Currently, these rates are 6 per cent per annum on all packing credit advances relating to exports and on all

* NOTE :— This paragraph applies to the scheduled commercial banks incorporated in India and having aggregate demand and time liabilities of Rs. 50 crores or above and scheduled banks incorporated outside India.

post-shipment credit. Banks are obliged to charge the ceiling rates of interest on export credit provided by them irrespective of whether or not they obtain refinance from the Reserve Bank.

Packing credits are credits granted by banks to exporters on the strength of the letters of credit opened in their favour by buyers abroad or firm export orders. Such credits are expected to be extinguished by negotiation of the relative export bills. In order to widen the benefits of the scheme, the Reserve Bank has adopted a flexible definition of packing credits and the procedural requirements have been modified suitably from time to time. Thus, banks have been advised that exporters who do not have letters of credit or firm export orders in their own names, such as suppliers to the Minerals and Metals Trading Corporation and State Trading Corporation through whom certain exports are canalised, may be given packing credits, provided they produce a letter from the Minerals and Metals Trading Corporation or the State Trading Corporation that a portion of the order has been allotted to them and that the Minerals and Metals Trading Corporation or the State Trading Corporation does not wish to seek for a packing credit in respect of such portion. The same facility is given to sub-contractors supplying goods for export under a consortium arrangement.

In the case of commodities, e.g. tea, which are exported on consignment basis, packing credits granted on the basis of past experience in regard to the proportion of exports to the total output of the exporting unit concerned are treated as eligible for the concessions. It is recognised that such credits have to remain outstanding for some time after the goods have been exported.

Should there be any other cases where it may not be practicable to fulfil the conditions laid down by the Reserve Bank but the transaction is otherwise of the same nature as any other packing credit, the exporters concerned may bring such cases to the notice of the Reserve Bank through their bankers and the Reserve Bank will consider them on merits.

19. DBOD. No. B.M. 1489/C. 297A-68. November 7, 1968. Packing credit advances.

We have been receiving queries from exporters as well as banks in regard to the period for which packing credit advances may be given by banks. We have also been receiving requests in certain specific cases for extension of the period already fixed by the banks. We have, therefore, to clarify the position as under.

2. The period for which a packing credit advance may be given by a bank depends upon the circumstances of the individual case, such as the time required for procuring, manufacturing or processing (where necessary), and shipping the relative goods. It is primarily for the bank to decide the period for which a packing credit advance may be given having regard to the various relevant circumstances, but it should be sufficient to enable the exporter to ship the goods. We will have no objection if the period is extended by the bank in suitable cases, provided the total period of the packing credit advance does not go beyond 180 days from the date of making the advance. An extension beyond this period will require the Reserve Bank's approval, if the bank wants to avail itself of interest subsidy under the Export Credit (Interest Subsidy) Scheme, 1968.

20. DBOD. No. B.M. 126/C. 297(M)-69. January 27, 1969. Ceiling rate on packing credit.

As you are aware, packing credit advances for being eligible for refinance from the

Reserve Bank and subsidy under the Export Credit (Interest Subsidy) Scheme, 1968 should be granted by banks either on the basis of irrevocable letters of credit opened by banks of standing abroad or firm export orders. It has been represented to us that the ceiling rate of interest of 6 per cent per annum on export finance as laid down in our directive dated the 2nd March 1968 is not being observed by some banks on packing credit advances covered by the Export Production Finance Guarantee of the Export Credit and Guarantee Corporation Ltd. in respect of the amount advanced by them in excess of the f. o. b. value of the relative export. In this connection we have to clarify that if such advance satisfies the following conditions it will be considered as a packing credit advance and as such, eligible both for refinance from the Reserve Bank (subject to usual criteria relating to packing credit advances) and for interest subsidy under the Export Credit (Interest Subsidy) Scheme 1968:

i) The advance should be made on the basis of an irrevocable letter of credit opened by a bank of standing abroad or a firm export order.

ii) The advance should be covered by the Export Production Finance Guarantee of the Export Credit and Guarantee Corporation Ltd.

iii) The amount of the advance may exceed the f.o.b. value of the contract/goods subject to the limitations placed under the Export Production Finance Guarantee.

iv) Soon after the goods are shipped, the proceeds of the export bills should be credited to the advance. The balance remaining outstanding should be adjusted as soon as the amounts on account of incentives (cash assistance, duty drawback etc.) against the relative shipment are received but not later than the maximum period stipulated under the Export Production Finance Guarantee Scheme (which is at present 8 months from the date of the initial advance).

v) The other conditions relating to the packing credit advances and eligibility for interest subsidy should be complied with.

21. DBOD. No. B.M. 254/C. 297A-69. February 14, 1969. Packing credit advances.

Please refer to our circular letter DBOD. No. B.M. 128/C. 297A-69 dated January 27, 1969. As indicated therein, it was represented to us that in certain cases where the export contracts were not backed by letters of credit or where the letter of credit was established for a major part but not for the full invoice value, bankers were not inclined to grant packing credit advances at the concessional rate to the full extent and that where some banks granted credit for the uncovered portion, they did so at the normal lending rates with the result that the effective rate of interest for the export credit in such cases worked out higher than 6 per cent per annum. The matter has since been discussed with some of the major scheduled banks. It has been agreed generally that so long as a bank is satisfied about the creditworthiness of an exporter, a packing credit advance granted to him against a firm export order should be sufficient to cover the value of the export order, except for costs, if any, to be incurred after the stage of shipment and/or negotiation of the bill, and that the grant of such advance should not be conditional on a Letter of Credit being opened, nor should the amount be limited to that covered by a Letter of Credit. Where considered necessary, banks may avail themselves of the E.C.G.C. policies in respect of packing credit advances. We hope that in the interest of enlarging credit facilities to the exporters at rates not exceeding the ceiling rate of 6 per cent per annum, your bank will fall in line with the above policy.

22. DBOD. No. B.M. 422/C. 297A-69. March 10, 1969. Packing credit—Tobacco.

It has been represented to us that in regard to the financing of tobacco exports, banks generally give the benefit of concessional rate of interest not exceeding 6 per cent p.a. only for a short period from the stage when the goods have been processed or when they are ready for shipment or on advances made against warehouse receipts in respect of goods awaiting shipment in the shipping agents' warehouses, although advances availed of by the tobacco exporters from the stage of procurement of raw tobacco are utilised for the purpose of exports. We have considered the matter and would suggest the following procedure:

(i) In cases where finance is provided by a bank to a tobacco exporter for procuring, curing, drying and processing etc. of raw tobacco and exporting the finished products, the relative advances though given at the different stages of the process and under different accounts should be treated as packing credit advances for exports from the stage of purchase of raw tobacco to the stage of export of finished products.

(ii) If the letters of credit/export orders are not available at the time of granting of packing credit advances, banks may make such advances to the exporters on production of sufficient evidence e.g. cable, letter etc. subject to the condition that the firm export order or the letter of credit will be produced within a reasonable time. While sanctioning a limit to the exporter in the absence of a letter of credit or firm export order, the bank should take into account past performance of the exporter and declaration of export orders in hand, if any.

(iii) The packing credit advance(s) should be given under accounts distinct from the accounts relating to the other advances to the exporter, if any, and should be adjusted only by negotiation of the relative export bills or by remittances received from abroad in this regard. However, if a bank maintains different accounts at various stages of processing e.g. hypothecation, pledge, shipping loan etc. the hypothecation account may be adjusted by transfers from the pledge account and the latter by transfers from the shipping loan account. The last account should be adjusted only by proceeds of export bills relating to tobacco or remittances received from abroad in this regard. To the extent, the advances are not so adjusted, the bank may treat them as other than packing credits and charge its normal rate of interest.

(iv) As regards the period of packing credit advances relating to export of tobacco, a reference is invited to our circular DBOD. No. B.M. 1489/C. 297A-68 dated the 7th November 1968. It will be seen that the period of the advance should be sufficient to enable an exporter to have raw tobacco processed and exported.

(v) The bank will mark off individual export bills as they are received for negotiation against the earliest packing credit advance and thus ensure that no packing credit advance remains outstanding for more than 180 days. If a packing credit advance remains outstanding for more than 180 days, the bank will not avail itself of refinance from the Reserve Bank against such outstandings. If it has already availed of refinance, it will immediately repay to the Reserve Bank the requisite amount.

(vi) The bank should charge a rate of interest not exceeding 6% p.a. from the stage the advances are made to borrowers for purchase of raw tobacco for the purpose of curing, drying etc. for ultimate export in terms of our directive dated the 2nd March 1968.

2. The Reserve Bank would provide refinance at Bank rate in respect of advances made by eligible banks to the exporters of tobacco not exceeding the amount outstanding under hypothecation, pledge and shipping loan accounts.

3. Advances given on the above basis to the tobacco exporters will be eligible for interest subsidy under the Export Credit (Interest Subsidy) Scheme, 1968, subject to compliance with the other requirements of the Scheme.

23. DBOD No. 783/C. 297A-68. May 17, 1968. Extension of the Bill Market Scheme for refinancing packing credit advances—export of jute goods.

Please refer to our circular letter DBOD. No. B.M. 388/C. 297A-67 dated the 16th August 1967. In order that the liberalised Bill Market Scheme as applicable to packing credit advances may be of benefit to the mills manufacturing jute goods, it has been decided to modify some of the requirements of the scheme, as stated in the following paragraphs:

(1) Banks are normally required to make packing credit advances on the basis of lodgement of letters of credit or firm export orders. However, in cases where jute goods are shipped by export houses and there are no letters of credit or export orders in favour of a jute manufacturing mill, a bank may make packing credit advances to the mill even in the absence of a letter of credit or export order in its favour and such packing credit advances will be eligible for refinance from the Reserve Bank Subject to the usual criteria provided the following conditions are fulfilled:

(i) The bank would, while making an application to us for refinance in such cases, furnish to us a letter from the export house setting out the details of the export order and the portion to be executed by the jute mill and also certify that it (i.e. export house) has not obtained and will not ask for packing credit facility in respect of that portion of the export order as is to be executed by the jute mill.

(ii) The export house would open inland letters of credit in favour of the jute mill giving relevant particulars of the firm export orders and the outstandings in the packing credit account of the mill will be extinguished by negotiation of the bills under such inland letters of credit. In the alternative, the mill may draw bills on the export house in respect of goods supplied for export and adjust the packing credit advances from the proceeds of such bills. However, in either case; the bank concerned will require the jute mill to produce a certificate from the export house at the end of every quarter that the goods purchased under this arrangement have in fact been exported. The certificate should give particulars of the relative export bills i.e. the date, amount and the name of the bank through which the bills have been negotiated. The advance payment, if any, received by the mill from the export house will also have to be credited to the packing credit account of the mill.

(2) In cases where a composite limit has been sanctioned to a mill manufacturing jute goods both for domestic and export purposes, the bank should assess, in consultation with the mill, its requirements of export finance and fix an appropriate limit for packing credit

advances and segregate this limit from the limits sanctioned for domestic purposes. Such packing credit limits will be eligible for refinance from the Reserve Bank at the Bank rate subject to the usual criteria.

(3) A bank may provide packing credit facilities to a mill manufacturing jute goods by way of a cash credit/overdraft limit so as to cover the period from the point of purchases of raw materials upto the stage of exports. Such advances will be eligible for refinance from the Reserve Bank at the Bank rate subject to the usual criteria and the following additional conditions:

(i) The bank's borrowings from us by way of refinance will not at any time exceed the amount outstanding in the packing credit advances accounts of the parties concerned.

(ii) The bank will mark off individual export bills as they are received for negotiation against the earliest packing credit advance/drawing allowed in the cash credit or overdraft account and thus ensure that no packing credit advance/drawing remains outstanding for more than 180 days. If a packing credit advance remains outstanding for more than 180 days the bank will not avail itself of refinance from the Reserve Bank against such outstandings. If it has already availed of refinance, it will immediately repay to the Reserve Bank the requisite amount.

(iii) The bank will lodge with the Reserve Bank usance promissory notes of each party maturing not later than 90 days from the date of lodgement upto the full amount of the limit sanctioned and substitute such promissory notes on maturity by other similar promissory notes also maturing not later than 90 days in accordance with the procedure laid down by us in our circular DBOD. No. B.M. 767/C. 297A-67 dated the 6th December 1967.

(4) The bank will charge a rate of interest not exceeding 6% p.a. as laid down in our directive DBOD. No. Sch. 329/C. 96-68 dated the 2nd March 1968 in respect of packing credit advances of the types referred to in paragraph (1) to (3).

24. DBOD. No. B.M. 785/C. 297A-68. May 18, 1968. Extension of the Bill Market Scheme for refinancing packing credit advances — export ofcashew nuts.

Please refer to our circular letter DBOD. No. B.M. 388/C. 297A-67 dated the 16th August 1967. In order that the liberalised Bill Market Scheme as applicable to packing credit advances may be of benefit to the exporters of cashew nuts, it has been decided to modify some of the requirements of the scheme, as stated in the following paragraphs:

1. The Reserve Bank would provide refinance at Bank rate in respect of advances made by eligible banks to the exporters of cashew nuts not exceeding the amount outstanding in the Key Shut Cash Credit account or the total outstandings under pledge, hypothecation and out-agency accounts.

2. Banks are normally required to make packing credit advances on the basis of lodgement of letters of credit or firm export orders. However, in view of the *prevalence of special trading practices* in the export of cashew nuts, as it would not always be possible foı banks to comply with the requirements regarding obtaining letters of credit/firm export orders from the borrower, it has been decided to waive this condition in the case of export of cashew nuts. In cases where advances are made for domestic purchases, the limit sanc-

tioned to a borrower should be based on export orders or export performance guarantee. In the absence of firm orders/contracts, the past performance of the borrower should be taken into account.

3. The outstandings in the packing credit accounts should be extinguished by negotiation of the relative export bills. Where the borrower is unable to tender export bills of equivalent value due to the shortfall on account of the wastage involved in the processing of raw cashew nuts, the export bills drawn in respect of cashew shell oil should also be put through the account to ensure that the entire amount advanced to the borrower is adjusted by proceeds of export bills only.

4. The adjustments in each of the accounts namely, pledge account, hypothecation account, out-agency account etc. should be done by necessary transfers from one account to the other and finally extinguished by the proceeds of export bills. Thus, the debits in the pledge account which are raised for advances made to the borrowers against pledge of stocks should be adjusted by transfers from the hypothecation account and the debits thus raised in the hypothecation account should in turn be adjusted by transfers from the out-agency account. The debits in the out-agency accounts should be adjusted by proceeds of the relative export bills.

5. A bank may provide packing credit facilities to an exporter of cashew nuts by way of a cash credit/overdraft limit so as to cover the period from the point of opening letters of credit for import upto the stage of exports. Such advances will be eligible for refinance from the Reserve Bank at the Bank rate subject to the usual criteria and the following additional conditions:

(i) A bank's borrowing from us by way of refinance will not at any time exceed the amount outstanding in the packing credit advances accounts of the parties concerned.

(ii) The bank will mark off individual export bills as they are received for negotiation against the earliest packing credit advance and thus ensure that no packing credit advance remains outstanding for more than 180 days. If a packing credit advance remains outstanding for more than 180 days, the bank will not avail itself of refinance from the Reserve Bank against such outstandings. If it has already availed of refinance, it will immediately repay to the Reserve Bank the requisite amount.

(iii) The bank will lodge with the Reserve Bank usance promissory notes of each party maturing not later than 90 days from the date of lodgement upto the full amount of the limit sanctioned and substitute such promissory notes on maturity by other similar promissory notes also maturing not later than 90 days in accordance with the procedure laid down by us in our circular DBOD. No. B.M. 767/C. 297A-68 dated the 6th December 1967.

6. The bank should charge a rate of interest not exceeding 6% p.a. as laid down in our directive DBOD. No. Sch. 329/C. 96-68 dated the 2nd March 1968, in respect of packing credit advances referred to in paragraphs (1) to (5).

25. DBOD. No. B.M. 804/C. 297A-68. May 23, 1968. Extension of the Bill Market Scheme for refinancing packing credit advances—exports of textiles to U. K.

Please refer to our circular letters DBOD. Nos. B.M. 388 and 913/C. 297A-67 dated the 16th August and 21st December 1967. In order that the liberalised Bill Market Scheme as applicable to packing credit advances may be of benefit to the exporters exporting *cotton textiles* to the United Kingdom, it has been decided to modify some of the requirements of the Scheme as stated in the following paragraphs:

(1) Banks are normally granted refinance facilities under the above Scheme against usance promissory notes maturing not later than ninety days from the date of lodgement. However, since the exporters of cotton textiles to the U.K. are required to stagger their shipments and eventually shipments cannot be effected within a period of 90 days from the date of the packing credit advance, it has been decided to modify the above requirement in respect of packing credit advances for export of cotton textiles to U.K., banks may make packing credit advances to exporters of cotton textiles to the U.K. for a period of 180 days and such packing credit advances will be eligible for refinance from the Reserve Bank subject to the usual criteria provided the following conditions are fulfilled:

(i) The bank's borrowings from us by way of refinance would not at any time exceed the amount outstanding in the packing credit advances account of the party.

(ii) The bank will mark off individual export bills as they are received for negotiation against the earliest packing credit advance and thus ensure that no packing credit advance remains outstanding for more than 180 days. If a packing credit advance remains outstanding for more than 180 days, the bank will not avail itself of refinance from the Reserve Bank against such outstandings. If it has already availed of refinance, it will immediately repay to the Reserve Bank the requisite amount.

(iii) The bank will lodge with the Reserve Bank usance promissory notes of the party maturing not later than 90 days from the date of lodgement upto the full amount of the limit sanctioned and substitute such promissory notes on maturity by other similar promissory notes also maturing not later than 90 days in accordance with the procedure laid down in our circular DBOD. No. B.M. 767/C. 297A-67 dated the 6th December 1967.

(2) The bank will charge a rate of interest not exceeding 6% p.a. as laid down in our directive DBOD. No. Sch. 329/C. 96-68 dated the 2nd March 1968 in respect of packing credit advances of the type mentioned above.

26. DBOD. No B.M. 883/C. 297. (A)-68 June 5, 1968. Extension of the Bill Market Scheme for refinancing packing credit advances—exports of hides and skins.

Please refer to the memorandum enclosed with our circular letter DBOD. No. Sch. 1236/C. 96-67 dated the 9th August 1967. In order that the liberalised Bill Market Scheme as applicable to packing credit advances may be of benefit to the exporters *of hides and skins* and allied products, it has been decided to modify the above Scheme as follows:

1. Banks may make packing credit advances to the exporters of hides and skins and allied products for a period of 180 days and such packing credit advances will be eligible for refinance from the Reserve Bank at Bank rate subject to the usual criteria provided the following conditions are fulfilled.

i) The bank's borrowings from us by way of refinance would not at any time exceed the amount outstanding in the packing credit advances account of the party.

ii) The bank will mark off individual export bills as they are received for negotiation against the earliest packing credit advance and thus ensure that no packing credit advance remains outstanding for more than 180 days. If a packing credit advance remains outstanding for more than 180 days, the bank will not avail itself of refinance from the Reserve Bank against such outstandings. If it has already availed of refinance it will immediately repay to the Reserve Bank the requisite amount.

iii) The bank will lodge with the Reserve Bank usance promissory notes of the party maturing not later than 90 days from the date of lodgement up to the full amount of the limit sanctioned and substitute such promissory notes on maturity by other similar promissory notes also maturing not later than 90 days in accordance with the procedure laid down in our circular DBOD. No. B.M. 767/C. 297A-67 dated the 6th December 1967.

2. The bank will charge a rate of interest not exceeding 6% p.a. as laid down in our directive DBOD. No. Sch. 329/C. 96-68 dated the 2nd March 1968 in respect of packing credit advances of the type mentioned above.

3. We also invite your attention to the Annexure enclosed with our circular letter DBOD. No. B.M. 388/C. 297A-67 dated the 16th August 1967 laying down the procedure and requirements for availing of refinance facilities from the Reserve Bank under the above Scheme. On receiving representations to the effect that exporters are facing difficulties in availing themselves of packing credit advances from banks, it has been decided to modify the requirements of the Scheme as follows:

i) Banks may make packing credit advances to the exporters on production of sufficient evidence e.g. cable, letter, etc., subject to the condition that the firm export order or the letter of credit will be produced within a reasonable time. While sanctioning a limit to the exporter in the absence of a letter of credit or firm export order, the bank should take into account past performance of the exporter and declaration of export orders in hand, if any.

ii) It is desirable that a packing credit account is adjusted by export bills drawn in respect of the order for the execution of which the funds were utilised. However, in cases where the exporters have forward orders for the same kind of goods from more than one customer from the same country, banks may accept export bills under substituted contracts in adjustment of advances made in respect of another export order, provided the goods for export remain unchanged and the proceeds in respect of the shipments are received in a manner and within the period permitted under the Exchange Control Regulations.

27 DBOD. No. B.M. 928/C. 297A-68. June 15, 1968. Extension of the Bill Market Scheme for refinancing advances against food procurement operations.

Please refer to paragraph 3 of our circular later DBOD. No. Sch. 1671/C. 96-67 dated the 2nd November 1967. It has been decided that although the limits sanctioned by us under the regular Bill Market Scheme for 1967-68 season will lapse by the close of June 1968, the refinance facilities under the Bill Market Scheme in respect of advances made by the banks for the purpose of foodgrains procurement/distribution/storage to the State Governments/their agencies/Food Corporation of India will be available upto the end of September 1968.

28. DBOD. No. B.M. 974/C. 297A-68. June 27, 1968. Extension of the Bill Market Scheme for refinancing packing credit advances—Export of cashew nuts.

Please refer to our circular letter DBOD. No. B.M. 785/C. 297A-68 dated the 18th May 1968, introducing certain modifications in our liberalised Bill Market Scheme for the benefit of the exporters of cashew nuts. It was indicated therein that the banks should charge a rate of interest not exceeding 6 per cent p.a. in respect of the relative packing credit advances. A question has now been raised as to the date from which the above ceiling rate would be applicable. We, therefore, clarify the position as follows:

In cases where finance is provided by a bank to an exporter of cashew nuts for procuring and processing raw materials and exporting the finished product, the relative advances, though given at different stages of the process and under different accounts, should be treated as packing credit advances for export. In such cases, the ceiling rates of interest on packing credit advances indicated in our circular letters DBOD. Nos. Sch. 1236/C. 96-67 and Sch. 189/C. 96-68 dated the 9th August 1967 and the 3rd February 1968, respectively, and our directive DBOD. No. Sch. 329/C. 96-68 dated the 2nd March 1968, would be applicable from the respective dates of our above circulars/directive irrespective of whether or not a bank seeks or is entitled to refinance under our liberalised Bill Market Scheme as extended to packing credit. If a higher rate has been charged in any case on such advances after the 9th August 1967, where a lower rate should have been charged, the excess interest charged should be refunded to the party concerned.

29. DBOD. No. B.M. 990/C. 297A-68. July 3, 1968. Extension of the Bill Market Scheme for refinancing packing credit advances—Export of coffee.

Please refer to our circular letter DBOD. No. B.M. 388/C. 297A-67 dated the 16th August 1967. In order that the liberalised Bill Market Scheme as applicable to packing credit advances may be of benefit to the exporters of coffee, it has been decided to modify some of the requirements of the Scheme as follows:

i) Banks are normally required to make packing credit advances on the basis of lodgement of letters of credit or firm export orders. However, in view of the prevalence of special trading practices in the export of coffiee, as it would not always be possible for banks to comply with the requirements of obtaining letters of credit/firm export orders from the borrower, it has been decided to relax this condition in the case of export of coffee. Banks may make packing credit advances to the coffee exporters without insisting on prior production of export orders or letters of credit. However, such orders or letters of credit should be obtained within a reasonable time of the grant of the advance.

ii) The payment for the coffee purchased by the exporters from the Coffee Board should preferably be made direct by the bank to the Coffee Board.

2. The banks may make packing credit advances to the exporters of coffee for a period of 180 days and packing credit advances will be eligible for refinance from the Reserve Bank at Bank rate subject to the usual criteria provided the following conditions are fulfilled:

i) The bank's borrowings from the Reserve Bank by way of refinance should not exceed the amount outstanding in the packing credit advances account of the party.

ii) The bank will mark off individual export bills as they are received for negotiation against the earliest packing credit advance and thus ensure that no packing credit advance remains outstanding for more than 180 days. If a packing credit advance remains outstanding for more than 180 days, the bank should not avail itself of refinance from the Reserve Bank against such outstandings. If it has already availed of refinance, it should immediately repay to the Reserve Bank the requisite amount.

iii) The bank should lodge with the Reserve Bank usance promissory notes of the party maturing not later than 90 days from the date of lodgement upto the full amount of the limit sanctioned and substitute such promissory notes on maturity by other similar promissory notes also maturing not later than 90 days in accordance with the procedure laid down in our circular letter DBOD. No. B.M. 767/C. 297 A-67 dated the 6th December 1967.

30. DBOD. No. B.M. 1179/C. 297A-68. August 19, 1968. Extension of the Bill Market Scheme for refinancing packing credit advances—Export of cashew nuts.

Please refer to paragraph 5 of our circular letter DBOD. No. B.M. 785/C. 297A-68 dated the 18th May 1968, wherein it is stated that a bank may provide packing credit facilities to an exporter of cashew nuts by way of a cash credit/overdraft limit so as to cover the period from the point of opening letters of credit for import of raw cashew nuts up to the stage of exports. A clarification has been sought from us as to the stage from which the maximum rate of interest applicable on packing credit advances in terms of our directive dated the 2nd March 1968 is to be applied. We have to advise that transactions relating to imports of raw cashew nuts may be treated as packing credits only from the stage the raw cashew nuts covered by the import bills are pledged or hypothecated to the bank to enable the exporter to process and export. Accordingly, the maximum rate of interest of 6 per cent per annum on packing credit advances will be applicable only from that stage onwards.

31. DBOD. No. B. M. 1243/C. 297A-68. September 12, 1968. Extension of the Bill Market Scheme for refinancing packing credit advances—Exports.

In terms of our circular letter DBOD. No. B.M. 913/C. 297A-67 dated the 21st December 1967, the limits sanctioned to banks in respect of individual parties for refinancing packing credit advances will be valid from the 1st October to the 30th September of the following year and applications for renewal of the limits are required to be submitted to us before the end of July every year. It has now been decided to allow the banks to avail themselves of the limits which have already been sanctioned or which may hereafter be sanctioned by us for 1967-68 season in respect of packing credit advances, till further advice instead of upto the 30th September 1968. The banks, therefore, need not apply for renewal of such limits for the next season beginning on the 1st October 1968. It will, however, be necessary for them to submit to the concerned offices of the Reserve Bank of India applications for limits for 1968-69 season in respect of packing credits relating to export of tea except in cases where such limits have been specifically sanctioned by us for the various quarters of 1968-69. It will also be necessary for the banks to submit applications in the usual manner where they want limits for 1968-69 season in respect of new parties.

32. DBOD. No. B.M. 1251/C. 297A-68. September 14, 1968. Extension of the Bill Market Scheme for refinancing advances by scheduled commercial banks to co-operative banks for financing small-scale industrial units.

The Reserve Bank of India has decided to extend with immediate effect the Bill Market

Scheme to enable eligible scheduled commercial banks to obtain refinance under Section 17(4)(c) of the Reserve Bank of India Act, 1934 during the busy season in respect of advances granted by them to co-operative banks for the purpose of enabling the latter to make advances to small-scale industries. The loans will be made at the rate applicable to borrowings other than those which are eligible for concessional rates of interest. The procedure to be followed by banks will be broadly the same as is already in force under the Bill Market Scheme but certain additional requirements will have to be complied with. Also, as the existing forms of agreement/certificates which are executed/furnished by the borrowing scheduled banks under the Bill Market Scheme require some modifications for the purpose of the proposed facility. For availing of the facility it would be necessary for the banks to grant such advances to each co-operative bank under a separate account and to convert such advances into eligible usance promissory notes.

33. DBOD. No. EFS. 1018/C. 249-68. June 11, 1968. Unsecured advances.

It is understood that some banks are still reluctant to entertain requests for unsecured advances from artisans, other professionals, retailers, small businessmen, small agriculturists, and from individuals for meeting educational expenses or for other socially desirable purposes. Although from the standpoint of profitability such loans may not be attractive, you will appreciate that denial of credit facilities in deserving cases in these categories will not be in consonance with the social objectives of banking. Banks should be prepared to grant unsecured advances to deserving borrowers of small means, where they are satisfied about the integrity of the borrower, his ability to utilise the advance in a genuine productive, service or trading enterprise so as to generate surpluses to repay the loan or are otherwise assured about the safety of the funds lent and their repayment within a short period. Banks may evolve schemes to ensure that applications for such loans are properly screened and evaluated, proper safeguards are maintained and the bank's total commitments in respect of such loans are kept within reasonable limits. For the purpose of the regulatory norm for unsecured advances, several categories of advances have already been exempted by us and it is, therefore, felt that it should not normally be difficult for banks to accommodate the above types of borrowers within the permissible norm.
Should, however, for any reason any particular bank find that such requests cannot be entertained without exceeding the norm, it may approach the Reserve Bank for necessary relaxation indicating the types of cases where it wishes to extend unsecured credit and to what extent.

34. DBOD. No. B. M. 932/C. 297(A)-68. June 15, 1968. All authorised dealers — The Export Credit (Interest Subsidy) Scheme—1968.

It will be recalled that the Deputy Prime Minister made a statement in the *Lok Sabha* on the 29th February 1968 as under:

> "I am making provision in the Budget for the coming year for grant of a subsidy towards interest charges on export finance provided by the banks. The Reserve Bank of India will announce the details of the scheme which will include the prescription of a ceiling on interest charges qualifying under the scheme."

The Reserve Bank in its directive No. DBOD.Sch. 329/C. 96-68 dated March 2, 1968 has already prescribed the ceiling rate on export credit at 6 per cent. The details of the type of credit, the quantum of subsidy payable and the returns the banks should submit to the

Reserve Bank for claiming the subsidy are circulated as annexure to this letter for the information of the banks. The subsidy would be paid in respect of export credit made available at 6 per cent per annum by the banks with effect from March 3, 1968.

THE EXPORT CREDIT (INTEREST SUBSIDY) SCEME, 1968

For the purpose of claiming the subsidy, the following words are defined as under:

(a) "export credit" means any credit provided by an institution claiming subsidy to an exporter in the form of packing credit or post-shipment credit,

(b) "exporter" means any person lawfully exporting goods from India to any other country and would include any person who is engaged in or undertakes such exports in pursuance of an export order obtained by any other person.

(c) "packing credit" means any loan or advance granted or any other credit provided by an institution claiming subsidy to an exporter for financing the purchase, processing or packing of goods, on the basis of letters of credit opened in his favour by an importer of the goods outside India, or a confirmed and irrevocable order for the export of goods from India or any other evidence of an order for export from India having been placed on the exporter.

Provided that the maximum period for which any loan or advance may be granted, or any other credit facility may be provided, by way of packing credit shall not exceed in any case one hundred and eighty days.

(d) "post-shipment credit" means any loan or advance granted or any other credit provided by an institution claiming subsidy to an exporter of goods from India from the date of shipment of the goods to the date of realisation of the export proceeds and includes any loan or advance granted to an exporter, in consideration of, or on the security of, any duty drawback or any cash payment by way of incentive, to which the exporter may be entitled from the market development fund.

(e) "quarter" means any period from the 1st April to the 30th June or the 1st July to the 30th September or the 1st October to the 31st December or the 1st January to the 31st March, in any year.

The rate of the subsidy is one and half per cent per annum and the subsidy is to be applicable:

(i) in the case of any export credit which is in the form of a loan or advance, on the amount of the loan or advance actually drawn and outstanding, from time to time, with periodical rests at the same intervals as for the application of interest by the institution concerned, during the period from the date of the advance or the grant of the credit as the case may be, to the date on which the export bills in respect of the goods or commodities covered by that advance are negotiated, purchased or discounted by the institution claiming the subsidy, or the date on which all the amounts due to the institution claiming the subsidy are repaid, or the date of expiry of a period of one hundred and eighty days from the date of the advance or of the grant of the credit, whichever is earliest.

(ii) in the case of any export credit which is in the form of the negotiation, purchase or discounting of a bill, on the amount of the bill which is purchased or discounted, for the period for which the bill is actually outstanding, or the time limit specified in the bill, whichever is earlier.

The amount of the subsidy to which an institution claiming subsidy is entitled will be calculated as under:

(a) every institution claiming subsidy should maintain one or more registers showing separately in respect of packing credit, post-shipment credit other than any such credit in consideration or on the security of any duty drawback or cash payment, post-shipment credit in respect of such duty drawback or cash payment and bills negotiated, purchased or discounted, the total amount of the interest or the income attributable to the interest element earned by it and should at the end of every quarter have the entries in the register or registers verified and audited by a qualified auditor entitled to audit its accounts.

(b) the amount of the subsidy, so long as the rate on export credit charged by an institution claiming subsidy is not in excess of six per cent per annum shall, subject to the other provisions of this Scheme, be one-fourth of the total amount of the interest or other income attributable to the interest element as the case may be, as certified by the auditor.

The subsidy will be paid provided that the institution claiming subsidy:

(i) does not charge to the exporter on account of any loan or advance or bill or any other credit, which is subsidised under this Scheme, a rate of interest, which is in excess of six per cent per annum,

(ii) does not levy or charge any service or other charges, except such charges, not being of the nature of interest, as are permitted or required to be charged in respect of the said loan, advance, bill or any other credit under the Rules of the Foreign Exchange Dealers' Association of India,

(iii) segregates and maintains separately the accounts in respect of every packing credit or credit against any duty drawback or amounts payable from the market development fund or any other post-shipment export credit, whether granted in the form of a loan or advance or in the form of the negotiation, purchase or discounting of a bill,

(iv) ensures that the export credit is repaid from funds received by the exporter from either or both of the following sources, that is to say,

(a) by the proceeds of export bills negotiated, purchased or discounted or by the proceeds of any fresh credit granted against the export of the goods or by remittances received from abroad in respect of the goods,

(b) any payment received in the form of a duty drawback or a payment on account of the said export from the market development fund of the Central Government.

Provided that if any export credit is repaid in any other manner and if it can be established to the satisfaction of the Reserve Bank that the funds necessary for such repayment have been received by the exporter from abroad or from a duty drawback or from the market development fund, the requirements of this paragraph shall be deemed to have been satisfied, notwithstanding the fact that the said funds might not have been directly applied for the repayment of the export credit.

An institution claiming subsidy is not eligible for a subsidy in respect of,

(i) any packing credit, which is not repaid in the manner specified in the Scheme, within a period of one hundred and eighty days or such extended period, if any, as may in any case be permitted by the Reserve Bank,

(ii) any credit granted through the negotiation, purchase or discounting of export bills, or in the form of advances against such bills, which is not repaid within the time limit specified in such bills,

(iii) the amount of any bill or promissory note in respect of an export, which is negotiated or discounted or purchased or against which any loan or advance is granted by the Industrial Development Bank of India, to the extent to which it is so negotiated, discounted, purchased or to the extent to which any such loan or advance is granted as the case may be,

(iv) any export, which is illegal or unauthorised.

If a packing credit or a credit against an amount due to an exporter from the market development fund is granted by an institution claiming subsidy and the export bill is negotiated, purchased or discounted through any other institution eligible to claim a subsidy under the Scheme, a subsidy will be payable to each institution, in respect and to the extent of the export credit granted by that institution.

An application for the payment of subsidy under this Scheme should be made by an institution claiming subsidy in respect of the period from the 3rd March to the 30th June 1968 and thereafter in respect of every quarter in the forms provided and should be forwarded to the Chief Officer, Department of Banking Operations and Development, Reserve Bank of India, Central Office, Bombay, as soon as possible, after the end of the 30th June 1968 or the end of the quarter as the case may be.

The Reserve Bank of India will, at any time, inspect the books of an institution claiming subsidy, with a view to ascertaining any facts or information, which may be required for the purposes of this Scheme.

35. DBOD. No. B. M. 1526/C. 297(M)-68. November 13, 1968. The Export Credit (Interest Subsidy) Scheme, 1968.

Please refer to our circular letter DBOD. No. B.M. 932/C. 297(A)-68 dated June 15, 1968. In the light of the suggestions received from the FEDAI, the Indian Banks' Association and certain banks we have now made some modifications in the above scheme as well as in the proformae in which claims for interest subsidy are required to be submitted to the Reserve Bank, with a view to simplifying the operation of the scheme and to minimise the workload on banks.

2. As stated in our circular letter dated June 15, 1968, the subsidy would be paid in respect of export credit made available by the banks at a rate not exceeding 6 per cent per

annum with effect from March 3, 1968. The banks may submit the claims for subsidy for the period 3rd March to 30th June, 1968 and the quarter ended 30th September, 1968 separately as early as possible, in the revised proformae. For the subsequent quarters, the claims may be submitted within a month of the close of the quarter to which the claim relates.

3. It will be noticed from paragraph 3(a) of the modified scheme that the banks are required to maintain appropriate records at each of their branches for calculating the amount of claims for subsidy. If a bank has maintained records for the earlier quarters in a manner different from that in which it will now be required to maintain such records, it will not be necessary for it to change the previous records provided the claims already submitted or to be submitted by it are in line with the revised scheme. However, appropriate records will have to be maintained from now onwards.

4. In the earlier scheme it was stipulated that the entries in the relevant registers maintained by institutions claiming subsidy should, at the end of every quarter, be verified and audited by a qualified auditor entitled to audit the accounts of the bank. The revised scheme now enclosed provides for 'on account' payment of subsidy claims made by an institution on the basis of certificates received by it every quarter from its offices. However, the institution claiming subsidy should have the entries in the registers and other relevant books verified and audited by a qualified auditor entitled to audit its accounts and the certificate shall have to be sent to the Reserve Bank by the auditor before the 30th September every year to the effect that the entries in the registers and other relevant books and the claims made by the institution in respect of the subsidy in the previous calendar year were correct. The accounts and relevant documents may be test-audited by the Comptroller and Auditor-General of India at his discretion. The Reserve Bank shall also have the right to inspect, at any time, the books of the institution for verifying the claims of the subsidy. The Reserve Bank may also issue directions to the auditor certifying the subsidy claim regarding the manner and extent of audit after consultation with the Comptroller and Auditor-General of India.

The Export Credit (Interest Subsidy) Scheme, 1968.

For the purpose of the scheme, the following terms are defined as under:

(a) "export credit" means any credit provided by an institution to an exporter in the form of packing credit or post-shipment credit,

(b) "exporter" means any person lawfully exporting goods from India to any other country and includes any person who is engaged in or undertakes such exports in pursuance of an export order obtained by any other person.

(c) "packing credit" means any loan or advance granted or any other credit provided by an institution to an exporter for financing the purchase, processing or packing of goods, on the basis of letters of credit opened in his favour by an importer of the goods outside India, or a confirmed and irrevocable order for the export of goods from India or any other evidence of an order for export from India having been placed on the exporter unless lodgement of export orders or letters of credit with the institution has been waived by the Reserve Bank.

Provided that the maximum period for which any loan or advance may be granted, or any other credit facility may be provided, by way of packing credit shall not exceed one hundred and eighty days or such extended period as the Reserve Bank may allow in terms of paragraph 5(i) of the scheme.

(d) "post-shipment credit" means any loan or advance granted or any other credit provided by an institution to an exporter of goods from India from the date of extending the credit after shipment of the goods to the date of realisation of the export proceeds and includes any loan or advance granted to an exporter, in consideration of, or on the security of, any duty drawback or any cash payment by way of incentive from the Marketing Development Fund or any other relevant source.

(e) "quarter" means any period from the 1st April to the 30th June or the 1st July to the 30th September or the 1st October to the 31st December or the 1st January to the 31st March, in any year.

(f) "normal transit period" means the period prescribed by the FEDAI for each country with the approval of the Reserve Bank and it will run from the date of purchase/negotiation of the export bill.

(g) An overdue bill (i) in the case of demand bills is a bill which is not paid before the expiry of the normal transit period and (ii) in the case of usance bills, a bill which is not paid on the due date.

(ii) in the case of usance bills, a bill which is not paid on the due date.

2. The rate of the subsidy is one and half per cent per annum and the subsidy is to be payable:

(i) in the case of any export credit which is in the form of a loan or advance, on the amount of the loan or advance actually drawn and outstanding, from time to time, with periodical rests at the same intervals as for the application of interest by the institution concerned, during the period from the date of the advance or the grant of the credit as the case may be, to the date on which the export bills in respect of the goods or commodities covered by that advance are negotiated, purchased or discounted by the institution claiming the subsidy, or the date on which all the amounts due to the institution claiming the subsidy are repaid, or the date of expiry of a period of one hundred and eighty days from the date of the advance or of the grant of the credit, whichever is earliest.

(ii) in the case of any export credit which is in the form of purchase, negotiation or discounting of a bill, on the amount of the bill which is purchased/discounted, for the period for which it is not overdue, subject, however, to the provisions of paragraph 5(ii).

(iii) in any other type of export credit, as may be specifically approved by the Reserve Bank, on such terms and conditions as the Bank may stipulate.

Notwithstanding anything to the contrary in this paragraph in the case of export credit extending beyond 180 days, subsidy will be payable for the full period of the credit approved by the Exchange Control Department subject to clause (iv), of paragraph 5 of this scheme.

3. The amount of the subsidy to which an institution providing export credit to an exporter is entitled will be calculated as under:

(a) every institution claiming subsidy should maintain one or more registers or other appropriate form of record showing separately in respect of packing credit, post-shipment credit other than any such credit in consideration or on the security of any duty drawback or cash payment, *post-shipment credit in respect of such duty* drawback or cash payment the sum total of the daily products in respect of the above advances for the quarter. Similarly, every institution should note down in its Bills Purchased/Discounted Registers against each item the interest products calculated in the following manner, i.e. in the case of demand bills the amount of the rupee equivalent of the bill at the appropriate buying rate multiplied by the relevant normal transit period and in the case of usance bills, the aforesaid amount multiplied by the number of days after which the bill is due. The institution will maintain appropriate record for arriving at the sum total of these products for each quarter separately. The Head Office of an institution may initially submit a claim for subsidy on the basis of certificates from the Managers/Agents/Officers-in-charge of its concerned branches to be submitted to it as to the correctness of the claim. The claim will be considered and paid by the Reserve Bank on behalf of the Government of India subject to such adjustments as may be necessary subsequently. The institution shall have the entries in the register(s) and other relevant books verified and audited by a qualified auditor entitled to audit its accounts and the certificate shall have to be sent to the Reserve Bank by the auditor before the 30th September every year to the effect that the entries in the register(s) and other relevant books and the claims made by the institution in respect of subsidy in the previous calendar year were correct. The accounts and relevant documents may be test-audited by the Comptroller and Auditor-General of India at his discretion.

(b) the amount of the subsidy, so long as the rate on export credit charged by an institution claiming subsidy is not in excess of six percent per annum shall, subject to the other provisions of this Scheme, be one and one half per cent per annum on the sum total of daily products of all types of export credit eligible under the Scheme.

4. The subsidy will be paid provided that the institution claiming subsidy:

(i) does not charge to the exporter on account of any loan or advance or bill or any other credit, which is subsidised under this Scheme, a rate of interest, which is in excess of six per cent per annum;

(ii) does not levy or charge any service or other charges, except such charges, not being of the nature of interest, as are permitted or required to be charged in respect of the said loan, advance, bill or any other credit under the Rules of the Foreign Exchange Dealers' Association of India;

(iii) segregates and maintains separately the accounts in respect of every packing credit or credit against any duty drawback or amounts payable from the Marketing Development Fund or any other relevant source or any other post-shipment export credit, whether in the form of a loan or advance or in the form of the negotiation, purchase or discounting of a bill.

(iv) ensures that the export credit is repaid from funds received by the exporter from either or both of the following sources, that is to say,

(a) by the proceeds of export bills negotiated, purchased or discounted or by the proceeds of any fresh credit granted against the export of the goods or by remittances received from abroad in respect of the goods,

(b) any payment received in the form of duty drawback or a payment on account of the said export from the Marketing Development Fund of the Central Government or from any other relevant source.

Provided that if any export credit is repaid in any other manner and if it can be established to the satisfaction of the Reserve Bank that the funds necessary for such repayment have been received by the exporter from abroad or from a duty drawback or from the Marketing Development Fund or from any other relevant source, the requirements of this paragraph shall be deemed to have been satisfied, notwithstanding the fact that the said funds might not have been directly applied for the repayment of the export credit.

5. An institution claiming subsidy is not eligible for a subsidy in respect of:

(i) any packing credit, which is not repaid in the manner specified in the Scheme, on the due date or such extended date as may be allowed by the institution on the merits of the case subject to a maximum period of one hundred and eighty days from the date of the advance; provided that if the packing credit advance is subsequently repaid in the specified manner, subsidy will be payable upto the due date or the extended due date of the advance as the case may be, subject to a maximum of one hundred and eighty days from the date of the advance. Further, where the exporter is unable to ship the goods within the stipulated period for reasons beyond his control and the goods are ultimately shipped within a reasonable time thereafter, the institution will be eligible for subsidy for the extended period also (during which banks are obliged to charge the ceiling rate of interest on such credit), provided such extended period is approved by the Reserve Bank of India;

(ii) any credit granted through the negotiation, purchase or discounting of export bills, which is not repaid within the transit period in the case of demand bills and the due date in the case of usance bills, provided that, if the bills are subsequently paid within a reasonable period not exceeding 180 days from the date of expiry of the normal transit period in the case of demand bills and the due date in the case of usance bills, subsidy will be payable for the period during which the bill was not overdue;

(iii) any advance against export bills received for collection which is not repaid by the proceeds of the bills within 180 days provided that if the advance is subsequently repaid in the aforesaid manner, subsidy will be payable for a maximum of 180 days;

(iv) the amount of any bill or promissory note in respect of an export, which is negotiated or discounted or purchased or against which any loan or advance is granted by the Industrial Development Bank of India, to the extent to which it is so negotiated, discounted, purchased or to the extent to which any such loan or advance is granted as the case may be, or the amount of any other export credit against which any loan or advance is granted by the Industrial Development Bank of India to the extent to which any such loan or advance is granted;

(v) any bills which are rediscounted or rebated from the date of such rediscount or rebate;

(vi) any export, which is illegal or unauthorised.

6. If an institution has claimed subsidy in respect of an export credit and subsequently it

becomes ineligible for subsidy in respect of that credit for any reason whatsoever, it shall refund the subsidy claimed earlier.

7. If a packing credit or a credit against an amount due to an exporter from the marketing development fund or any other relevant source is granted by an institution claiming subsidy and the export bill is negotiated, purchased or discounted through any other institution eligible to claim a subsidy under the Scheme, a subsidy will be payable to each institution, in respect of and to the extent of the export credit granted by that institution.

8. An application for the payment of subsidy under this Scheme should be made by an institution claiming subsidy in respect of the period from the 3rd March to the 30th June 1968 and thereafter in respect of every quarter in the forms provided and should be forwarded to the Chief Officer, Department of Banking Operations & Development, Reserve Bank of India, Central Office, Bombay, as soon as possible after the end of the 30th June 1968 or at the end of the quarter as the case may be.

9. The Reserve Bank of India shall have the right to inspect at any time the books of an institution claiming subsidy, for verifying the claims of the subsidy. The Reserve Bank may also issue directions to the auditor certifying the claim under paragraph 3(a) above regarding the manner and extent of audit after consultation with the Comptroller and Auditor General of India.

36. DBOD. No. B.M. 287/C. 297(M)-69. February 19, 1969. Export Credit (Interest Subsidy) Scheme, 1968.

Please refer to our circular DBOD. No. B.M. 1526/C. 297(M)-68 dated the 13th November 1968 on the above subject. Certain points have since been raised in connection with the above Scheme which are clarified below for the information and guidance of banks:

(i) In respect of a demand bill, subsidy is payable for the normal transit period whether the bill is paid before the expiry of such period or within 180 days after the expiry of such period. However, if the bill is not paid before the expiry of the normal transit period the bank will be entitled to charge past-due/overdue interest from the date of expiry of the normal transit period.

(ii) In the case of usance bills, subsidy is payable for the number of days composed of the normal transit period plus the usance of the bill and the grace period where applicable (vide foot-note to Statement No. 2 attached to our circular DBOD. No. B.M. 1526/C. 297(M)-68 dated the 13th November 1968) (For the sake of convenience of reference, the date upto which subsidy on the above basis is payable may be called the 'notional due date'). Even if the acceptance of a bill is deferred and the actual due date falls later than the notional due date, subsidy will be payable only up to the notional due date provided the bill is paid not later than 180 days from such date. However, the ceiling rate of interest at 6 per cent per annum chargeable to the exporter will continue to be applicable in terms of our directive dated the 2nd March 1968 so long as the bill is not overdue (i.e. upto the actual due date where it falls later than the notional due date).

(iii) In terms of paragraph 4(ii) of the Subsidy Scheme, the banks cannot charge any service or other charges except such charges not being of the nature of interest, as are permitted or required to be charged in respect of the relevant advances or bills or any other export credit under the rules of the F.E.D.A.I. If any charges are, therefore, made in terms of these rules, the bank will still be eligible for subsidy in terms of the Scheme.

(iv) In the case of usance bills drawn on bilateral agreement countries like Sudan, subsidy will be provided on the same basis as for other bills. However, the bank may charge interest in respect of such bills at their normal rates for the period from the date of payment of the bill upto the date of receipt of the proceeds in India provided that interest at not more than 6 per cent per annum will be charged for the period, if any, included in the above period, for which subsidy is payable.

37. DBOD. No. Ref. 407/C. 260-68. June 17, 1968. Working Group on bank credit to the cotton textile industry.

It will be recalled that at a meeting with the representatives of the larger Indian and foreign banks held on the 12th March 1968, the Governor had announced that a Working Group was being set up to study the difficulties of the cotton textile mills in securing finance for working capital and/or modernisation. The intention was not to have a full dress enquiry into the ills of the industry and the measures necessary to rehabilitate it but to consider to what extent consistently with the safety of the depositors' money the banking system and other credit institutions could help in easing the difficulties that confront this industry.

2. The Working Group which was subsequently formed, has since submitted an interim report. The interim report contain inter alia the following recommendations:

(i) The margin requirements of hypothecation and pledge advances may be revised as under:

Raw Cotton: (i) Indigenous 20% (ii) Imported 10%, Cloth and Yarn: (i) In packed bales 15% (ii) Finished loose cloth and yarn (awaiting folding, packing, etc.) 20% (iii) Stores, dyes and chemicals 30%—40%.

(ii) A reduced margin of 30 per cent may be maintained in respect of term loans granted by banks against machinery acquired by the mill companies during the period 1963 to 1968.

(iii) The additional finance by way of working capital may be granted to the cotton textile industry during the next one year and subsequent to that, over a period of two years, the additional advances granted on the basis of the reduced margin may be regularised in order to reach the normal level of margins at the end of the third year.

3. The above recommendations have been made by the Working Group in regard to mills which are unable to provide the normal margins but whose financial condition is otherwise sound. This means that if a textile mill is able to satisfy a bank of its capacity to repay a loan, banks should not turn down the loan application merely because the mill is unable to furnish the traditional margins.

4. The Governor considers the recommendations to be reasonable. He recognises, as the Working Group has done, that there are many other and deeper problems which the cotton textile industry has to face, some of which will fall outside the range of the banking system to deal with. At the same time the Governor is of the view that loan applications of mills

which are in need of working capital and which have the capacity to repay should not be turned down merely because they cannot meet the normal margin requirements, and relaxations on the lines recommended by the Working Group may be sympathetically considered by all banks.

5. In considering such cases, banks may also examine whether the shortage of working capital is due to the fact that a part of the resources of the mill has been deployed in modernisation of plant and machinery. In such cases banks should take into account the possibility of seeking refinance and/or the mill seeking a term loan from the Industrial Development Bank of India with a view to releasing resources to meet the working capital requirements of the mill.

6. I have accordingly to request you to re-examine loan applications of textile mills in the light of what has been stated in the preceding paragraphs. The other recommendations in the interim report are under examination.

38. DBOD. No. Sch. 2150/C. 69-68. July 12, 1968. Net liquidity ratio.

Please refer to our circular letters DBOD. Nos. Sch. 1385 and 1884/C. 96-67 dated the 9th September and the 13th December 1967 respectively. It has been decided that for the purpose of computing the net liquidity ratio during the current slack season (July to October 1968), the average of the banks' advances to the three priority sectors, viz., (i) exports, (ii) agricultural inputs (fertilisers and pesticides) and (iii) small-scale industries (guaranteed by the Credit Guarantee Organisation) during the period **July to October 1966** inclusive (slack season) should continue to be taken as the basis for arriving at the increase in the banks' advances to the priority sectors.

39. DBOD. No. CAS. 1185/C. 446-68. July 22, 1968. Credit limits.

Please refer to paragraph 7 of our circular letter DBOD. No. Sch. 1882/C. 96-65 dated the 20th November 1965. It has been decided that our prior authorisation, as envisaged therein, need not be obtained by banks for sanction of credit facilities by way of export packing credit and post-shipment credit relating to exports. Such limits should, however, be reported to us subsequently.

40. DBOD. No. CAS. 194/C. 446-69. January 27, 1969. Credit limits.

Please refer to paragraph 7 of our circular letter DBOD. No. Sch. 1882/C. 96-65 dated the 20th November 1965. It has been decided that our prior authorisation, as envisaged therein, need not be obtained by banks for the sanction of credit limits for financing **distribution** of fertilisers. Such limits should, however, be reported to us subsequently.

41. DBOD. No. Sch. 2342/C. 96S-68. August 8, 1968. Advances against book debts.

Please refer to paragraph 2 of our circular letter DBOD. No. Sch. 1693/C. 96S-67 dated the 8th November 1967. It has now been decided that advances against book debts, which are not outstanding for more than six months and are due by companies, may also be excluded for the purpose of the norm indicated in paragraph 4(iii) of our circular letter DBOD. No. Sch. 666/C. 96Z-67 dated the 3rd May 1967.

42. DBOD. No. Sch. 2381/C. 96Z-68. August 14, 1968. Bank guarantees.

Please refer to the Governor's circular letter DBOD. No. Sch. 666/C. 96Z-67 dated the 3rd May 1967. It has now been decided that performance guarantees executed by banks on behalf of small-scale industries may not be taken into account for the purpose of the norm stipulated in paragraph 4(iii) of the above letter.

43. DBOD. No. Sch. 1001/C. 96Z-69. June 23, 1969. Bank guarantees.

Please refer to the Governor's circular letter DBOD. No. Sch. 666/C. 96Z-67 dated the 3rd May 1967.

2. It has now been decided that the following types of guarantees given by banks to Government Departments on behalf of contractors in the construction industry may be excluded for the purpose of the norm suggested in paragraph 4(iii) of the above letter:—

(i) guarantees issued in lieu of earnest money on behalf of contractors at the time of submission of tenders, provided the tenders have been rejected and the rejection is supported by a note issued by the Government Department concerned.

(ii) performance guarantees issued on behalf of contractors provided the contractors produce a certificate from the appropriate authority that the contracts have been fulfilled by them satisfactorily.

44. DBOD. No. Sch. 2481/C. 96-68. August 30, 1968. Governor's meeting with the bankers—Mid-season review of banking trends.

We enclose for your information and record a copy of a Press Note on the discussions at the Governor's meeting with the Chairmen of the major banks on the 21st August 1968.

Press Note-:—

At a meeting held today with the Chairmen of the major banks, the Governor of the Reserve Bank reviewed the deposit and credit trends in the current slack season and the follow-up action needed to be taken by banks in the light of the discussions held at the recent meeting of the National Credit Council and the decisions taken at that meeting.

Referring to the significant deposit accretion during recent months in areas where agricultural production had shown a sharp increase, the Governor observed that this indicated the potential for deposit mobilisation. He informed the meeting that Study Groups are being set up as desired by the National Credit Council to study a number of problems such as the question of deposit mobilisation, structural and organisational problems of banking to ensure implementation of the objectives of social control, and the need to effect greater economy in the use of bank credit by large and medium industries. He asked the banks to apply their own minds to these problems without waiting for the reports of these Study Groups.

As regards credit trends in the current slack season, the Governor indicated that the contra-seasonal increase over a greater part of this period was primarily due to finance of food procurement and allied operations. Apart from this factor, the credit behaviour and build up of investments generally appeared to be normal and he would leave it to individual banks themselves to review their own position and to see what action was necessary to enable them to have sufficient resources at their disposal to meet the likely higher demand for credit in the next busy season.

He also referred to the forthcoming issue of State loans and discussed with the banks ways and means to ensure that prices of State Government loans did not depreciate immediately after their closure but remained in reasonable alignment with those of Central Government securities.

The bankers explained the steps they were proposing to take in pursuance of the guidelines set by the National Credit Council. The Governor informed the meeting that the Reserve Bank would be initiating discussion with individual banks on the follow-up action proposed by them in this regard.

Several bankers raised the point of bank establishment and other costs and suggested the need for a comprehensive study of this problem. They drew particular attention to the difficulties arising from establishment costs in the way of branch expansion in the rural areas. The Governor drew the attention of the banks in this connection to the suggestion of the National Credit Council that representatives of the banking industry and banking labour should discuss ways and means to ensure that establishment costs did not hinder the progress of rural banking and the growth of employment in the banking industry.

45. DBOD. No. EFS. 645/C. 452-68. April 22, 1968. To all foreign banks — Credit-deposit ratio.

You will recall that at a meeting with foreign banks, Governor had stressed the desirability of foreign banks maintaining a credit-deposit ratio in line with that of Indian commercial banks. In this connection, it was represented that due allowance should be made for export bills purchased or discounted in computing the credit-deposit ratio. We find that even after making allowance for these transactions, the credit-deposit ratio for foreign banks is on the high side.

2. The Reserve Bank considers that an average credit-deposit ratio of 75% should be observed as the norm, it being understood that the actual ratio can exceed this figure in the busy season with offsetting declines in the slack season. Where, of course, a higher average ratio than 75% of deposits is maintained by borrowing funds from offices outside India, such ratio would be acceptable. In other words, where the amount of average advances (excluding export bills purchased or discounted) exceeds 75% of the average deposits in India for the preceding year, there would be no objection, provided such excess is covered by funds brought from outside India.

3. I am accordingly to request you to please examine the position of your bank and take suitable corrective action, if necessary, over the remaining months of 1968.

46. DBOD. No. EFS. 2688/C. 452(E)-68. October 12, 1968. Credit-deposit ratio.

Please refer to the Press Note attached to our circular DBOD. No. Sch. 379/C. 96(S)-68 dated the 11th March 1968, in terms of which banks were advised that purchases and discounts of export bills may be excluded while determining their credit-deposit ratio. On an examination of certain representations received by us from some of the banks, we have agreed to the exclusion of the undernoted items also from the total advances for computing the above ratio:

(a) Bad and doubtful debts for which full provision has been made.

(b) Such packing credit advances in respect of export of tea sent on consignment basis, the outstandings in respect of which are held at the post-shipment stage in a special account and which relate to those tea exporters who realise the proceeds of the consignment sales within 90 days.

(c) Advances against export bills sent for collection which are outstanding for not more than 90 days.

(d) Aggregate outstandings of refinance obtained from the Industrial Development Bank of India in respect of medium and long-term advances.

47. DBOD. No. Sch. 2795/C. 96-68. October 26, 1968. Governor's letter to bankers—Busy season policy — 1968-69.

At a meeting which I have had yesterday with the Chairmen and Chief Executives of the major banks I have had occasion to review credit and deposit trends in the slack season now ending and to outline the Reserve Bank's credit policy in the ensuing busy season.

2. Though in the current slack season there has been a contra-seasonal credit expansion, this has been due to the impact of food procurement operations. Looking ahead into the busy season, I feel, and I gather, commercial bankers are also of the same view, that the banking system is, on present indications, unlikely to face a shortage of resources in meeting the genuine requirements of industry and trade for credit.

3. The considerations underlying the grant of certain special facilities by the Reserve Bank in respect of credit for exports, for the engineering and metallurgical industries, agriculture and small-scale industries as well as for food procurement and allied operations continue to be valid. Accordingly, and also to maintain some measure of continuity in policy, I propose to make no radical changes in the credit policy which has been in force since the last busy season.

4. Thus, the present system of providing refinance at 4½ per cent for packing credit advances to exporters of engineering and metallurgical products will be continued. Refinance will also continue to be available at Bank rate, irrespective of the net liquidity ratio, in respect of food procurement and allied operations and in respect of advances to the three priority sectors viz. exports, agriculture and to small industries for advances guaranteed by the Credit Guarantee Organisation.

5. However, a few modifications, as I indicated yesterday, are being made in the light of experience. Refinance in respect of increments in banks' credit to *each* of these sectors will be provided at 4½ per cent while in the past it was in respect of increments in the total of advances to the three sectors. Such increments will continue to be excluded from the computation of the net liquidity ratio.

6. For the purposes of calculating the increment in respect of these three sectors, the base period is being brought forward by a year, i.e. it would be the increase in the average level of credit to *each* of these sectors in the period November 1968-April 1969 (inclu-

sive) over the average level in the period November 1967-April 1968 (inclusive) that would qualify for the benefit of the concessional rate and the exclusion from net liquidity ratio. In the case of food procurement advances, the base date for calculation of the incremental advances will continue to be October 28, 1967.

7. It is also proposed to widen the refinance facilities (including the concessional element in respect of increments in such advances) in regard to agricultural advances to include not only advances for distribution of inputs such as chemical fertilisers and pesticides but also loans to farmers for crop finance (other than plantations) and by way of medium-term credit for capital investment purposes, such as wells, pumpsets, tractors, etc. and finance for fisheries, dairies, poultries, cold storage, etc.

8. The above facilities for refinance at Bank rate or at concessional rate will be additional to the Bank rate refinance in respect of the *full* excess of banks' net liquidity ratio over the basic minimum of 30 per cent. The system governing the application of higher interest rates remains the same as last year (*vide* paragraph 8 of my letter DBOD. No. Sch. 1671/C. 96-67 dated November 2, 1967). The present policy (as set out in paragraphs 6 and 7 of my letter of November 2, 1967 referred to above) of providing discretionary accommodation at Bank rate to individual banks facing liquidity strain owing to operation of special factors will also continue.

9. The Reserve Bank had in the past indicated to banks that the norm to govern the average credit-deposit ratio should be 75 per cent. As I explained yesterday, this is not a norm adopted from the point of view of liquidity but on banking considerations. Considering the improved position of the banking system in the country now, the Reserve Bank has decided that the norm should be raised to 80 per cent, though the Bank would, as now, continue to advise particular banks to bring the ratio down where it feels it necessary to do so. As a measure of export promotion, it is proposed to exclude packing credit advances (in addition to other items already communicated to banks) from the total of credit in calculating the ratio.

10. During the discussions some bankers enquired whether there was a definite norm of 5 per cent of deposits in respect of medium and long-term lending which the Reserve Bank wanted the banks to follow. It was explained that while the Reserve Bank's inspecting staff, in assessing the liquidity position of banks, did examine the extent to which individual bank's medium and long-term loans exceeded 5 per cent of their deposits, this was not in any sense a hard and fast rule which banks were expected to comply with. In fact in the context of reviving new investment in industry, the Reserve Bank would not be averse to a higher percentage of medium and long-term lending by banks whose overall position permitted this.

11. I indicated to the bankers that while in most sectors of the economy to which they had been asked earlier to pay special attention, there has been some improvement, the one area of continuing concern is the textile industry. I am aware that the complexity of problems in this industry is such that provision of credit by itself is no solution. Nonetheless, I believe there is continuing necessity for banks to pay special attention to loan applications from the textile industry without departing from canons of sound banking. Banks are, therefore, requested over the next six months to keep the Reserve Bank informed of their disposal of credit applications from the textile mills, with particulars of applications which they have not been able to accommodate.

12. The Reserve Bank has recently had a round of discussions with representatives of the major banks which account for well over four-fifths of the total banking business in the country on the follow-up action taken or proposed to be taken by them to implement the recommendations of the National Credit Council for enlarging credit facilities to agriculture and small-scale industries. The banks indicated that they proposed to allocate 15 per cent and 31 per cent, respectively of their fresh deposits this year (after providing for statutory liquidity requirements) to agriculture and small-scale industries. Smaller banks anyhow do a sizeable volume of business with small industry and trade as well as agriculture. I trust they will continue to expand their activities in these fields.

13. I hope that the measure of stability we have been able to maintain in the Reserve Bank's policy would be helpful to banks in planning their operations. However, it remains necessary to keep a watch over trends in production and prices. Accordingly, I intend to have, as I did last year, another meeting with bankers sometime in January next for a mid-season review of credit trends.

48. DBOD. No. Sch. 2803/C. 96-68. October 29, 1968. Refinance facilities — Small-scale industries.

Please refer to the Governor's letter DBOD. No. Sch. 2795/C. 96-68 dated the 26th October 1968.

2. In paragraph 4 of the above letter, in describing the existing refinance facilities which are being continued without any radical change, a reference to the advances to small-scale industries (for which no refinance is provided but relief is granted only in the form of the concessional rate of 4½ per cent and in computation of the net liquidity ratio to the extent of the increase in such advances) has inadvertently crept in. The following amendments may, therefore, be kindly made in paragraph 4 and (consequentially) in paragraph 5 of the letter.

3. The last sentence in paragraph 4 (page 2) should read as follows:—

"Refinance will also continue to be available at Bank rate, irrespective of the net liquidity ratio, in respect of food procurement and allied operations and in respect of advances to exports and agriculture."

The second sentence in paragraph 5 (page 2) should read as follows:—

"Refinance in respect of increments in bank credit to *each* of the three sectors viz., exports, agriculture and in respect of advances to small industries guaranteed by the Credit Guarantee Organisation will be provided at 4½ per cent, while in the past it was in respect of increments in the total of advances to the three sectors."

4. Further, the last sentence in paragraph 6 (page 2) should read as follows:—

"In the case of food procurement advances, the base date for the calculation of the incremental refinance will continue to be October 27, 1967."

49. DBOD. No. Sch. 3094/C. 96-68. December 12, 1968. Clarifications regarding refinance facilities.

Please refer to the Governor's circular letter DBOD. No. Sch. 2795/C. 96-68 dated the 26th October 1968. We have to clarify the provisions of paragraph 7 thereof as follows:

(i) The Reserve Bank will continue to provide refinance facilities against short-term agricultural advances at the Bank rate. However, for this purpose the agricultural advances will include not only advances for distribution of inputs such as chemical fertilisers and pesticides as in the last busy season but also such other short-term advances as are covered by the enlarged definition of agricultural advances in the aforesaid paragraph.

(ii) The refinance facilities against medium-term credit for agricultural purposes will continue to be provided by the Agricultural Refinance Corporation. Such refinance will not be provided to commercial banks by the Reserve Bank.

(iii) For the purposes of computation of net liquidity ratio and borrowing at the concessional rate of interest of 4½% to the extent of the increase in the agricultural advances of a bank over the base period, the term 'agricultural advances' will include not only advances given by the banks for distribution of chemical fertilisers and pesticides as in the last busy season but also all short-term and medium-term agricultural advances as defined in the aforesaid paragraph.

50. DBOD. No. B.M. 25/C. 297M-69. January 8, 1969. All authorised dealers in foreign exchange — U. K. Import Deposit Scheme.

Please refer to A.D. circular No. 1 dated January 4, 1969 issued by our Exchange Control Department regarding U.K. Import Deposit Scheme. As you are aware, export bills negotiated by eligible scheduled commercial banks which are payable within 180 days are already eligible for refinance from the Reserve Bank under the Export Bills Credit Scheme and for interest subsidy under the Export Credit (Interest Subsidy) Scheme, 1968. We have now to clarify that the export bills which are permitted to be drawn in terms of the above referred circular payable beyond 180 days but within 240 days from the date of shipment will also be eligible for being included in the declaration for the purpose of borrowing from the Reserve Bank under Section 17(3A) of the Reserve Bank of India Act, if they mature not later than 180 days from the date of borrowing from the Reserve Bank.

2. As regards interest subsidy, export credit provided by banks by way of negotiation or by way of advances against bills which are payable after 180 days but within 240 days of the date of shipment and which satisfy the conditions laid down in the Exchange Control Department circular referred to above, would be eligible for interest subsidy for the full period of the credit in terms of paragraph 2 of the Export Credit (Interest Subsidy) Scheme, 1968.

51. DBOD. No. B.M. 78/C. 297(M)-69. January 20, 1969. All licensed scheduled commercial banks — Refinancing of pre-shipment credit.

As you are aware, Section 17(3A) of the Reserve Bank of India Act, 1934 as recently amended empowers the Reserve Bank to make advances to a 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 to the effect that it has granted a pre-shipment loan or advance to an exporter or any other person in India in order to enable him to export goods from India and that the amount of the loan or advance drawn and outstanding at any time will not be less than the outstanding amount of the loan or advance obtained by the borrowing bank from the Reserve Bank. Accordingly, it has been decided that refinance to banks in respect of their pre-shipment (packing credit) advances which was hitherto provided by the Reserve Bank under the liberalised Bill Market Scheme under

Section 17(4)(c) of the Reserve Bank of India Act will now be made available to them under a new scheme (to be known as Pre-Shipment Credit Scheme) under the amended Section 17(3A) of the Act. The requirements of the Scheme and the procedure to be followed in this regard are detailed in the enclosed Memorandum. It will be seen that under the revised procedure banks will not be required to apply to the Reserve Bank for sanction of limits in respect of individual borrowers and to lodge with it usance promissory notes of such borrowers. They will, however, have to apply for overall limits, in respect of their pre-shipment advances and to comply with the various terms and conditions relating to the Scheme.

2. The Scheme will come into force with effect from 1st February 1969. Eligible banks which intend to avail themselves of the facilities under it may apply in the prescribed form to Managers of the principal offices of the Reserve Bank of India for suitable limits. Meanwhile, they may continue to avail themselves of the refinance facilities under the old procedure by lodging with the Reserve Bank usance promissory notes of approved parties.

MEMORANDUM

Pre-Shipment Credit Scheme

The Reserve Bank may, under Section 17 (3A) of the Reserve Bank of India Act, as recently amended, make loans and advances to any scheduled bank or State co-operative 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 has granted a pre-shipment loan or advance to an exporter or any other person in India in order to enable him to export goods from India, the amount of the loan or advance drawn and outstanding at any time being not less than the outstanding amount of the loan or advance obtained by the borrowing bank from the Reserve Bank. It is not, therefore, now necessary for the banks to convert the pre-shipment advances granted to their constituents into usance promissory notes for the purpose of lodgement with the Reserve Bank as hitherto. The other requirements of the Scheme and the procedure relating to it are given below.

(i) *Definitions*

For the purpose of this Scheme the following words are defined as under :—

(a) "Exporter" means any person lawfully exporting goods from India to any other country and includes 'subject to such conditions as may be specified by the Reserve Bank' any person who is engaged in or undertakes such exports in pursuance of an export order obtained by any other person.

(b) A pre-shipment loan or advance (to be also known as "pre-shipment credit"/"packing credit") means any loan or advance granted or any other credit provided by a bank, to an exporter for financing the purchase, processing, manufacturing or packing of goods, on the basis of letters of credit opened in his favour or in favour of some other person as referred to above, by an importer of the goods outside India, or a confirmed and irrevocable order for the export of goods from India or any other evidence of an order for export from India having been placed on the exporter or some other person as referred to above, unless lodgement of export orders or letters of credit with the bank has been waived by the Reserve Bank.

Provided that the maximum period for which any loan or advance may be granted, or any other credit facility may be provided, by way of pre-shipment or packing credit shall not exceed one hundred and eighty days or such longer period as the Reserve Bank may specify.

(ii) *Eligible banks*

All licensed scheduled commercial banks will be eligible for credit facilities under the Scheme.

(iii) *Minimum limit of borrowing*

The minimum amount to be borrowed by a bank at a time has been fixed at Rs. 1 lakh. It would be convenient both to the borrowing bank and the Reserve Bank, if borrowings are made in multiples of Rs. 10,000 over the above minimum.

(iv) *Eligibility of advances for refinance*

(a) The pre-shipment credit should be granted to *bona fide* exporters on the strength of letters of credit established by banks of standing abroad in favour of local exporter or some other person as referred to above or on the strength of a firm export order and the borrowing bank should ensure that the relevant documents are lodged with it. Where it is not possible for the exporters to lodge the letters of credit or firm orders initially, a bank may make pre-shipment advances to the exporters on production of sufficient evidence e.g. cables, letters, etc. but it should ensure that the aforesaid documents are lodged with it within a reasonable time of the grant of such advances. However, in special cases where the Reserve Bank waives this condition the relative advances will be eligible for refinance.

(b) The bank should grant advances under separate accounts for pre-shipment credit for export of engineering and metallurgical products and for export of other products. The outstandings in such accounts should be extinguished by negotiation of the relative export bills or in such other manner and on such terms and conditions as may be specified by the Reserve Bank.

(c) Where the pre-shipment advances are given by one bank but the export bills are negotiated, purchased or discounted through another bank in terms of the letter of credit, such advances would be eligible for refinance provided the export documents are routed through the bank giving the pre-shipment credit for negotiation with the other bank and the proceeds thereof are realised and credited to the party's pre-shipment account.

(d) The bank's advance will carry a rate of interest not exceeding 6% per annum or such other ceiling rates as may be fixed by the Reserve Bank from time to time. The bank should not levy or charge any service or other charges, except that banks governed by the Rules of the Foreign Exchange Dealers Association of India may collect such charges, not being of the nature of interest, as are permitted or required to be charged in respect of the said loan or advance under the said Rules.

(e) The bank may make pre-shipment advances in respect of shipments expected to be made within a period not exceeding 180 days from the date of advance. However, where an exporter is, for reasons beyond his control, unable to ship the goods within the maximum period of 180 days and the goods are ultimately shipped within a reasonable time thereafter, the advances will be eligible for refinance during the extended period (during which banks are obliged to charge the ceiling rate of interest on such credit) provided such extended period is approved by the Reserve Bank of India.

(f) The bank should comply with the various stipulations laid down by the Reserve Bank from time to time in respect of pre-shipment (packing credit) advances either generally or in relation to specific commodities such as cashew nuts, jute, tea, etc.

(v) Margin

Advances will be granted up to 100% of the amount of pre-shipment advances drawn and reported by the borrowing bank in the declarations. It should be ensured that the total outstanding borrowings from the Reserve Bank at any time are fully covered by the amount of pre-shipment advances drawn and outstanding reported in the declaration.

(vi) Centres where facilities will be made available

Advances will be made to the eligible banks at the offices of the Reserve Bank having Banking Departments (viz., Bombay, Calcutta, Madras, New Delhi, Kanpur, Bangalore and Nagpur offices at present). It would be open to a bank either to centralise its borrowings under the Scheme at its Head/Principal office in which case the entire limit sanctioned for the bank could be made available at the concerned office of the Reserve Bank or to apportion the limit among the Head/Principal office and the main branches at any of the abovementioned centres. In case any sub-limits have been allocated to any branches for direct borrowing from the concerned office of the Reserve Bank, it will not be open to the Head/Principal office to include in its declarations pre-shipment advances of such branches as also pre-shipment advances of the other local branches in those centres. The branches in whose favour sub-limits have been allocated may include in their declarations, besides their own, eligible pre-shipment advances of other branches which may be grouped with them for this purpose. It should, however, be ensured that in such cases the advances are not accounted for twice in the declarations.

2. **Procedure for borrowing**

(i) **Fixation of limits**

An eligible bank wishing to avail itself of facilities under the Scheme should apply to the offices of the Reserve Bank of India, where it is maintaining its principal account for limits separately for its anticipated total borrowings in respect of pre-shipment advances for export of engineering and metallurgical products and other products based on the average outstandings during a period of one year in respect of advances falling under each of the two categories, in the form prescribed for the purpose.

Limits will be sanctioned for a period of one year which will run from 1st October to 30th September of the following year. The renewal of the limits sanctioned to a bank will be considered at the time of the expiry of the limits, if an application is received from it in that behalf. A bank enjoying limits should, in its own interest, send its renewal application to the Reserve Bank sufficiently in advance. If no such application is received before the date of expiry of the existing limits, the limits will be deemed to have lapsed and the outstanding borrowings, if any, will fall due for repayment. No fresh advances will, however, be granted to a bank after the 30th September, until the relative limits are renewed or fresh limits are sanctioned by the Reserve Bank. In case a limit has lapsed, or for any reason, it is reduced or cancelled, the concerned bank will have to forthwith bring down the outstanding borrowings within the reduced limit or repay them in full as the case may be. It would be within the discretion of the Reserve Bank to recall an advance at any time without assigning any reason whatsoever. Subject to the foregoing, it will not be incumbent on a bank to repay the outstanding borrowings at the end of September each year.

(ii) **Loan documents etc. to be executed/furnished by the borrowing bank**

As advances under this Scheme will be separate from those under the Bill Market Scheme and the Export Bills Credit Scheme, it would be necessary for the borrowing bank to execute a separate set of documents under this Scheme. The loan documents to be executed by the Head/Principal office of a borrowing bank are as under:

(a) A separate stamped agreement each for the amount of the limits initially fixed for the applicant bank as a whole in respect of advances for engineering and metallurgical products and for other products setting out the various conditions governing the advances as in the forms given.

(b) A separate demand promissory note for the amount of each limit fixed in respect of advances for engineering and metallurgical products and other products.

(c) For enhancement of the limit, a letter extending the agreement to the enhanced limit as in the form given together with a consolidated demand promissory note for the fresh limit.

The bank will have to arrange to pass a Board resolution authorising the borrowing under the Scheme by Head/Principal office and the specified branches up to the limit/s that may be approved by the Reserve Bank from time to time as also the execution of loan documents by specified officials of the Head/Principal office and the signing of declarations/statements and other documents by the specified officials of the Head/Principal office and the relative branches. It will facilitate the expeditious completion of the above formalities if a draft of the Board resolution proposed to be passed is sent in advance to the concerned office of the Reserve Bank with a view to ascertaining whether it would meet with our requirements. A certified copy of the Board resolution should be furnished along with the above documents to the principal office of the Reserve Bank (at which borrowings will be made) by the bank's Head/Principal office before the bank commences to borrow under the limit sanctioned.

(iii) The Head/Principal office of a bank or its branch which has been allocated a sub-limit should, each time it wants to borrow, make a written request to the concerned office of the Reserve Bank indicating the amount of the loan required and submit along with such request a declaration in duplicate as in the form given. The declaration should include only those advances on the basis of which the bank is seeking loans or advances under Section 17(3A) and need not cover all such advances of the kind referred to in the Section. The declaration should be made separately in respect of pre-shipment advances for export of engineering and metallurgical products and other products. The figure of pre-shipment advances to be reported in the declarations should relate to the advances outstanding only at the offices concerned or those offices which may be grouped with it for this purpose (vide paragraph 2(vi) above) as at the close of business on the immediately preceding day.

(iv) Switching over to the Scheme

After a suitable limit has been sanctioned to a bank under this Scheme and it has executed the necessary documents, it may be permitted to borrow under this Scheme on a date convenient to it. However, before borrowing under this Scheme the bank should repay the outstanding amounts borrowed under the Bill Market Scheme relating to packing credit advances together with interest up to the date of adjustment. The bank may adjust the outstanding balance in the then existing account by *simultaneously* utilising the funds borrowed under this Scheme. After the old account is adjusted the relative usance promissory notes will be returned to the bank and no fresh usance promissory notes will be accepted from it after it starts borrowing under this Scheme.

(v) Maintenance of relevant records

As already stated, it is essential that the outstanding borrowing from the Reserve Bank at all times are fully covered by the borrowing bank's pre-shipment advances outstanding from time to time and that only such advances as conform to the requirements laid down earlier are treated as pre-shipment advances. If at any time the total amount of pre-shipment advances reported by the bank in the declaration falls below the amount borrowed, the bank should forthwith adjust such excess under advice to the office of the Reserve Bank concerned. In order to ensure compliance with these requirements it will be necessary for the bank to maintain an appropriate record in respect of pre-shipment advances for export of engineering and metallurgical products and those for export of other products showing from *day-to-day* the relevant particulars not only of pre-shipment advances made by it but also of such advances made by other branches which are grouped with it for the purpose of the declarations (vide paragraph 2(vi) above). It should be possible on the basis of this record for the bank to watch the position of the outstanding borrowings vis-a-vis the pre-shipment advances made and for the Reserve Bank to verify at any future date the declarations and statements required to be submitted to it under the Scheme.

(vi) Submission of periodical statements by the borrowing bank and their scrutiny by the Reserve Bank.

With a view to enabling the Reserve Bank to watch from time to time the position of the outstanding borrowings of a bank under the Scheme in relation to its outstanding pre-shipment advances and for verifying the eligibility of advances as included in the declarations, each of its borrowing offices should submit to the respective office of the Reserve Bank the following statements in triplicate.

(a) A fortnightly declaration as in the form given as at the close of business on the second and the last Friday of each month to be submitted by the following Wednesday. Separate declaration should be submitted in respect of pre-shipment credit for export of engineering and metallurgical products and other products.

(b) A quarterly statement as in the form given furnishing particulars of eligible pre-shipment advances outstanding as at the close of business on the last Friday of each calendar quarter to be submitted within fifteen days. Separate statements in respect of pre-shipment advances for export of engineering and metallurgical products and other products should be submitted.

The Reserve Bank may, whenever it may choose to do so, arrange for a verification of any of the statements furnished by the borrowing office of a bank by deputing one or more of its officials for the purpose and the bank concerned should make the relevant records and information available to him/them.

52. DBOD. No. Leg. 39/C. 233-69. February 1, 1969. The Banking Regulation Act, 1949, as amended by the Banking Laws (Amendment) Act, 1968.

We have to advise that the Banking Laws (Amendment) Act, 1968 has come into force with effect from to-day, i.e., the 1st February 1969. In exercise of the powers conferred by clause (a) of the Explanation under sub-section (*4*) of Section 20 of the Banking Regulation Act, 1949 as amended by the amending Act, the Reserve Bank has issued to-day a General Order specifying that, for the purpose of the aforesaid Section, 'loans or advances' shall not include (*i*) loans or advances against Government securities, life insurance policies or fixed deposits and (ii) loans or advances to the Agricultural Finance Corporation Ltd. A copy of the relative order is enclosed for your information.

General Order

In exercise of the powers conferred by clause (a) of the Explanation under sub-section (4) of Section 20 of the Banking Regulation Act, 1949 (X of 1949), the Reserve Bank of India hereby specifies that for the purposes of the aforesaid Section, 'loans or advances' shall not include (*i*) loans or advances against Government securities, life insurance policies or fixed deposits and (ii) loans or advances to the Agricultural Finance Corporation Ltd.

53. DBOD. No. Sch. 243/C. 96-69. February 6, 1969. Governor's letter to banks on refinance mechanism.

At a meeting which I held on the 4th February 1969 with the Chairmen and Chief Executives of the major banks I indicated that in the light of prices, production and credit trends in the economy, no change was called for in the policy for the current busy season, which the Reserve Bank of India announced in October 1968. I, however, stated that the Reserve Bank proposed to simplify the present system of refinance so as to avoid complicated calculations and procedural difficulties which banks experience in working out the rates payable by them on Reserve Bank refinance.

2. I give below the modifications in the refinance mechanism which will take immediate effect.

(i) For agriculture and small-scale industries:

A uniform rate of 4½ per cent per annum irrespective of a bank's net liquidity ratio will be charged on refinance upto the total of a bank's short-term advances to agriculture and those to small-scale industries which are guaranteed by the Credit Guarantee Organisation, and not merely in respect of the increment in such advances over the base period. [The short-term advances are those which are eligible for refinancing under Section 17 (4)(c) of the Reserve Bank of India Act, and thus exclude medium-term credits to agriculture refinanceable by the Agricultural Refinance Corporation and medium-term advances to small-scale industries refinanceable by the Industrial Development Bank of India]. I should like to clarify that up to these limits, refinance will be available against any eligible security and not necessarily against bills arising out of the bank's lending to these two sectors.

(ii) **For food procurement and allied operations:**

Refinance will continue to be provided at the Bank rate in respect of credit extended by banks against food procurement and allied operations and irrespective of the net liquidity ratio.

(iii) **Net liquidity calculation:**

With this enlargement of the access which banks will have to refinance at the concessional rate of 4½ per cent I indicated that it will no longer be necessary to provide for a special relief from the net liquidity calculation of the increases in the advances to these sectors or of the increases in refinance for food procurement operations over a base date. The calculation of such increases, as you know, takes up a lot of time and energy and its discontinuation, both in respect of refinance rate and in liquidity calculations, should materially simplify the present procedure. In the unlikely event of any bank finding that on account of a very substantial increase in its lending to the above sectors its overall access to Bank rate refinance proves inadequate it will be open to it to seek recourse to the provision for discretionary accommodation at Bank rate to meet special situations which has been in force for a year now.

3. At the meeting, I took the opportunity of reviewing the progress made by banks towards the targets for additional credits to agriculture and small-scale industry which were set in terms of the National Credit Council's recommendations. It has been represented to me that there is need for a clearer definition of credit to agriculture for the purpose of these targets; the matter is being looked into and a further communication will follow.

4. The present easy money conditions in the banking system should enable the banks to think of ways of deploying their resources either by exceeding the targets fixed for priority sectors or by developing credit to areas of activity which were so far neglected by banks. In this connection I referred to the desirability of paying greater attention to the financing of retail trade particularly in non-urban areas. The present time is opportune for banks to extend their activities as widely as possible so as to cover a larger area of economic activity with institutional credit.

5. I reiterated at the meeting what I had indicated at the meeting held on October 25, 1968, that the Reserve Bank would not wish to limit individual bank's medium and long-term loans to any particular percentage of their deposits, and banks should in this matter take account of their own overall position.

6. In respect of other matters discussed at the meeting a further communication will follow.

54. DBOD. No. B.M. 426/C. 297A-69. March 10, 1969. Refinancing packing credit advances—export of dressed bristles.

It has been represented to us that in regard to the financing of dressed bristles intended for export, banks give the benefit of concessional rate of interest not exceeding 6 per cent per annum only for a short period from the stage when bristles have been dressed and a letter of credit has been established, although advances availed of by the bristle exporters from the stage of procurement of raw bristles are utilised for the purpose of exports. We have considered the matter and would suggest the following procedure:

(i) In cases where finance is provided by a bank to bristle exporters for procuring, dressing, colouring etc. of raw bristles and exporting the finished products, the relative advances under different accounts, such as pledge/hypothecation (including trust receipt facility) etc. should be treated as packing credit advances for exports from the stage of purchase of raw bristles to the stage of export of finished products.

(ii) If the letters of credit/export orders are not available at the time of granting packing credit advances, banks may make such advances to the exporters on production of sufficient evidence e.g. cable, letter etc. subject to the condition that the firm export order or the letter of credit will be produced within a reasonable time of the grant of advances. While sanctioning a limit to the exporter in the absence of a letter of credit or firm export order, the bank should take into account his past export performance as also export performance guarantee, if any, to be given by the exporter and declaration of export orders in hand, if any.

(iii) The packing credit advance(s) should be given under an account distinct from the accounts relating to the other advances to the exporter, if any, and should be adjusted only by negotiation of the relative export bills or by remittances received from abroad in this regard which should be sufficient to cover the total borrowings. However, if a bank maintains different accounts at various stages of processing e.g. hypothecation, pledge, trust receipt facility, the hypothecation account may be adjusted by transfers from the pledge account and the latter by transfers from the subsequent account. The last account should be adjusted only by proceeds of export bills relating to dressed bristles or remittances received from abroad in this regard. To the extent, the advances are not so adjusted, the bank may treat them as other than packing credits and charge its normal rate of interest.

(iv) As regards the period of packing credit advances relating to export of bristles a reference is invited to our circular DBOD. No. B.M. 1489/C. 297A-68 dated the 7th November 1968. It will be seen that the period of the advance should be sufficient to enable an exporter to have the raw bristles processed and exported.

(v) The bank will mark off individual export bills as they are received for negotiation against the earliest packing credit advance and thus ensure that no packing credit advance remains outstanding for more than 180 days. If a packing credit advance remains outstanding for more than 180 days, the bank will not avail itself of refinance from the Reserve Bank against such outstandings. If it has already availed of refinance, it will immediately repay to the Reserve Bank the requisite amount.

2. The Reserve Bank would provide refinance at Bank rate in respect of packing credit advances made by eligible banks on the above basis to the exporters of dressed bristles not exceeding the total outstandings against them.

3. The bank should charge a rate of interest not exceeding 6 per cent per annum from the stage the advances are made to borrowers against hypothecation of stocks of raw bristles for

the purpose of dressing, colouring etc. for ultimate export in terms of our directive dated the 2nd March 1968.

4. Advances given on the above basis to the bristle exporters will be eligible for interest subsidy from us under the Export Credit (Interest Subsidy) Scheme, 1968, subject to compliance with other requirements of the Scheme.

55. DBOD. No. B. M. 588/C. 297A-69. March 26, 1969. Refinancing packing credit advances —export of ores through the Minerals and MetalsTrading Corporation.

We invite your attention to our press note dated the 6th April 1968 (a copy of which was sent to you with our circular letter DBOD. No. B.M. 558/C. 297A-68 of the same date) indicating that the exporters who do not have letters of credit or firm export orders in their own names, such as suppliers to the Minerals and Metals Trading Corporation and the State Trading Corporation through whom certain exports are canalised, may be given packing credits, provided they produce a letter from the MMTC or the STC that a portion of the order has been allotted to them and that the MMTC or the STC does not wish to seek for a packing credit in respect of such portion. It has since been decided that the MMTC may modify the usual letter so as to state that it has not availed itself of nor will it seek for packing credit advances in respect of such portions of the export orders relating to ores as have been allotted to suppliers, till it has paid for the ores to the latter. Thus, whereas the MMTC was so far required to give an unqualified undertaking not to seek for a packing credit in respect of that portion of an export order as was allotted to a supplier, it can now avail itself of a packing credit in respect of such portions after it has paid to the suppliers for ores supplied to it in terms of the allotted export orders. The packing credit advances given by banks to suppliers on the basis of such letters from the MMTC should be adjusted by payments received from the MMTC in respect of the ores supplied to it for export. The packing credit advances given on the basis indicated in this letter will be eligible for refinance and interest subsidy from us subject to our usual terms and conditions.

56. DBOD. No. B. M. 682/C. 297 K-69. April 7, 1969. Export credit.

It has been represented to us that since banks charge interest on export credit with quarterly rests, the incidence of interest goes beyond the stipulated ceiling of 6% per annum. The point was discussed by our Deputy Governor (Shri Adarkar) with some of the major bankers at a meeting held on the 29th March 1969 and the consensus amongst them was that although the packing credit advances and the advances against bills for collection (which are the types of export credit where the point is of relevance) are ordinarily required to be adjusted by the proceeds of the relative export bills, there might not be any difficulty on the part of the banks to allow the exporters to repay only the interest portion thereon at the end of the quarter in any manner they liked. It is, therefore, suggested that the banks may allow the exporters to repay only the interest portion thereon at the end of the quarter in any manner they like, even if the relative advance is not otherwise adjusted in the meantime in the stipulated manner.

57. DBOD. No. Sch. 521/C. 96-69. March 28, 1969. Scope of agricultural advances.

Please refer to the Governor's circular letter DBOD. No. Sch. 243/C. 96-69 dated the 6th February 1969. Consequent on the changes in respect of the calculation of banks' advances to the two priority sectors, viz., those to small-scale industries, guaranteed by the Credit

Guarantee Organisation and to agriculture, for the purpose of concessional finance from the Reserve Bank of India, and the enlargement of the scope of agricultural advances brought about in terms of paragraph 7 of the Governor's circular DBOD. No. Sch. 2795/C. 96-68 dated the 26th October 1968, some banks have approached us for clarifications in the matter. In view of these queries and the modifications in the refinance mechanism now introduced, we have to advise as under:—

I. Computation of the increase in advances to priority sectors for the period November 1968 to 7th February 1969

(i) It has been decided that the increase in advances to **each** of the three priority sectors over the average level in the base period (November 1967 to April 1968) may be computed **on the basis of outstandings** of such advances as on **each** Friday during the period 2nd November 1968 to 7th February 1969, instead of the average level for the period November 1968 to April 1969, as advised earlier. In the case of food procurement advances, the base date for calculation of incremental refinance from the Reserve Bank of India, upto 7th February 1969 will continue to be October 27, 1967.

(ii) Banks are requested to please forward to the concerned office of the Reserve Bank of India the revised figures of their advances to 'agriculture' comprising all items mentioned in paragraph 7 of the Governor's circular dated the 26th October 1968 and further clarified in our circular DBOD. No. Sch. 3094/C. 96-68 dated the 12th December 1968, as on each Friday commencing from the 8th November 1968 to the 7th February 1969.

(iii) As regards the figures for the base period November 1967 to April 1968, banks were advised in our circular letter DBOD. No. Sch. 2150/C. 96-68 dated the 12th July 1968 to furnish data relating to advances during that period. Banks are now requested to forward to the concerned office of the Reserve Bank of India the relative revised figures in respect of advances to agriculture as per the definition referred to in item (ii) above, to facilitate the calculation of the quantum of increase in such advances for the period ended the 7th February 1969.

II. Reporting of advances to priority sectors for periods subsequent to 7th February 1969.

As stated in paragraph 2 of the Governor's circular letter dated the 6th February 1969, concessional interest at a uniform rate of 4½ per cent per annum irrespective of a bank's net liquidity ratio will be charged on refinance, upto the total of a bank's short-term advances to agriculture and those to small-scale industries which are guaranteed by the Credit Guarantee Organisation and not merely in respect of increments in such advances over the base period. It may also be added that all short-term advances to agriculture as qualify for the target set by the National Credit Council may be taken into account for the purpose.

Banks are requested to furnish to the concerned office of the Reserve Bank of India, the figures of outstanding short-term advances under the heads "agriculture" as mentioned in the foregoing sub-paragraph, and "small-scale industries, guaranteed by the Credit Guarantee Organisation", separately [short-term advances are those which are eligible for refinancing under Section 17(4)(c) of the Reserve Bank of India Act, 1934], as on each Friday, commencing from Friday, the 14th February 1969. The relative figures may hereafter be reported along with the weekly statement submitted by banks under Section 42(2) of the Reserve Bank of India Act, 1934.

The bank's advances relating to exports should also continue to be reported to us as is being done at present.

III. **Calculation of net liquidity ratio**

For the calculation of the net liquidity ratio as on each Friday, commencing from the 14th February 1969, no relief will be allowed in respect of the increases in advances to agriculture and small-scale industries guaranteed by the Credit Guarantee Organisation over the base period and the increase in refinance for food procurement operations over the level as on the 27th October 1967. However, the increments in respect of the advances relating to exports over the base period would continue to be taken into account for determining the net liquidity ratio and the refinance available at the concessional rate of 4½ per cent per annum as hitherto. Such increments will be determined by deducting the average level of such advances during the base period from the actual outstandings as on each Friday commencing from the week ended the 8th November 1968.

58. DBOD. No. 335/C. 456-69. March 29, 1969. National Credit Council targets for lending to agriculture and small-scale industries.

We enclose for your information and guidance a list indicating the types of agricultural advances which would qualify for purposes of compliance with the targets set by the National Credit Council.

2. In respect of advances to small-scale industries, we advise that direct loans given to road transport operators including operators of taxis and auto-rickshaws (the original book value of whose investment is less than Rs. 7.5 lakhs) will also qualify for purposes of compliance with the targets set by the National Credit Council. Similarly, loans for setting up industrial estates for small-scale industries will also qualify for such compliance.

3. With immediate effect kindly arrange to furnish to us each month commencing from the month of March 1969 a report, as in the Form I, on the limits sanctioned and effectively in force within 15 days of the month succeeding that to which the statement relates and a report, as in the Form II, on the actual outstandings against such limits within one month following that to which the statement pertains. In addition, kindly arrange to furnish to us, a statement each, as in Forms I and II, on limits in force and amount outstanding as of June 30, 1968.

Categories of agricultural advances which would qualify for National Credit Council targets.

A. Indirect finance

(1) Credit for financing the distribution of fertilisers, pesticides and seeds.
(2) Finance for hire-purchase schemes for distribution of agricultural machinery and implements.
(3) Loans to the Electricity Boards for reimbursing the expenditure already incurred by them for providing low tension connections from step-down point to individual farmers for energising their wells (such advances to be shown separately).
(4) Loans for construction and running of storage facilities (warehouses, godowns, silos and cold-storages) in the producing areas.

(5) Advances to Custom Service units managed by individuals, institutions or organisations who maintain a fleet of tractors, bull-dozers, well-boring equipment, threshers, combines, etc. and undertake work from farmers on contract basis.
(6) Loans to individuals, institutions or organisations who undertake spraying operations.
(7) Loans to co-operative marketing societies and loans to co-operative banks for relending to co-operative marketing societies (provided a certificate from the State co-operative bank in favour of such loans is produced).
(8) Loans to co-operative banks of producers (for example, Aarey Milk Colony Co-operative Bank, consisting of licensee cattle owners).
(9) Financing the farmers indirectly through the co-operative system (otherwise than by subscriptions to bonds and debentures issues) provided a certificate from the State co-operative bank in favour of such loans is produced.
(10) Loans to Agro-Industries Corporations.
(11) Loans to State-sponsored Agricultural Credit Corporations.
(12) Advances to the Agricultural Finance Corporation Ltd.

B. Direct finance

(1) Development loans (i.e., the type of loans eligible for refinance from the Agricultural Refinance Corporation) to traditional plantations, viz., coffee, tea, rubber and spices and short-term as well as development loans to other plantations, horticulture *(including the growing of bananas, cashew nuts, cocoanuts, lemon grass oil, etc.)* and bee-keeping.
(2) Credit provided directly to farmers secured or otherwise for financing production and development needs such as those indicated below:-

(I) Purchase of agricultural inputs and machinery

(a) Purchase of agricultural inputs:
Fertilisers, pesticides, insecticides, fungicides and weedicides and improved seeds, high-yielding variety seeds, manures, etc.
(b) Purchase of agricultural implements:
Iron-ploughs, harrows, hose, land-levellers, bundformers, hand-tools, sprayers, dusters, hay-press, sugarcane crushers, thresher machines, etc.
(c) Purchase of farm machinery:
Tractors, drillers, power-tillers, tractor accessories, namely, disc-ploughs, etc.
(d) Purchase of trucks, bullock-carts and other transport equipment, etc. to assist the transport of agricultural inputs and farm products.
(e) Purchase of farm animals like cows, bullocks, buffaloes, poultry, birds, bees, etc.

(II) Development of irrigation potential through:

(a) Construction of shallow and deep tube-wells, tanks, etc. and purchase of drilling units.
(b) Constructing, deepening and clearing of surface wells, boring of wells, electrification of wells, purchase of oil engines and installation of electric motors and pumps.
(c) Purchase and installation of turbine pumps, construction of field channels (open as well as underground), etc.

(d) Construction of lift irrigation projects.
(e) Installation of sprinkler irrigation system.

(III) Reclamation and land development schemes:

Bunding of farm lands, levelling of land, terracing, conversion of dry paddy lands into wet irrigable paddy lands, development of farm drainage, reclamation of soil lands and prevention of salinisation, reclamation of ravine lands, purchase of bull-dozers, etc.

(IV) Construction of farm buildings and structures:

Bullock-shed, implement-shed, tractor and truck-sheds, farm stores, etc.

(V) Construction and running of storage facilities:

Construction and running of warehouses, godowns, silos and cold-storages.

(VI) Production and processing of hybrid seeds of crops:

(VII) Payment of irrigation charges, etc.:

Charges for hired-water from wells and tube-wells, canal water charges, maintenance and upkeep of oil engines and electric motors, payment of labour charges, electricity charges, marketing charges, service charges to Custom Service Units, purchase of poultry feed, payment of development cess, etc.

(VIII) Development of dairying and animal husbandry in all its aspects:

(IX) Development of fisheries in all its aspects:

(a) From fish-catching to the stage of export.
(b) Financing of equipments necessary for deep-sea fishing.
(c) Rehabilitation of tanks (fresh water fishing).
(d) Fish breeding, etc.

(X) Development of poultry and piggery, etc., in all its aspects:

Erection of poultry houses and pig houses, bee-keeping, etc.

(XI) Miscellaneous:

Development and maintenance of stud farms, seri-culture, etc.

59. DBOD. No. Ref. 380/C. 456-69. April 9, 1969. National Credit Council targets for lending to agriculture and small-scale industries.

Please refer to our circular letter DBOD. No. Ref. 335/. 456-69 dated the 29th March 1969 enclosing, inter alia, a list indicating types of agricultural advances which would qualify for purposes of compliance with the targets set by the National Credit Council. In this connection we have to advise that the financing of production and distribution of improved seeds will also qualify for such compliance.

60. DBOD. No. Ref. 527/C. 456-69. May 13, 1969. National Credit Council targets for lending to agriculture and small-scale industries.

Please refer to our letter DBOD. No. Ref. 335/C. 456-69 dated the 29th March 1969. In addition to the types of advances mentioned in paragraph 2 thereof, those granted by banks to the Small Industries Corporations of the various State Governments and the National Small Industries Corporation will also qualify for purposes of compliance with the targets set by the National Credit Council in respect of advances to small-scale industries.

61. DBOD. No. Ref. 535/C. 456-69. May 13, 1969. National Credit Council targets for lending to agriculture and small-scale industries.

Please refer to our Circular letter DBOD. No. Ref. 335/C. 456-69 dated March 29, 1969 enclosing, *inter alia*, a list indicating the types of direct and indirect agricultural advances which would qualify for purposes of compliance with the targets set by the National Credit Council.

2. In this connection, we would like to emphasize that while prescribing the guidelines for lending, the National Credit Council described that banks should endeavour their utmost to increase their direct lending to the agriculturists, short-term and long-term, for all productive purposes. In fact, there are several creditworthy farmers who are finding it difficult to get short-term finance for annual productive operations from co-operatives because they lack local influence at the village level or for other reasons. These farmers need assistance from commercial banks in respect of production finance, because the alternative before them is to approach the money-lenders who charge exorbitant rates of interest. It is in this context that the commercial banks should forge ahead with programmes of direct productive loan operations. If inspite of a bank showing a reasonably satisfactory performance in respect of direct lending to agriculturists, there is a shortfall in meeting the targets of "agricultural advances", the Reserve Bank would be prepared to consider on merits any increase in a bank's investments in debentures of land development banks in excess of its normal quota as agricultural advances for purposes of compliance with the targets set by the National Credit Council.

62. DBOD. No. 585/C. 456-69. May 21, 1969. National Credit Council targets for lending to agriculture and small-scale industries—1968-69.

Please refer to our circular letter DBOD. No. Ref. 335/C. 456-69 dated the 29th March 1969 advising you to furnish to us each month commencing from the month of March 1969 statements in Forms I and II showing the limits sanctioned and the actual outstandings in respect of your bank's advances to agriculture and small-scale industries. In this connection we have to advise that at the second meeting of the National Credit Council held at New Delhi on the 24th July 1968, it was emphasised that the commercial banks should increase their involvement in the financing of the two priority sectors, viz., agriculture and small-scale industries, as a matter of urgency. The Council indicated that during 1968-69, commercial banks should increase their credit to the agricultural sector by Rs. 35 to Rs. 40 crores and small-scale industries by Rs. 60-70 crores. These were indicated as the minimum targets to be kept in view by the banks. Twenty major banks with whom discussions were held had indicated that their advances to agriculture and small-scale industries would increase by Rs. 44 crores and Rs. 74 crores respectively. We shall, therefore, be glad if you will kindly let us know at an early date the likely order of increase which your bank hopes to achieve in respect of your "advances to agriculture" (as defined for purposes of National Credit Council targets) and small-scale industries for the period 1st July 1968 to the 30th June 1969.

63. DBOD. No. Ref. 594/C. 456-69. May 23, 1969. National Credit Council targets for lending to agriculture and small industries.

Please refer to paragraph 2 of our Circular letter DBOD. No. Ref. 535/C. 456-69 dated May 13, 1969, indicating that, if inspite of a bank showing a reasonably satisfactory performance in respect of direct lending to agriculturists, there is a shortfall in meeting the targets of 'agricultural advances', the Reserve Bank would be prepared to consider, on merits, any increase in a bank's investments in debentures of land development banks in excess of its normal quota, as agricultural advance for purposes of compliance with the targets set by the National Credit Council.

2. In this context, we wish to clarify that such additional investments in debentures which may be taken into account for purposes of assessing the performance of an individual bank in the matter of fulfilling targets set by the National Credit Council, will not be taken into account for purposes of assessing the overall compliance of all banks taken together in the matter of such investment.

64. DBOD. No. CAS. 733/C. 446-69. April 8, 1969. Credit regulation scheme.

Please refer to paragraph 7 of our circular letter DBOD. No. Sch. 1882/C. 96-65 dated the 20th November 1965. It has been decided that our prior authorisation, as envisaged therein, need not be obtained by banks for the sanction of credit limits against fixed deposits with them. Such limits should, however, be reported to us subsequently.

65. DBOD. No. Ref. 436/C. 456-69. April 19, 1969. Advances against immovable property.

It has come to our notice that some offices of commercial banks have refused credit against immovable property to small-scale industries on the ground that the Reserve Bank of India has instructed banks that no loan should be made against immovable property. As you are aware, the Reserve Bank of India has not imposed any ban on the grant of loans to small-scale industries, or to any other class of borrowers for that matter, against the security of land or other immovable property, provided the banks concerned are otherwise satisfied about the merits of the relative loan applications. The Reserve Bank has also made it clear to banks in its circular letter Ref. DBOD. EFS. 213/C. 249-68 dated the 13th February 1968 that they should not adopt a general policy of discouraging advances against immovable property irrespective of their purpose. Inspite of the above position, we have recently received complaints that the offices of banks at certain centres refused, on the above score, to grant advances against the security of land for the purpose of financing dairy farming and other small-scale industries. We shall, therefore, be grateful if you will kindly issue suitable instructions to your offices clarifying the position and impressing upon them that legitimate demand for credit should not be denied on such grounds.

66. DBOD. No. CAS. 969/C. 446-69. May 12, 1969. Credit authorisation scheme.

Please refer to paragraph 7 of our circular letter DBOD. No. Sch. 1882/C. 96-65 dated the 20th November 1965 and our subsequent circular letters on the above subject. It has been decided that our prior authorisation under the Credit Authorisation Scheme need not be obtained by banks for sanction of the following types of credit facilities:

(i) **Transfer of limits from one bank to another without any increase**

Such transfers should not involve any increase in the credit limits proposed to be transferred and the bank making available the fresh limits to the party should ensure that the need-based character of the advances continues and that the corresponding limits with the party's existing bankers are cancelled.

(ii) **Extension of time for limits sanctioned for a temporary period and authorised by us earlier**

The original limits should have been sanctioned for a temporary period and authorised by us under the Credit Authorisation Scheme. Further, the proposed extension of time should be only upto an aggregate period of one year from the date of original sanction of the limit and such extensions should not conflict with the provisions of the Banking Regulation Act, 1949, especially Section 20 thereof.

(iii) **Advances to the State Governments, the Food Corporation of India and the State co-operative banks for the financing of food procurement operations**

As regards advances made by the scheduled commercial banks to the State co-operative banks to enable the latter to finance an apex marketing society directly or district marketing societies or wholesale stores through affiliated central co-operative banks, such advances should be backed by foodgrains pledged or hypothecated to the banks with the necessary margins stipulated by the Agricultural Credit Department of the Reserve Bank of India in this regard.

(iv) Advances granted to the Electricity Boards and Public Sector Undertakings, and those granted against the guarantee of the Central Government and State Governments.

(v) Advances against Government securities and other Trustee securities.

(vi) Limits against Government supply bills.

(vii) Bill limits sanctioned under the rediscounting scheme of the Industrial Development Bank of India and term loans sanctioned on a *pari passu* basis with the Industrial Development Bank of India or the Agricultural Refinance Corporation, or under their refinancing schemes.

2. All the limits sanctioned in respect of the above credit facilities should, however, be reported to us subsequently at the earliest.

67. DBOD. No. Sch. 869/C.96-69. May 30, 1969. Governor's letter to bankers—Slack season Policy for 1969.

At a meeting which I had yesterday with the Chairmen/Chief Executives of the leading banks, I discussed with them the current credit situation and the prospects in this regard in the next few months. Deposit expansion has been growing at a healthy pace and this is perhaps not unconnected with the growth in bank branches in the last year or so. The expansion of credit during the busy season, even with the sizeable increases in advances to agriculture and small-scale industry, has not placed any undue strain on the resources of the banking system. Looking ahead into the slack season, while there would of course be individual variations, banks as a whole are likely to be in comfortably liquid position.

2. In the past it had been the practice of banks, as advised by the Reserve Bank, to invest their surplus funds in Treasury bills so that they could conserve their resources to meet the larger demands for credit in the busy season. A number of considerations would warrant a modification of this practice in the current slack season. For one thing, variations in the demand for credit during the slack season and the busy season are no longer so pronounced as they used to be. While it is too early to form a view about the kind of conditions that would prevail in the next busy season, there is no reason to believe that the resources position would be particularly tight. I indicated to the banks that rather than invest in short-dated Treasury bills it would be preferable for them to utilise their liquid resources in the current slack season to invest larger amounts in longer-dated trustee securities, particularly those issued by bodies like electricity boards, industrial finance corporations, land mortgage banks etc., the expansion of whose resources would help to revive the demand for several capital goods industries, and give added impetus to agricultural output and industrial development.

3. In view of the importance of correcting regional disparities in industrial and general economic development, I referred to the need for banks to pay greater attention to the needs of the less developed and under-banked States. This could take the form not only of opening more branches in such States but banks involving themselves in greater measure in providing finance for various economic activities in such States. While it is true that in less developed regions there is a paucity of lending opportunities of the conventional type, banks themselves have to take part in the task of stimulating development and breaking the vicious circle of low level of bank lending and low level of development. In this context, banks could consider assisting industrial and commercial projects which are likely to stimulate investment in such States. Such assistance could be in the form of loan for such projects as well as investment of the type referred to in the previous paragraph.

4. I further indicated that in the light of the generally easy liquidity position, banks should be careful to avoid their resources being diverted to support speculative activity and they should not hesitate to apply restraints on lending in sectors which showed an unhealthy upward trend in prices. They must on the other hand pay greater attention to financing the productive sectors and widening the range of their activities to cover not only agriculture and small-scale industry but also retail trade in rural areas, the self-employed, the hire-purchase of trucks, taxis and scooters and other similar activities.

5. The bankers urged that although in an overall sense the banking system would be comfortably placed in regard to resources, some of them may experience difficulties in sustaining the momentum that they had built up to finance the priority sectors if the Bill Market Scheme was not kept open after the 30th June. I have carefully considered this point. While I would generally expect banks to rely on their own resources, the Bill Market Scheme in respect of food procurement, agriculture and small-scale industries will not be

closed at the end of June and the position will be further reviewed later in the slack season. Refinance for exports will also continue to be available as at present.

6. In the light of these discussions I have suggested to the banks to work out for themselves a meaningful credit plan for the slack season. The Reserve Bank intends to hold discussions with the leading banks on an individual basis to consider the likely deposit accretion to each of them and the disposition of their total resources. A further meeting to review the emerging trends in the slack season will be held some time in August.

7. In conclusion, I took the opportunity to discuss the working of social control with the banks. Commercial banks have recorded, in the aggregate, satisfactory progress with regard to the fulfilment of the targets set by the National Credit Council for additional credit to agriculture and small-scale industries. A quick survey of the interest rate pattern of the major commercial banks shows that not only are they progressively increasing their involvement in financing the priority sectors but are making such assistance available at relatively favourable rates of interest. I pointed out to banks that, in addition to compliance with the targets of additional lending to priority sectors, they should endeavour to spread credit over a wider area both functionally and geographically in keeping with the objectives of social control. Criteria for evaluating the performance of banks in the fulfilment of the broader objectives of social control would include expansion in the number of small accounts, their success with respect to deposit mobilisation and their efforts at spreading banking especially in the under-banked States and districts of States. For this purpose not only would account be taken of the spread of branches in the rural and semi-urban areas but also of the increase in credit and deposits in these areas and in under-banked States as well as the assistance given by banks to State bodies in under-banked States especially where the credit-deposit ratio is low. The Reserve Bank would also watch the progress made by banks towards decentralisation and delegation of lending power and simplification of procedures and training of staff.

68. DBOD. No. B.M. 919/C. 297A-69. June 6, 1969. Post-shipment finance.

Please refer to paragraph 1(d) of the Export Credit (Interest Subsidy) Scheme, 1968 in terms of which, 'post-shipment credit' includes any loan or advance granted to an exporter, in consideration of, or on the security of any duty drawback, or any cash payment by way of incentive from the Marketing Development Fund or any other relevant source. A doubt has been raised as to whether advances against freight differential claims payable to the re-roller exporters against their exports of bars, rods etc. paid out of Freight Equalisation Fund managed by the Joint Plant Committee of the main producers of which Iron & Steel Controller is the Chairman, would be eligible for refinance and interest subsidy from us. We have to advise that the loans/advances granted by banks against Freight differential claims will come within the definition of 'post-shipment credit' and will be subject to the ceiling rate of interest of 6 per cent per annum and will be eligible for interest subsidy under the Export Credit (Interest Subsidy) Scheme, 1968. These advances are also eligible for refinance under the Bill Market Scheme but not under the pre-shipment credit scheme or the Export Bills Credit Scheme.

69. DBOD. No. B.M. 931/C. 297 P-69. June 9, 1969. Refinance under Section 17(3A) of the Reserve Bank of India Act, 1934. Pre-shipment credit scheme.

Please refer to our circular DBOD. No. B.M. 78/C. 297(M)-69 dated the 20th January 1969. It has been represented to us that the manufacturers of machine tools often manufacture such tools and keep them in sufficient stock even before receiving firm export orders. They are, however, unable to avail themselves of packing facilities at the concessional rate of interest from banks against the stocks of machine tools meant for export in the absence of firm orders/ letters of credit. In order, therefore, to assist the manufacturers of machine tools to keep sufficient stocks of machine tools ready for being exported within a reasonable time of the receipt of the relevant export order/letters of credit from the foreign buyers, it is suggested that banks may make packing credit advances to *bonafide* manufacturer-exporters of machine tools without insisting on prior lodgement of a firm export order/ letter of credit but subject to the following conditions, apart from the usual conditions relating to packing credit advances.

i) The advances to the manufacturer-exporters of machine tools may be made against the security of specified machines, tools in a separate account on an undertaking obtained from them that the relative goods are reserved for exports and that the relative export order/ letter of credit will be lodged with the bank as soon as available.

ii) The pre-shipment (packing credit) advances should be adjusted within 180 days of the date of advance by negotiation of bills relating to the export of the goods held as security in the relevant account or by remittances received from abroad in respect of the exports effected. To the extent, the outstandings in the pre-shipment (packing credit) account are not adjusted in the stipulated manner, the bank may treat the advance as other than pre-shipment (packing credit) and charge its normal rate of interest on such advance.

2. The pre-shipment advances given on the above basis and subject to other usual conditions relating to such advances would be eligible for declaration by the bank for the purpose of refinance under Section 17(3A) of the Reserve Bank of India Act and for interest subsidy under the Export Credit (Interest Subsidy) Scheme, 1968. The bank will, however, have to refund interest subsidy in respect of that portion of the advance as is not ultimately adjusted in the stipulated manner.

70. DBOD. No. B.M. 984/C. 297(P)-69. June 19, 1969. Refinance under Section 17(3A) of the Reserve Bank of India Act, 1934 — Pre-shipment credit scheme.

Please refer to our circular DBOD. No. B.M. 78/C. 297(M)-69 dated the 20th January 1969. It has been represented to us that the construction contractors who secure orders for execution of contracts abroad are unable to obtain finance from the banks, at the concessional rate of interest, for preliminary expenses e.g., to transport the necessary technical staff and purchase of consumable articles either in India or in the country where the contract is to be executed. In order, therefore, to assist the contractors to meet their initial working capital requirements for execution of contracts abroad, it is suggested that banks may make advances to *bona fide* contractors at the concessional rate of interest applicable to export finance, subject to the following conditions:

i) The advances to the construction contractors may be made on the basis of a firm contract secured from abroad, in a separate account, on an undertaking obtained from them that the finance is required by them for incurring preliminary expenses in connection with the execution of the contract e.g., for transporting the necessary technical staff and purchase of consumable articles for the purpose of executing the contract abroad.

ii) The advances should be adjusted within 180 days of the date of advance by negotiation of bills relating to the contract or by remittances received from abroad in respect of the contract executed abroad. To the extent, the outstandings in the account are not adjusted in the stipulated manner, the bank may charge its normal rate of interest on such advance.

2. The advances given on the above basis will be treated as pre-shipment (packing credit) advances and as such, will be eligible for declaration by the bank for the purpose of refinance under Section 17(3A) of the Reserve Bank of India Act and for interest subsidy under the Export Credit (Interest Subsidy) Scheme, 1968, subject to compliance with the usual conditions. The bank will, however, have to refund interest subsidy in respect of that portion of the advance as is not ultimately adjusted in the stipulated manner.

71. DBOD. No. B.M. 1040/C. 297P-69. June 27, 1969. Refinance under Section 17(3A) of the Reserve Bank of India Act, 1934 — Pre-shipment credit scheme — Export of leather and leather goods through the State Trading Corporation.

Please refer to our circular DBOD. No. B.M. 78/C. 297(M)-69 dated the 20th January 1969. It has been represented to us that the tanners who supply exportable quality leather to the State Trading Corporation for feeding foot-wear fabricators, producing shoes for export through the Corporation, are unable to obtain pre-shipment credit (packing credit) facilities at the concessional rates of interest not exceeding 6 per cent per annum. In order, therefore, to assist such tanners, it has been decided that advances made by banks, subject to the following conditions will be treated by us as pre-shipment (packing credit) advances and as such, will be eligible for declaration by the bank for the purpose of refinance under Section 17(3A) of the Reserve Bank of India Act, and for interest subsidy under the Export Credit (Interest Subsidy) Scheme 1968 provided the other usual requirements of the relevant Scheme are complied with:

i) The State Trading Corporation should certify that leather covered by the orders with the tanner will be used exclusively for manufacturing shoes for export.

ii) The State Trading Corporation should give an undertaking that neither it nor the fabricator will avail themselves of pre-shipment (packing credit) advances in respect of the order placed with the tanner for execution till the State Trading Corporation has paid for the leather supplied to it.

iii) The pre-shipment (packing credit) advance availed of by the tanner should be adjusted only by payments received from the State Trading Corporation in respect of leather covered by the relative order.

72. DBOD. No. Sch. 940/C. 96-69. June 10, 1969. Calculation of excess borrowings.

Please refer to our circular letter DBOD. No. Sch. 1713/C. 96-97 dated the 11th November 1967. In view of the subsequent modifications in our credit policy, we enclose herewith a revised chart (Annexure) showing the mode of calculation of excess borrowings on which penal rate of interest will be charged by the Reserve Bank of India.

2. We would like to clarify in this connection that the figures as on each Friday

against items 1 to 7 and 8(c) of the examples given in the Annexure may be taken as those for all the days of the week preceding that Friday.

ANNEXURE

Calculation of Excess Borrowings

1. The excess borrowings of a bank on any day will be calculated as under.

2. The SUM of special categories of Bank rate or below Bank rate borrowing from the Reserve Bank of India in respect of (1) post-shipment export bills denominated in Indian rupees and in currencies other than Indian rupees, (2) Packing Credit Advances (Pre-shipment Credit Scheme), (3) advances for the purpose of foodgrains procurement/ distribution/ storage to the State Governments/their agencies/the Food Corporation of India, (4) advances for such other purposes as may be indicated by the Reserve Bank of India from time to time and refinance equivalent to the total of the bank's short-term advances to agriculture and those to small-scale industries guaranteed by the Credit Guarantee Organisation and increase in advances to exports over the base period, as indicated in Bank's circulars DBOD. Nos. Sch. 2795 and 243/C. 96-68/69 dated October 26, 1968 and February 6, 1969, will first be worked out. If the actual borrowing from the Reserve Bank of India is less than this SUM, then the bank's borrowings will be considered as not having any excess borrowings. If, however, the actual borrowings from the Reserve Bank of India are greater than this SUM, then the difference will be worked out. This will be called DIFFERENCE I.

3. Then another figure called DIFFERENCE II will also be calculated as follows:

(i) The SUM mentioned in 2 above will be added to the net liquid assets as on the date in question and adjusted for increase in lending to exports indicated in paragraphs 5 and 6 of the Bank's circular DBOD. No. Sch. 2795/C. 96-68 dated October 26, 1968 as amended from time to time.

(ii) As on that date the level of net liquid assets appropriate for the requisite minimum net liquidity ratio (i.e. 30%) will be worked out. If this figure is equal to or smaller than that in (i), then the bank will be considered as not having any excess borrowings. If this figure is larger, then the difference between the two will be worked out and will be called DIFFERENCE II.

4. DIFFERENCE I AND DIFFERENCE II will be compared and the lower of the two will be regarded as the excess. A penal rate will be charged on this excess, based on the net liquidity ratio adjusted for increase in lending to exports indicated in Bank's circular dated October 26, 1968 referred to above. The examples given below show how the excess is to be worked out for different types of cases.

5. The penal rate of interest chargeable on the excess borrowings shall be the rate raised by one per cent per annum above the level of the Bank rate for a shortfall of every one point or a fraction thereof in the bank's net liquidity ratio below 30 per cent as on the Friday of the week concerned subject to a minimum of 8 per cent per annum.

EXAMPLES

	Bank 'A' February 28, 1969	Bank 'B' February 28, 1969	Bank 'C' February 28, 1969
1. *Aggregate Demand and Time Liabilities*	105.00	105.00	105.00
2. Net Liquid Assets	26.00	27.00	25.00
3. Net Liquidity Ratio %	24.8	25.7	23.8
4. *Increase in NLR (%) on account of increase in* lending to exports	1.0	0.5	1.0
5. Increase in NLA corrected for 4 above *(approximately)*	1.00	0.50	1.00
6. NLR adjusted for 4 above	25.8	26.2	24.8
7. NLA adjusted for 5 above	27.00	27.50	26.00
8. (a) Total borrowing from Reserve Bank of India	3.75	6.00	5.00
(b) Of which against			
(i) Export Refinance Schemes	2.00	2.00	2.00
(ii) Food Procurement	0.75	0.75	0.75
(iii) Other special schemes	—	—	—
(c) Ttotal amount of the bank's (*i*) short-term advances to agriculture, (ii) short-term advances to small-scale industries guaranteed bv the Credit Guarantee Organisation and (iii) increase in advances to exports over the base period	2.00	1.00	1.50
9. Calculation of DIFFERENCE I			
(a) SUM of special categories of Bank rate or below Bank rate borrowings [8(b) and (c)]	4.75	3.75	4.25
(b) Total borrowings from the Reserve Bank of India minus SUM [8(*a*) — 9(a) = DIFFERENCE I]	(No excess borrowings, as the borrowings from the Reserve Bank of India are less than SUM)	2.25	0.75
10. Calculation of DIFFERENCE II			
(a) SUM [9(a) above]		3.75	4.25
(b) Adjusted NLA on February 28, 1969 (7 above)		27.50	26.00
(c) Total (a + b)		31.25	30.25
(d) NLA appropriate for 30% NLR		31.50	31.50
(e) NLA appropriate for 30% NLR minus (SUM plus adjusted NLA on February 28)= DIFFERENCE II		0.25	1.25
11. Excess borrowing being the lower of DIFFERENCE I and DIFFERENCE II		0.25	0.75
12. Penalty Rate if this amount of excess borrowing continues beyond first week.		9	11

73. DBOD. No. B.M. 956/C. 297A-69. June 16, 1969. Extension of Bill Market Scheme.

Please refer to Governor's circular letter DBOD. No. Sch. 869/C. 96-69 dated May 30, 1969. In paragraph 5 thereof, it is indicated that while banks would be generally expected to rely on their own resources, the Bill Market Scheme in respect of food procurement, agriculture and small-scale industrial units will not be closed at the end of June 1969. The question has been raised as to whether it will be necessary for banks to lodge with the

Reserve Bank, usance promissory notes relating to advances in these categories only, after the 30th June 1969, in order to avail themselves of refinance. We wish to clarify that so far as refinance in respect of agriculture and small-scale industrial units is concerned, banks may, even after the 30th June 1969, avail themselves of refinance under the Bill Market Scheme against the eligible usance promissory notes of *any of the parties approved by us* under the Bill Market Scheme for the current season or which may be approved hereafter, but the total of such refinance after that date will be restricted to the extent of the total outstanding short-term advances made by the borrowing bank to agriculture and short-term advances to small-scale industries which are guaranteed by the Credit Guarantee Organisation. For this purpose, the borrowing bank will give a certificate each time it obtains refinance after the 30th June 1969, that the total outstandings relating to refinance in respect of agriculture and small-scale industries, already obtained or to be obtained by it will not exceed the outstandings in its own short-term advances to agriculture and short-term advances to small-scale industries which are guaranteed by the Credit Guarantee Organisation. The banks will also continue to give the figures of such advances to these two sectors along with their weekly return under Section 42 of the Reserve Bank of India Act as at present. The Reserve Bank will charge interest at the rate of 4½ per cent per annum, as at present, on such refinance.

2. So far as refinance against advances for food procurement is concerned, it will be necessary to convert the relative advances into usance promissory notes, as at present. However, should a bank have any special difficulty in doing so, it may bring the matter to our notice with relevant facts.

74. DBOD. No. B.L. 812/C. 168-68. May 10, 1968. Section 23 of the Banking Regulation Act, 1949 — Bank's branch licensing policy

The Bank's branch licensing policy has recently been reviewed and the salient features of the policy applicable to the Indian commercial banks for opening of offices in India are indicated below. The policy will come into force with immediate effect and will apply to the opening of offices by commercial banks under their current expansion programme.

2. In terms of the modified procedure, your bank should submit to us within one month from the date of receipt of this circular the total number of branches **(not the names of centres)** it proposes to open during the current expansion programme period ending the 31st July 1969 (including those already allotted to it under that programme), showing the distribution of total number between different States/Union Territories and between rural areas (population 10,000 or less), semi-urban areas (population 100,000 or less), urban areas, cities with a population of 1 million or more and port towns. The principles set forth in the new licensing policy in regard to such distribution should be kept in view. It should aim at opening during the current expansion period a number of branches which is at least 1/3rd larger than the actual number of branches opened by it during the period of the second branch expansion programme i.e. 1st August 1965 to 31st July 1967. Within the limits of the overall programme for 2 years, the bank should prepare a quarterly programme for opening offices and thereafter as and when it selects centres, submit to us for consideration applications in the prescribed form in respect of offices proposed to be opened by it during that period. Allotment of centres will be made by us to the bank on the basis of "first come, first served" in respect of categories of centres mentioned at item 10 of the Annexure. Requests for opening offices at centres not falling under the above cate-

gories will also be entertained but these will be subject to detailed examination as at present. If the bank is unable to open its office within a period of three months at a centre in respect of which our approval has been communicated to it, the allotment will be cancelled and the centre will be made available to another bank which offers to open an office there.

3. In so far as the centres for which we have already conveyed our general approval, the bank should advise us the names of centres at which it will open offices or with respect to which it will take effective steps for opening offices, including acquisition of land/premises, within a period of six months from the date of receipt of this circular. The allotment of centres to the bank where it is not able to fulfil this condition within the said period, will be cancelled and the relative centres will be allotted to other banks. However, in case the bank is unable to open an office at a particular centre within the said period of six months for valid reasons and still wishes to retain the allotment, it may apply within that period for an extension of time and such requests will be considered on merits.

4. With regard to centres for which approval has already been given under the policy hitherto in force, the bank should forward to us at an early date, if it has not done so already, applications in the prescribed form in respect of those centres where it proposes to open offices in the next three months.

5. It has been decided that licences to be issued to the bank for opening new offices under the modified procedure should be valid for a period of 30 days only from the date of issue of the letter forwarding the licences. The bank should, therefore, arrange to secure the licences from the concerned regional office of the Reserve Bank at the appropriate time to open the office within the period of validity of the licence.

75. DBOD. No. B.L. 490/C. 168-69. February 11, 1969. Branch expansion programme

Commercial banks have been endeavouring to extend their services in rural areas. It is felt that some of the difficulties in this matter could be avoided by locating a branch at a central village from which a cluster of villages can be served. There could be several satellite offices in the surrounding villages which the staff from the central branch could visit on certain specified days in a week. Each such satellite office should, of course, be located at a fixed place and should function during specified hours. The central branch could also employ mobile vans to serve the villages in its neighbourhood. There may be other ways whereby villages where the population or economic activity is too small to support a branch could be brought within the ambit of modern banking. It is suggested that commercial banks may study the situation in their respective areas of operation and consider how banking services can be extended to very small villages. The Reserve Bank would be glad to entertain applications for licences covering groups of villages to be served from a central location.

76. DBOD. No. B.L. 1743/C. 168-69. May 20, 1969. Branch expansion programme — satellite offices.

Please refer to our circular letter DBOD. No. B.L. 490/C. 168-69 dated the 11th February 1969, wherein banks were requested to consider extending their services to rural areas by locating branches at central villages and serving a cluster of villages from each such branch. In this connection, it has been decided to allow a bank, establishing a minimum of five satellite offices at unbanked villages, the benefit of two offices as in unbanked centres, in addition to the central unbanked village; for every minimum of 50 per cent in the succeeding slab of five satellite offices (e.g. 8 to 10 satellite offices in the case of the 6 — 10 slab), the bank would be allowed the benefit of 2 offices, as in unbanked villages. In case a bank desires to establish satellite offices, which are to be served from a central branch at a **banked** centre, the latter will be treated as **banked**, while extending the benefit in respect of the unbanked satellite offices on the above lines.

77. DBOD. No. Cre. 1166/C. 218(H)-69. May 22, 1969. Advances against oilseeds (excluding cottonseeds).

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949 and in supersession of the directive DBOD. No. Cre. 1572/C. 218(H)-68 dated May 27, 1968, as amended by the directives DBOD. Nos. Cre. 2128/C. 218(H)-68 dated July 22, 1968 and Cre. 3083/C. 218(H)-68 dated November 8, 1968, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that every scheduled commercial bank:-

I. **Margin**: Shall maintain in respect of each credit limit against the security of oilseeds other than cottonseeds, a margin which shall not be less than 50 per cent of the value of the relative stocks;

Provided that in respect of credit limits granted to the solvent extraction units and/or the integral oil expeller mills with solvent extraction plants, the margin maintained shall not be less than 25 per cent of the value of the relative stocks;

Provided further that in respect of credit limits granted to registered oil mills, the margin maintained shall not be less than 40 per cent of the value of the relative stocks;

Provided further that in respect of credit limits granted against warehouse receipts issued by the warehouses established by the Central and State Warehousing Corporations, the margin maintained shall not be less than 35 per cent of the value of the relative stocks.

II. **Groundnuts Ceilings: Average aggregate level of credit**: Shall maintain during the two-month period commencing May-June 1969,

(*a*) an average aggregate level of credit against the security of *groundnuts*, exclusive of such credit against warehouse receipts issued by warehouses established by the Central and State Warehousing Corporations, which shall not exceed 80 per cent of the average aggregate level of such credit actually maintained in the corresponding two-month period of 1967; and

(*b*) an average aggregate level of credit covering groundnuts, against warehouse receipts issued by warehouses established by the Central and State Warehousing Corporations, which shall not exceed 80 per cent of the average aggregate level of such credit actually maintained in the corresponding two-month period of 1967.

III. **'Other Oilseeds'** (*including* gingelly seeds) — **Ceiling: Average aggregate level of credit**: Shall maintain, during the two-month period commencing from May-June 1969.

(*a*) an average aggregate level of credit against the security of 'other oilseeds', exclusive of such credit against warehouse receipts issued by warehouses established by the Central and State Warehousing Corporations which shall not exceed 80 per cent of the average aggregate level of such credit actually maintained in the corresponding two-month period of 1967; and

(*b*) an average aggregate level of credit covering 'other oilseeds' against warehouse receipts issued by warehouses established by the Central and State Warehousing Corporations, which shall not exceed 80 per cent of the average aggregate level of such credit actually maintained in the corresponding two-month period of 1967.

IV. **Exemptions** (1) The provisions relating to margin in Clause I above do not apply to credit limits in favour of vanaspati manufacturers;

(2) The provisions relating to ceiling in Clauses II and III above do not apply to credit limits:

(*a*) in favour of the solvent extraction units and/or the integral oil expeller mills with solvent extraction plants; and

(*b*) in respect of advances against warehouse receipts of (i) warehouses which were established by the Central and State Warehousing Corporations *on or after January,* 1, 1961, and (ii) warehouses which were established by the Central and State Warehousing Corporations before January 1, 1961 but which have, since the 1st January 1961, increased their original warehousing capacity as on January 1, 1961 by not less than 100 per cent, by way of their own fresh or additional constructions and not by acquisition of warehouses already existing;

(3) The provisions relating to margin and ceiling do not apply to credit limits in favour of exporters of oilseeds, de-oiled and/or de-fatted cakes in respect of oilseeds, and/or extractions of oilseeds, in respect of specific firm export contracts and/or against export bills;

(4) The provisions relating to margin and ceiling do not apply to credit limits granted against the security of non-edible oilseeds other than linseed and castorseed.

V. **Definitions:** For the purpose of this directive:—

(*i*) '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 returns on Forms 7A and 7B are 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;

(*ii*) '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 advances against the security of or by way of purchase of demand documentary bills drawn in connection with the movement of oilseeds;

(*iii*) 'Other oilseeds' means all oilseeds other than groundnuts and cottonseeds. Further, copra shall also be treated as coming within the definition of 'other oilseeds';

(*iv*) 'Registered oil mill' means an oil mill registered/licensed under the Industries (Development and Regulation) Act, 1951 and/or the Factories Act, 1948;

(*v*) 'Two-month' period means the successive two months commencing from May-June 1969.

VI. **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.

78. DBOD. No. Cre. 1167/C 218 (H)-69. May 22, 1969. Advances against vegetable oils (including vanaspati)

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, and in supersession of the directive DBOD. No. Cre. 154/C. 218 (H)-68 dated January 13, 1968, as amended by directive DBOD. No. Cre. 1573/C. 218 (H)-68 dated May 27, 1968 and directive No. Cre. 3084/C. 218 (H)-68 dated November 8, 1968, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that every scheduled bank other than a State co-operative bank :—

I. **Margin:** (1) Shall maintain in respect of each credit limit against the security of vegetable oils (including vanaspati) a margin which shall not be less than 50 per cent of the value of the relative stocks;

Provided that in respect of credit limits granted to vanaspati manufacturers and registered oil mills the margin maintained shall not be less than 40 per cent of the value of the relative stocks;

Provided further that in respect of credit limits granted to the solvent extraction units and/or the integral oil expeller mills with solvent extraction plants, the margin maintained shall not be less than 25 per cent of the value of the relative stocks;

Ceilings-Average aggregate level of credit: (2) Shall maintain an average aggregate level of credit against the security of vegetable oils (including vanaspati), separately in respect of (a) vanaspati manufacturers and registered oil mills and (b) others, during each two-month period commencing from May — June 1969, not excceeding 80 *per cent* of the average aggregate level of credit actually maintained in the corresponding two-month period of 1967.

II. (1) The provisions relating to *margin* in Clause I (1) above and the provisions relating to ceiling on credit in Clause I (2) above do not apply to credit limits or credits granted:—

(a) to vanaspati manufacturers against the stocks of soyabean oil and cottonseed oil imported under the P. L. 480 Agreement, subject to verification by the bank of necessary documents in this respect;

(b) to vanaspati manufacturers against the stocks of sunflower oil imported as a gift from the Government of U.S.S.R., subject to verification by the bank of necessary documents in this respect;

(c) against stocks of indigenous cottonseed oil;

(d) against the stocks of non-edible vegetable oils excluding castor oil and linseed oil, subject to verification by the bank of necessary documents in this respect;

(e) against the stocks of vegetable oils (including vanaspati) in favour of exporters of de-oiled and/or de-fatted cakes in respect of specific firm export contracts and/or against export bills;

(f) against stocks of vanaspati held by vanaspati manufacturers for being delivered to the Army Purchase Organisation in the Ministry of Food and Agriculture, Government of India, New Delhi in pursuance of contracts entered into or to be entered into with the said Organisation by such manufacturers.

(2) The provisions relating to ceilings on credit in Clause I (2) above do not apply to credit limits granted against the stocks of vegetable oils (including vanaspati) in favour of the solvent extraction units and/or the integral oil expeller mills having solvent extraction plants.

III. For the purpose of this directive :—

(i) '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 returns in Forms 7A and 7B are to be furnished, namely, the second and fourth Friday, when there are four Fridays in a month or third and fifth Friday, when there are five Fridays in a month;

(ii) '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 advances against the security of or by way of purchase of demand documentary bills drawn in connection with the movement of vegetable oils (including vanaspati);

(iii) 'Registered Oil Mill' means an oil mill registered/licensed under the Industries (Development and Regulation) Act, 1951 and/or the Factories Act, 1948;

(iv) 'Two-month period' means the successive two months commencing from May — June 1969.

IV. **Composite Advances:** Where credit limits have been sanctioned against the security of vegetable oils (including vanaspati), and any other type of security (i.e. composite credit limits), the credit limits against vegetable oils (including vanaspati) shall be segregated and the restrictions contained in this directive shall be made applicable to such segregated limits.

79. DBOD. No. Cre. 2321/C. 218-68. August 7, 1968. Advances against wheat.

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, and in supersession of the directive DBOD. No. Cre. 18/C. 281/65 dated August 5, 1965, as amended from time to time, the Reserve Bank of India being satisfied that it is necessary in the public interest so to do, hereby directs that every scheduled commercial bank—

I. **Margin:** Shall maintain in respect of each credit limit against the security of 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—

(i) against warehouse receipts, issued by warehouses established by the Central and State Warehousing corporations covering stocks of wheat;

(ii) to the duly appointed agents of the Food Corporation of India, in so far as such limits are against the stocks of wheat dealt with by them as such agents;

(iii) by offices or branches in the State of Kerala against stocks of wheat, to the wholesale dealers and fair-price shop dealers in the State of Kerala who are duly authorised by the Government of Kerala to deal in that commodity, the margin maintained shall not be less than 25 per cent of the value of the relative stocks.

II. Average Aggregate Levels of Credit: shall maintain in respect of offices or branches opened before January 1, 1966 in each "two-month period" commencing from August-September 1968, a general ceiling of average aggregate level of credit against the security of "wheat" which shall not —

(a) in respect of its offices and branches in the States of the Punjab, Haryana, Jammu & Kashmir, Himachal Pradesh and the Union Territories of Delhi and Chandigarh; and

(b) in respect of its offices and branches in all other States and Union Territories taken together;

exceed 110 per cent of the average aggregate level of credit maintained by such offices or branches in the corresponding two-month period during the year 1967 or 100 per cent of the average aggregate level of credit in the corresponding two-month period during the year 1964-65 (from August 1964 to July 1965) whichever is higher.

III. New Offices or Branches: In addition to the level of credit permitted to be maintained under Clause II above, every scheduled commercial bank may maintain under each two-month period, commencing from August-September 1968, a further level of credit against the security of wheat at its new offices, i.e., offices and branches opened on or after January 1, 1966 which shall not exceed Rs. 50,000 per such office; but any excess of such level of credit over permitted level under this Clause shall be taken into account for computing the average aggregate level of credit for the purpose of this directive.

IV. Exemptions: (1) (a) Advances against wheat granted to co-operative marketing and/or processing societies and to roller flour mills;

(b) advances against hybrid seeds which bear the certification of the National Seeds Corporation Ltd., Delhi;

(c) advances against pledge/hypothecation of wheat granted to State Governments and agents duly appointed by the State Governments and dealing exclusively on Government account for procurement/distribution and for allied operations and

(d) advances against wheat granted to the Food Corporation of India (excluding advances granted to its duly appointed agents) shall be completely exempt from the provisions of this directive.

(2) (a) Advances against warehouse receipts of those warehouses which are established by the Central and State Warehousing Corporations and

(b) advances granted by offices or branches in the State of Kerala to the wholesale dealers and fair price shop dealers in the State of Kerala, who are duly authorised by the Government of Kerala to deal in wheat shall be exempt from the provisions of Clauses II and III of this directive.

V. **Definitions**: (a) "two-month period" means successive two months commencing from August-September 1968.

(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 advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of 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 under Forms 7A and 7B is to be furnished, namely, the second and the fourth Friday when there are four Fridays in a month or the third and the fifth Friday when there are five Fridays in a month.

VI. **Composite Advances**: Where credit limits have been sanctioned against the security of wheat and against any other type of security (that is composite credit limits), the credit limits against wheat shall be segregated and the restrictions contained in this directive shall be made applicable to such segregated limits.

80. DBOD. No. Cre. 2939/C. 218(N)-68. October 26, 1968. Advances against raw jute and jute goods

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India being satisfied that it is necessary in the public interest so to do, hereby directs that every scheduled commercial bank shall maintain —

I. **Margin**: (a) in respect of each credit limit against the security of raw jute, a margin which shall not be less than 35 per cent in respect of advances to parties other than jute mills;

(b) in respect of each credit limit against the security of Pucca Delivery Orders for jute goods, a margin which shall not be less than 50 per cent of the value of the relative orders;

Provided that this sub-clause shall not apply to credit limits granted (i) to exporters against export contracts registered with the Export Contracts Registration Committee attached to the office of the Jute Commissioner and (ii) to persons who have sales commitments to the Director General of Supplies and Disposals, Government of India, duly supported by the accepted tenders of the Director General of Supplies and Disposals.

II. **Level of Credit**: (a) in the three-month period October-December 1968, a level of credit against the security of raw jute in respect of advances to parties other than jute mills, which shall not exceed 120 per cent of the peak level of such credit during the corresponding three-month period in 1967;

(b) in each three-month period commencing from January 1969, a level of credit against the security of raw jute in respect of parties other than jute mills, which shall not exceed 100 per cent of the peak level of such credit during the corresponding three-month period in 1968.

III. Definitions: (a) "three-month period" means successive three months commencing from October-December 1968.

(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 advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of jute.

(c) "peak level" means the highest level reached on any day during the relevant period.

(d) "raw jute" includes 'mesta'.

(e) "jute goods" includes all kinds of jute manufactures.

IV. Composite Advances: Where credit limits have been sanctioned against the security of raw jute and against any other type of security (that is composite credit limits), credit or credit limits against raw jute shall be segregated and the restrictions contained in this directive shall be made applicable to such segregated credit or credit limits.

81. DBOD. No. Cre. 3252/C. 218 (F)-68. November 26, 1968. Advances against cotton and kapas

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, and in supersession of the directive DBOD. No. Cre. 2224/C. 218 (F)-67 dated November 1, 1967 as amended by the directive DBOD. No. Cre. 1061/C. 218 (F)-68 dated April 2, 1968 and the directive DBOD. No. Cre. 1751/C. 218 (F)-68 dated June 17, 1968, the Reserve Bank of India, being satisfied that it is in the public interest so to do, hereby directs that every scheduled commercial bank:

I. Margin: Shall maintain in respect of each credit limit given to parties other than cotton mills, against the security of cotton and kapas, a margin which shall not be less than 25 per cent of the value of the relative stocks;

II. Level of Credit: (i) shall maintain during the six-month period November 1968 to April 1969, for parties other than cotton mills, a ceiling on the level of credit against the security of cotton and kapas grown in India, which shall not exceed 110 per cent of the peak level of such credit maintained by the bank in the corresponding six-month period (November to April) in the year 1967-68;

(ii) shall maintain during the six-month period May 1969 to October 1969, for parties other than cotton mills, a ceiling on the level of credit against the security of cotton and kapas grown in India, which shall not exceed 100 per cent of the peak level of such credit maintained by the bank in the corresponding six-month period (May to October) in the year 1968.

III. Exemptions: Advances against the security of stocks of imported cotton and kapas shall be completely exempt from the provisions of this directive. Similarly, advances in respect of pre-shipment credit for cotton exports will be exempted provided the advance is made in respect of a firm export order and is repaid on negotiation of the relevant export bill on shipment. Further (i) advances against the security of stocks of cotton or kapas of exportable varieties like Bengal Deshi, Assam Comillas, Yellow Pickings, Zodas, Sweepings etc. and (ii) advances against the security of, or by way of purchase or discount of, export bills relating to the export of cotton or kapas from India shall be exempt from the provisions of this directive. Also, advances against the security of stocks of ISC 67 cotton and Andrews cotton shall be exempt from the provisions of this directive.

IV. Definitions: (i) 'Credit' or 'Credit limit' includes credit provided by way of loans, cash credit or overdraft or purchase or discount of bills other than advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of cotton and kapas;

(ii) 'peak level' means the highest level reached on any day during the relevant period.

V. Composite Advances: Where credit limits have been sanctioned against the security of cotton and kapas grown in India and any other type of security (i.e. composite credit limits), the credit limits against such cotton and kapas shall be segregated and the restrictions contained in this directive shall be made applicable to such segregated limits.

82. DBOD. No. Cre. 952/C. 218(F)-69. May 3, 1969. Advances against cotton and kapas

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India being satisfied that it is in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 3252/C. 218 (F)-68 dated November 26, 1968, shall, **with immediate effect** be amended as follows:

I. Margin: For clause I, the following clause shall be substituted, namely,

"Shall maintain in respect of each credit limit given to parties other than cotton mills or growers' co-operative societies, against the security of cotton and kapas, a margin which shall not be less than 50 per cent of the value of the relative stocks, provided, however, that in respect of such credit limits granted before 5th May 1969, the minimum margin of 50 per cent shall be made effective not later than the 20th May 1969".

II. Level of Credit: For sub-clause (ii) of clause II (level of credit), the following shall be substituted, namely,

"(ii) shall maintain during the six-month period May 1969 to October 1969, for parties other than cotton mills or growers' co-operative societies, a ceiling on the level of credit against the security of cotton and kapas grown in India, which shall not exceed 85 per cent of the peak level of such credit maintained by the bank in the corresponding six-month period (from 1st May to 31st October) in the year 1968".

83. DBOD. No. Cre. 1567/C. 218-68. May 27, 1968. Advances against "other foodgrains" (i.e., other than paddy and rice and wheat)

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949 and in supersession of the directive DBOD. No. Cre. 280/C. 218-65 dated August 5, 1965 as amended from time to time, the Reserve Bank of India, being satisfied that it is necessary in the public interest so to do, hereby directs that every scheduled commercial bank —

I. Margin: *Shall* maintain in respect of each credit limit against the security of "other foodgrains" (other than paddy and rice and 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 against warehouse receipts, issued by warehouses established by the Central and State Warehousing Corporations covering stocks of "other foodgrains", the margin maintained shall not be less than 25 per cent of the value of the relative stocks:

II. Average Aggregate Levels of Credit: *Shall* maintain in respect of offices or branches opened before January 1, 1966 in each two-month period commencing from May-June 1968 (1) a general ceiling of average aggregate level of credit against the security of "other foodgrains" (i.e., other than paddy and rice and wheat) which shall not in respect of its offices and branches in (a) the State of Maharashtra, (b) the State of Madhya Pradesh, (c) the State of Uttar Pradesh and (d) all other States taken together, exceed 100 per cent each of the average aggregate level of credit maintained by such offices or branches in the corresponding two-month periods during the year 1967 or 1964-65 (May to April) whichever is higher;

(2) within the general ceiling under clause (ii) (1) above, a **further ceiling** of average aggregate level of credit against "other foodgrains" other than against the pledge of warehouse receipts, which shall not exceed, in the case of (a) Maharashtra, (b) Madhya Pradesh, (c) Uttar Pradesh and (d) all other States taken together 100 per cent each, of the average aggregate level of such credit actually maintained in the corresponding two-month periods during the year 1967 or 1964-65 (May to April) whichever is higher in relation to advances other than advances against such warehouse receipts.

III. New Offices or Branches: In addition to the level of credit permitted to be maintained under clause II above, every scheduled commercial bank may maintain in each two-month period, commencing from May-June 1968, a further level of credit against the security of "other foodgrains" at its new offices, i.e., offices or branches opened on or after January 1, 1966, which shall not exceed Rs. 50,000 per such office; but any excess of such level of credit over the permitted level under this clause shall be taken into account for computing the average aggregate level of credit for the purpose of this directive.

IV. "Prohibition against advances in Maharashtra": Notwithstanding anything contained in Clauses, I, II and III above, no scheduled commercial bank shall grant or maintain in the State of Maharashtra, a credit limit, against the security of jowar and nagli (ragi), and the provisions of those clauses shall be applied accordingly :

Provided that the prohibition contained in this clause shall not apply to advances made by offices and branches of scheduled commercial banks to traders dealing in foodgrains who are licensed by Government of Maharashtra for distribution of jowar and nagli in the State of Maharashtra, and such advances shall be subject to the restrictions contained in Clauses I, II and III above.

Explanation: For the purpose of this Clause "credit limit" includes credit provided by way of purchase or discount of demand documentary bills drawn in connection with the movement of jowar and nagli (ragi), and also includes credit provided against warehouse receipts of any warehouse, covering these commodities.

V. Exemptions: (a) Advances against pledge/hypothecation of 'other foodgrains' granted to State Governments for procurement/distribution and for allied operations shall be completely exempt from the provisions of this directive:

(b) Advances against 'other foodgrains' granted to the Food Corporation of India (excluding advances granted to its duly appointed agents) shall be completely exempt from the provisions of this directive:

(c) Advances against 'other foodgrains' granted to co-operative marketing and/or processing societies shall be completely exempt from the provisions of this directive :

(d) Advances against 'jowar and nagli' (ragi) granted in the State of Maharashtra to co-operative societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the District Collectors to deal in the above commodities shall be completely exempt from the provisions of this directive :

(e) Advances against hybrid seeds which bear the certification of the National Seeds Corporation Ltd., Delhi, shall be completely exempt from the provisions of this directive :

(f) Advances against American maize, specified as yellow corn No. 2, imported under the P. L. 480 Agreement with the Government of U.S.A., for use as an industrial raw material in the manufacture of starch, dextrose, glucose, etc., for the textile, chemical, pharmaceutical and other industries shall be completely exempt from the provisions of this directive :

(g) Advances against warehouse receipts of (i) those warehouses which were established by the Central and State Warehousing Corporations **on or after January 1, 1961,** and (ii) those warehouses which were established by the Central and State Warehousing Corporations before January 1, 1961 but which have increased their original warehousing capacity since January 1, 1961 to an extent exceeding 100 per cent by way of their own fresh or additional construction and not by acquisition of warehouses already existing, shall be exempt from the provisions of Clause II of this directive.

VI. Definitions: For the purposes of this directive :

(a) "Other foodgrains" 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 and wheat;

(b) "two-month period" means successive two months commencing from May-June 1968;

(c) "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 advances against the security of or by way of purchase or discount of demand documentary bills drawn in connection with the movement of "other foodgrains";

(d) "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 Forms 7A and 7B is to be furnished, namely, the second and the fourth Friday when there are four Fridays in a month or the third and the fifth Friday when there are five Fridays in a month.

VII. Composite Advances: Where credit limits have been sanctioned against the security of "other foodgrains" and against any other type of security (that is composite credit limits), the credit limits against "other foodgrains" shall be segregated and the restrictions contained in this directive shall be made applicable to such segregated limits.

84. DBOD. No. Cre. 484/C. 218-69. February 27, 1969. Advances against "other foodgrains" (i.e. other than paddy & rice and wheat).

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, the Reserve Bank of India being satisfied that it is necessary in the public interest so to do, hereby directs that the directive DBOD. No. Cre. 1567/C. 218-68 dated May 27, 1968 relating to advances against "other foodgrains" (i.e., other than paddy and rice and wheat), be amended as follows:

In Clause V of the aforesaid directive the following may be inserted as sub-clause (h), namely:-

"(*h*) Advances against maize granted to starch manufacturing units shall be completely exempt from the provisions of this directive".

85. DBOD. No. Cre. 718/C. 218-69. March 27, 1969. Advances against paddy and rice.

In exercise of the powers conferred by Section 21 of the Banking Regulation Act, 1949, and in supersession of the directive DBOD. No. Cre. 266/C. 218-67 dated April 13, 1967 (as amended by directives DBOD. No. Cre. 2128/C. 218-67 dated October 16, 1967, DBOD. Cre. 2467/C. 218-67 dated December 9, 1967, DBOD. No. Cre. 3418/C. 218-68 dated December 18, 1968 and DBOD. No. Cre. 162/C. 218-69 dated January 15, 1969), the Reserve Bank of India being satisfied that it is necessary in the public interest so to do, hereby directs that:

1. **Margin:** Every scheduled commercial bank *shall* maintain in respect of each credit limit against the security of paddy and rice, 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:—

(*i*) against warehouse receipts issued by warehouses established by the Central and State Warehousing Corporations covering stocks of paddy and rice to parties other than the State Governments, the Food Corporation of India, co-operative societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the District Collectors to deal in paddy and rice in the State of Maharashtra, and co-operative marketing and/or processing societies,

(*ii*) to the duly appointed agents of the Food Corporation of India, in so far as such limits and against the stocks of paddy and rice dealt with by them as such agents,

(*iii*) by offices or branches in the State of Kerala against stocks of paddy and rice to the wholesale dealers and fair-price shop dealers in the State of Kerala who are duly authorised by the Government of Kerala to deal in these commodities,

(*iv*) to licensed dealers and millers in the States of Punjab and Haryana against the security of paddy and rice, **the margin maintained shall not be less than 25 per cent of the value of the relative stocks.**

II. **Average aggregate levels of credit:** Every scheduled commercial bank *shall* maintain in respect of offices or branches opened before January 1, 1966 in each two-month period commencing from March-April 1969:—

1. a general ceiling of 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,

(*ii*) in respect of its offices and branches in the State of Maharashtra, and

(*iii*) in respect of its offices and branches in all other States taken together,

exceed, separately in each of these three categories, 100 per cent of the average aggregate level of credit maintained by such offices or branches in the corresponding two-month period in 1968 or 80 per cent of the average aggregate level of credit maintained in the corresponding two-month period in 1964-65 (from March 1964 to February 1965), whichever is higher.

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

(*a*) offices and branches in the States of Punjab and Haryana may maintain, during each two-month period commencing from March — April 1969, an average aggregate level of credit equal to 15 per cent of the actual level of such credit allowed to licensed dealers and millers, in the corresponding two-month period during the year 1964-65 (from March 1964 to February 1965) provided the additional credit is given to such licensed dealers and millers;

(*b*) offices and branches in the State of Orissa may maintain, during each two-month period commencing from March-April 1969, 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 lakh per branch or office within that State;

2. Within the general ceiling under Clause II(1) above, a further ceiling of average aggregate level of credit against paddy and rice other than against the pledge of warehouse re-

ceipts issued by warehouses established by the Central and State Warehousing Corporations, which shall not exceed 100 per cent, separately in the case of (i) Andhra Pradesh, (ii) Maharashtra and (iii) all other States taken together, of the average aggregate level of such credit actually maintained in the corresponding two-month period in 1968 or 80 per cent of the average aggregate level of credit maintained in the corresponding two-month period in 1964-65 (from March 1964 to February 1965) in relation to advances other than advances against such warehouse receipts.

III. **New Offices or Branches :** In addition to the level of credit permitted to be maintained under Clause II above, every scheduled commercial bank may maintain in each two-month period, commencing from March-April 1969, a further level of credit against the security of paddy and rice, at its new offices, i.e. offices or branches opened on or after January 1, 1966, which shall not exceed Rs. 50,000 per such office; but any excess of such level of credit over the permitted level under this clause shall be taken into account for computing the average aggregate level of credit for the purpose of this directive.

IV. **Prohibition against advances in Maharashtra:** Notwithstanding anything contained in Clauses I, II and III above, no scheduled commercial bank shall grant or maintain, in the State of Maharashtra, a credit limit against the security of paddy and rice and the provisions of those clauses shall be applied accordingly;

Provided that the prohibition contained in this clause shall not apply to advances made by offices and branches of scheduled commercial banks to traders dealing in foodgrains who are licensed by the Government of Maharashtra for distribution of paddy and rice in the State of Maharashtra, and such advances shall be subject to the restrictions contained in Clauses I, II and III above.

Explanation: For the purposes of this clause, "credit limit" includes credit provided by way of purchase or discount of demand documentary bills drawn in connection with the movement of paddy and rice, and also includes credit provided against warehouse receipts covering paddy and rice.

V. **Exemptions :** (i) Advances against pledge/hypothecation of paddy and rice to (a) State Governments and millers and wholesale dealers who are appointed as procuring agents by a State Government subject to the condition that such procuring agents are required to act exclusively as agents of the concerned State Government and are precluded from purchasing/distributing paddy or rice or converting paddy into rice on behalf of themselves or other parties, (b) the Food Corporation of India (excluding advances granted to its duly appointed agents), (c) co-operative marketing and/or processing societies, (d) co-operative societies duly registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and duly authorised by the District Collectors in the State of Maharashtra to deal in the above commodities, (e) rice mills in the States of Bihar, Uttar Pradesh and West Bengal, *shall be completely exempt from the provisions of this directive.*

(ii) Advances against high yielding hybrid paddy seeds produced under contract with the National Seeds Corporation Ltd., Delhi or a State Government or which bear the certification of the said Corporation or as the case may be, the concerned State Government, shall also be completely exempt from the provisions of this directive.

(iii) Advances against warehouse receipts of (a) those warehouses which were established by the Central and State Warehousing Corporations on or after January 1, 1961, and (b) those warehouses which were established by the Central and State Warehousing Corporations before January 1, 1961 but which have increased their original warehousing capacity since January 1, 1961 to an extent exceeding 100 per cent by way of their own fresh or additional construction and not by acquisition of warehouses already existing, shall be exempt from the provisions of Clause II of this directive except in the State of Maharashtra.

(iv) Advances granted by offices or branches in the State of Kerala to the wholesale dealers and fair price shop dealers in the State of Kerala who are duly authorised by the Government of Kerala to deal in paddy and rice, shall be exempt from the provisions of Clause II of this directive:

VI. **Definitions.** For the purposes of this directive:

(a) "two-month period" means successive two months commencing from March-April 1969;

(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 but does not include, except for the purposes of Clause IV above as set out in the Explanation to that clause, purchase or discount of demand documentary bills drawn in connection with the movement of paddy and rice;

(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 returns in Forms 7A and 7B are to be furnished to the Reserve Bank of India, namely the second and fourth Friday when there are four Fridays in a month or the third and the fifth Friday when there are five Fridays in a month;

(d) "licensed dealers and millers" in the Punjab and Haryana refers to dealers and millers licensed under the Punjab Rice Dealers Licensing Order, 1957 and the Punjab Rice Mills (Licensing and Control) Order, 1958, respectively, or any other corresponding law in force in Haryana.

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

APPENDIX VIII

Notification issued to Non-Banking Non-Financial Companies.

No. DNBC. 5/ED (S)-69 March 6, 1969.

In exercise of the powers conferred by paragraph 14 of the Non-Banking Non-Financial Companies (Reserve Bank) Directions, 1966, the Reserve Bank, being satisfied that it is necessary in the public interest so to do, hereby exempts until the 31st day of December, 1969, every company, which is engaged wholly or mainly in the manufacture of textiles, made wholly or mainly of cotton, including cotton yarn, hosiery and rope, not being a company, to which the proviso to sub-paragraph (3) of paragraph 4 applies, from the provisions of the said sub-paragraph, in so far as they require the company to reduce the deposits received by it and outstanding on its books, to twenty-five per cent of the aggregate of its paid-up capital and free reserves before the 31st day of December 1969.

THE BANKING LAWS (AMENDMENT) ACT, 1968

No. 58 OF 1968

An Act further to amend the Banking Regulation Act, 1949, so as to provide for the extension of social control over banks and for matters connected therewith or incidental thereto, and also further to amend the Reserve Bank of India Act, 1934, and the State Bank of India Act, 1955.

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

CHAPTER I

PRELIMINARY

Short title and commencement.

1. (1) This Act may be called the Banking Laws (Amendment) Act, 1968.

(2) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint and different dates may be appointed for different provisions of the Act.

CHAPTER II

AMENDMENTS TO THE BANKING REGULATION ACT, 1949

Amendment of section 5.

2. In the Banking Regulation Act, 1949 (hereinafter in this Chapter referred to as the principal Act), in section 5,—

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

'(c) "banking policy" means any policy which is specified from time to time by the Reserve Bank in the interest of the banking system or in the interest of monetary stability or sound economic growth, having due regard to the interests of the depositors, the volume of deposits and other resources of the bank and the need for equitable allocation and the efficient use of these deposits and resources;'

(ii) after clause (g), the following clause shall be inserted, namely:—

'(gg) "managing agent" includes, —

(i) secretaries and treasurers,

(ii) where the managing agent is a company, any director of such company, and any member thereof who holds substantial interest in such company,

(iii) where the managing agent is a firm, any partner of such firm;'

(iii) to clause (h), the following proviso shall be added, namely:—

"Provided that the managing director shall exercise his powers subject to the superintendence, control and direction of the Board of directors.";

(iv) after clause (n), the following clauses shall be inserted, namely:—

'(na) "small-scale industrial concern" means an industrial concern in which the investment in plant and machinery is not in excess of seven and a half lakhs of rupees or such higher amount, not exceeding twenty lakhs of rupees, as the Central Government may, by notification in the Official Gazette, specify in this behalf, having regard to the trends in industrial development and other relevant factors;

(nb) "subsidiary bank" has the meaning assigned to it in the State Bank of India (Subsidiary Banks) Act, 1959;

(nc) "substantial interest", —

(i) in relation to a company, means the holding of a beneficial interest by an individual or his spouse or minor child, whether singly or taken together, in the shares thereof the amount paid-up on which exceeds five lakhs of rupees or ten per cent of the paid-up capital of the company, whichever is less;

(ii) in relation to a firm, means the beneficial interest held therein by an individual or his spouse or minor child whether singly or taken together, which represents more than ten per cent of the total capital subscribed by all the partners of the said firm;'

3. After section 10 of the principal Act, the following sections shall be inserted, namely:-

Insertion of new sections 10A, 10B 10C and 10D.

"10A. (1) Notwithstanding anything contained in any other law for the time being in force, every banking company,—

Board of directors to include persons with professional or other experience.

(a) in existence on the commencement of section 3 of the Banking Laws (Amendment) Act, 1968, or (b) which comes into existence thereafter, shall comply with the requirements of this section:

Provided that nothing contained in this sub-section shall apply to a banking company referred to in clause (a) for a period of three months from such commencement.

(2) Not less than fifty-one per cent of the total number of members of the Board of directors of a banking company shall consist of persons, who —

(a) shall have special knowledge or practical experience in respect of one or more of the following matters, namely:—

(i) accountancy,

(ii) agriculture and rural economy,

(iii) banking,

(iv) co-operation,

(v) economics,

(vi) finance,

(vii) law,

(viii) small-scale industry,

(ix) any other matter the special knowledge of, and practical experience in, which would, in the opinion of the Reserve Bank, be useful to the banking company:

Provided that out of the aforesaid number of directors, not less than two shall be persons having special knowledge or practical experience in respect of agriculture and rural economy, co-operation or small-scale industry; and (b) shall not —

(1) have substantial interest in, or be connected with, whether as employee, manager or managing agent, —

(i) any company, not being a company registered under section 25 of the Companies Act, 1956, or

(ii) any firm,

which carries on any trade, commerce or industry and which, in either case, is not a small-scale indutrial concern, or

(2) be proprietors of any trading, commercial or industrial concern, not being a small-scale industrial concern.

(3) if, in respect of any banking company, the requirements, as laid down in sub-section (2), are not fulfilled at any time, the Board of directors of such banking company shall re-constitute such Board so as to ensure that the said requirements are fulfilled.

(4) if, for the purpose of re-constituting the Board under sub-section (3), it is necessary to retire any director or directors, the Board may by lots drawn in such manner as may be prescribed, decide which director or directors shall cease to hold office and such decision shall be binding on every director of the Board.

(5) where the Reserve Bank is of opinion that the composition of the Board of directors of a banking company is such that it does not fulfil the requirements of sub-section (2), it may, after giving to such banking company a reasonable opportunity of being heard, by an order in writing, direct the banking company to so re-constitute its Board of directors as to ensure that the said requirements are fulfilled and, if within two months from the date of receipt of that order, the banking company does not comply with the directions made by the Reserve Bank, that Bank may, after determining, by lots drawn in such manner as may be prescribed, the person who ought to be removed from the membership of the Board of directors, remove such person from the office of the director of such banking company and with a view to complying with the provisions of sub-section(2), appoint a suitable person as a member of the Board of directors in the place of the person so removed whereupon the person so appointed shall be deemed to have been duly elected by the banking company as its director.

(6) Every appointment, removal or reconstitution duly made, and every election duly held, under this section shall be final and shall not be called into question in any court.

(7) Every director elected or, as the case may be, appointed under this section shall hold office until the date upto which his predecessor would have held office, if the election had not been held, or, as the case may be, the appointment had not been made.

(8) No act or proceeding of the Board of directors of a banking company shall be invalid by reason only of any defect in the composition thereof or on the ground that it is subsequently discovered that any of its members did not fulfil the requirements of this section.

Banking company to be managed by whole-time chairman.

10B. (1) Notwithstanding anything contained in any law for the time being in force or in any contract to the contrary, every banking company in existence on the commencement of section 3 of the Banking Laws (Amendment) Act, 1968, or which comes into existence thereafter shall have a chairman of its Board of directors who shall be entrusted with the management of the whole of the affairs of the banking company:

Provided that the chairman shall exercise his powers subject to the superintendence, control and direction of the Board of directors:

Provided further that nothing in this sub-section shall apply to a banking company in existence on the commencement of the said section for a period of three months from such commencement.

(2) Every chairman of the Board of directors of a banking company shall be in the whole-time employment of such company and shall hold office for such period, not exceeding five years, as the Board of directors may fix, but shall, subject to the provisions of this section, be eligible for re-election or re-appointment:

Provided that nothing in this sub-section shall be construed as prohibiting a chairman from being a director of a subsidiary of the banking company or a director of a company registered under section 25 of the Companies Act, 1956.

(3) Every person holding office on the commencement of section 3 of the Banking Laws (Amendment) Act, 1968, as managing director of a banking company shall —

(a) if there is a chairman of its Board of directors, vacate office on such commencement, or

(b) If there is no chairman of its Board of directors, vacate office on the date on which the chairman of its Board of directors is elected or appointed in accordance with the provisions of this section.

(4) Every chairman of the Board of directors of a banking company shall be a person who has special knowledge and practical experience of —

(a) the working of a banking company, or of the State Bank of India or any subsidiary bank or a financial institution, or

(b) financial, economic or business administration:

Provided that a person shall be disqualified for being a chairman, if he —

(a) is a director of any company other than a company referred to in the proviso to sub-section (2), or

(b) is a partner of any firm which carries on any trade, business or industry, or

(c) has substantial interest in any other company or firm, or

(d) is a director, manager, managing agent, partner or proprietor of any trading, commercial or industrial concern, or

(e) is engaged in any other business or vocation.

(5) A chairman of the Board of directors of a banking company may, by writing under his hand addressed to the company resign his office but shall continue in office until his successor assumes office.

(6) Without prejudice to the provisions of section 36AA, where the Reserve Bank is of opinion that any person who is, or has been elected to be, the chairman of the Board of directors of a banking company is not a fit and proper person to hold such office, it may, after giving to such person and to the banking company a reasonable opportunity of being heard, by order in writing, require the banking company to elect or appoint any other person as the chairman of its Board of directors and if, within a period of two months from the date of receipt of such order, the banking company fails to elect or appoint a suitable person as the chairman of its Board of directors, the Reserve Bank may, by order, remove the first-mentioned person from the office of the chairman of the Board of directors of the banking company and appoint a suitable person in his place whereupon the person so appointed shall be deemed to have been duly elected or appointed, as the case may be, as the chairman of the Board of directors of such banking company and any person elected or appointed as chairman under this sub-section shall hold office for the residue of the period of office of the person in whose place he has been so elected or appointed.

(7) The banking company and any person against whom an order of removal is made under sub-section (6) may, within thirty days from the date of communication to it or to him of the order, prefer an appeal to the Central Government and the decision of the Central Government thereon, and subject thereto, the order made by the Reserve Bank under sub-section (6), shall be final and shall not be called into question in any court.

(8) Notwithstanding anything contained in this section, the Reserve Bank, may if in its opinion it is necessary in the public interest so to do, permit the chairman to undertake such part-time honorary work as is not likely to interfere with his duties as such chairman.

(9) Notwithstanding anything contained in this section, where a person appointed as chairman dies or resigns or is by infirmity or otherwise rendered incapable of carrying out his duties or is absent on leave or otherwise in circumstances not involving the vacation of his office, the banking company may, with the approval of the Reserve Bank, make suitable arrangements for carrying out the duties of chairman for a total period not exceeding four months.

Chairman or Director appointed by the Reserve Bank not to be required to hold qualification shares.

10C. Any director or chairman appointed by the Reserve Bank under section 10A or section 10B, as the case may be, shall not be required to hold qualification shares in the banking company.

Provisions of sections 10A, and 10B to override all other laws, contracts, etc.

10D. Any appointment or removal of a director or chairman in pursuance of section 10A or section 10B shall have effect and any such person shall not be entitled to claim any compensation for the loss or termination of office, notwithstanding anything contained in any law or in any contract, memorandum or articles of association.".

Amendment of section 16.

4. In section 16 of the principal Act, after sub-section (2), the following sub-section shall be inserted, namely:—

"(3) Nothing in sub-section (1) shall apply to, or in relation to, any director appointed by the Reserve Bank.".

Substitution of new section for section 20.

5. For section 20 of the principal Act, the following section shall be substituted, namely:—

Restrictions on loans and advances.

'20. (1) Notwithstanding anything to the contrary contained in section 77 of the Companies Act, 1956, no banking company shall, —

(a) grant any loans or advances on the security of its own shares, or

(b) enter into any commitment for granting any loan or advance to or on behalf of —

(i) any of its directors,

(ii) any firm in which any of its directors is interested as partner, manager, employee or guarantor, or

(*iii*) any company (not being a subsidiary of the banking company or a company registered under section 25 of the Companies Act, 1956, or a Government company) of which any of the directors of the banking company is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or

(iv) any individual in respect of whom any of its directors is a partner or guarantor.

(2) Where any loan or advance granted by a banking company is such that a commitment for granting it could not have been made if clause (b) of sub-section (1) had been in force on the date on which the loan or advance was made, or is granted by a banking company after the commencement of section 5 of the Banking Laws (Amendment) Act, 1968, but in pursuance of a commitment entered into before such commencement, steps shall be taken to recover the amounts due to the banking company on account of the loan or advance together with interest, if any, due thereon within the period stipulated at the time of the grant of the loan or advance, or where no such period has been stipulated, before the expiry of one year from the commencement of the said section 5:

Provided that the Reserve Bank may, in any case, on an application in writing made to it by the banking company in this behalf, extend the period for the recovery of the loan or advance until such date, not being a date beyond the period of three years from the commencement of the said section 5, and subject to such terms and conditions, as the Reserve Bank may deem fit:

Provided further that this sub-section shall not apply if and when the director concerned vacates the office of the director of the banking company, whether by death, retirement, resignation or otherwise.

(3) No loan or advance, referred to in sub-section (2), or any part thereof shall be remitted without the previous approval of the Reserve Bank, and any remission without such approval shall be void and of no effect.

(4) Where any loan or advance referred to in sub-section (2), payable by any person, has not been repaid to the banking company within the period specified in that sub-section, then; such person shall, if he is a director of such banking company on the date of the expiry of the said period, be deemed to have vacated his office as such on the said date.

Explanation. — In this section —

(a) "loans or advance" shall not include any transaction which the Reserve Bank may, having regard to the nature of the transaction, the period within which, and the manner and circumstances in which, any amount due on account of the transaction is likely to be realised, the interest of the depositors and other relevant considerations, specify by general or special order as not being a loan or advance for the purpose of this section;

(b) "director" includes a member of any board or committee in India constituted by a banking company for the purpose of managing, or for the purpose of advising it in regard to the management of, all or any of its affairs.

(5) If any question arises whether any transaction is a loan or advance for the purposes of this section, it shall be referred to the Reserve Bank, whose decision thereon shall be final.'

Amendment of section 21.

6. In section 21 of the principal Act, in sub-section (1), after the words "in the interests of depositors", the words "or banking policy" shall be inserted.

Amendment of section 24.

7. In section 24 of the principal Act, in sub-section (2A), in sub-clause (iii) of clause (b), for the words "any balances maintained by a scheduled bank with the State Bank of India", the words "any balances in current account maintained in India by a scheduled bank with the State Bank of India" shall be substituted.

Amendment of section 30.

8. In section 30, of the principal Act, —

(a) for sub-section (1), the following sub-section shall be substituted, namely:-

"(1) The balance-sheet and profit and loss account prepared in accordance with section 29 shall be audited by a person duly qualified under any law for the time being in force to be an auditor of companies.";

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

"(1A) Notwithstanding anything contained in any law for the time being in force or in any contract to the contrary, every banking company shall, before appointing, re-appointing or removing any auditor or auditors, obtain the previous approval of the Reserve Bank.

(1B) Without prejudice to anything contained in the Companies Act, 1956, or any other law for the time being in force, where the Reserve Bank is of opinion that it is necessary in the public interest or in the interests of the banking company or its depositors so to do, it may direct the auditor of the banking company to audit the accounts of the banking company in relation to any transaction or class of transactions specified in the order, and the auditor shall comply with such directions and make a report of such audit to the Reserve Bank and forward a copy thereof to the company.

(1C) The expenses of, or incidental to, the audit of the transaction or class of transactions specified in the order made by the Reserve Bank shall be borne by the banking company.".

Amendment of section 34A. 9. In section 34A, of the principal Act, in sub-section (3), the words, brackets and figures "as defined in the State Bank of India (Subsidiary Banks) Act, 1959" shall be omitted.

Amendment of section 35A. 10. In section 35A of the principal Act, in sub-section (1), after clause (a), the following clause shall be inserted, namely:—

"(aa) in the interest of banking policy; or".

Amendment of section 35B. 11. In section 35B of the principal Act, —

(a) in sub-section (1),—

(i) in clause (a), for the words "appointment or re-appointment or remuneration of a", the words "appointment or re-appointment or termination of appointment or remuneration of a chairman, a" shall be substituted;

(ii) for clause (b), the following clause shall be substituted, namely:—

"b) no appointment or re-appointment or termination of appointment of a chairman, a managing or whole-time director, manager or chief executive officer by whatever name called, shall have effect unless such appointment, re-appointment or termination of appointment is made with the previous approval of the Reserve Bank";

(iii) in the *Explanation*, for the words "of the manager", the words "of the chairman or the manager" shall be substituted;

(b) in sub-section (3), for the words "as a managing or whole-time director", the words "as chairman or a managing or whole-time director" shall be substituted and for the word "appointment", wherever it occurs, the words "appointment or re-appointment" shall be substituted.

Amendment of section 36. 12. In section 36 of the principal Act, in sub-section (1), in clause (d),—

(i) for the words and figures "during the course, or after the completion, of any inspection of a banking company under section 35," the words "at any time, if it is satisfied that in the public interest or in the interest of banking policy or for preventing the affairs of the banking company being conducted in a manner detrimental to the interests of the banking company or its depositors it is necessary so to do," shall be substituted;

(ii) in sub-clause (v), the words "in consequence of the state of affairs disclosed during or by the inspection" shall be omitted.

Amendment of section 36AA. 13. In section 36AA of the principal Act, —

(a) in sub-section (1), for the words "any director," the words "any chairman, director," shall be substituted;

(b) in sub-section (2), —

(i) for the words "unless the director", the words "unless the chairman, director" shall be substituted;

(ii) in the proviso —

(a) for the words "the director or, as the case may be, chief executive officer", the words "the chairman or, as the case may be, director or chief executive officer" shall be substituted;

(b) in clause (a), for the words "act as such director", the words "act as such chairman or director" shall be substituted;

(c) in sub-section (4), —

(i) for the words "a director", where they occur for the first time, the words "a chairman, director" shall be substituted;

(ii) for the words "a director or, as the case may be", the words "a chairman or, as the case may be, a director" shall be substituted;

(d) in sub-section (6), for the words "the director", the words "the chairman or director" shall be substituted;

(e) in sub-section (7), for the words "director or chief executive officer", wherever they occur, the words "chairman, director or chief executive officer" shall be substituted.

Amendment of section 36AB.

14. In section 36AB of the principal Act, in sub-section (1), for the words "opinion that", the words "opinion that in the interest of banking policy or in the public interest or" shall be substituted.

Insertion section of new Parts IIB and IIC.

15. After Part IIA of the principal Act, the following Parts shall be inserted namely:—

PART IIB

PROHIBITION OF CERTAIN ACTIVITIES IN RELATION TO BANKING COMPANIES

Punishments for certain activities in relation to banking companies.

36AD. (1) No person shall —

(a) obstruct any person from lawfully entering or leaving any office or place of business of a banking company or from carrying on any business there, or

(b) hold, within the office or place of business of any banking company, any demonstration which is violent or which prevents, or is calculated to prevent, the transaction of normal business by the banking company, or

(c) act in any manner calculated to undermine the confidence of the depositors in the banking company.

(2) Whoever contravenes any provision of sub-section (1) without any reasonable excuse shall be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees, or with both.

(3) For the purposes of this section, "banking company" includes the Reserve Bank, the Industrial Development Bank of India, the State Bank of India, and any subsidiary bank.

PART IIC

ACQUISITION OF THE UNDERTAKINGS OF BANKING COMPANIES IN CERTAIN CASES

Power of Central Government to acquire undertakings of banking companies in certain cases.

36AE. (1) If, upon receipt of a report from the Reserve Bank, the Central Government is satisfied that a banking company —

(a) has, on more than one occasion, failed to comply with the directions given to it in writing under section 21 or section 35A, in so far as such directions relate to banking policy, or

(b) is being managed in a manner detrimental to the interests of its depositors, — and that —

(i) in the interests of the depositors of such banking company, or

(ii) in the interest of banking policy, or

(iii) for the better provision of credit generally or of credit to any particular section of the community or in any particular area,

it is necessary to acquire the undertaking of such banking company, the Central Government may, after such consultation with the Reserve Bank as it thinks fit, by notified order, acquire the undertaking of such company (hereinafter referred to as the acquired bank) with effect from such date as may be specified in this behalf by the Central Government (hereinafter referred to as the appointed day):

Provided that no undertaking of any banking company shall be so acquired unless such banking company has been given a reasonable opportunity of showing cause against the proposed action.

Explanation.—In this Part,—

(a) "notified order" means an order published in the Official Gazette;

(b) "undertaking", in relation to a banking company incorporated outside India, means the undertaking of the company in India.

(2) Subject to the other provisions contained in this Part, on the appointed day, the undertaking of the acquired bank and all the assets and liabilities of the acquired bank shall stand transferred to, and vest in, the Central Government.

(3) The undertaking of the acquired bank and its assets and liabilities shall be deemed to include all rights, powers, authorities and privileges and all property, whether movable or immovable, including, in particular, cash balances, reserve funds, investments, deposits and all other interests and rights in, or arising out of, such property as may be in the possession of, or held by, the acquired bank immediately before the appointed day and all books,

accounts and documents relating thereto, and shall also be deemed to include all debts, liabilities and obligations, of whatever kind, then existing of the acquired banks.

(4) Notwithstanding anything contained in sub-section (2), the Central Government may, if it is satisfied that the undertaking of the acquired bank and its assets and liabilities should, instead of vesting in the Central Government, or continuing to so vest, vest in a company established under any scheme made under this Part or in any corporation (hereinafter in this Part and in the Fifth Schedule referred to as the transferee bank) that Government may, by order, direct that the said undertaking, including the assets and liabilities thereof, shall vest in the transferee bank either on the publication of the notified order or on such other date as may be specified in this behalf by the Central Government.

(5) Where the undertaking of the acquired bank and the assets and liabilities thereof vest in the transferee bank under sub-section (4), the transferee bank, shall, on and from the date of such vesting, be deemed to have become the transferee of the acquired bank and all the rights and liabilities in relation to the acquired bank shall, on and from the date of such vesting, be deemed to have been the rights and liabilities of the transferee bank.

(6) Unless otherwise expressly provided by or under this Part, 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 appointed day and to which the acquired bank is a party or which are in favour of the acquired bank shall be of as full force and effect against or in favour of the Central Government, or as the case may be, of the transferee bank, and may be enforced or acted upon as fully and effectually as if in the place of the acquired bank the Central Government or the transferee bank had been a party thereto or as if they had been issued in favour of the Central Government or the transferee bank, as the case may be.

(7) If on the appointed day, any suit, appeal or other proceeding of whatever nature is pending by or against the acquired bank, the same shall not abate, be discontinued or be, in any way, prejudicially affected by reason of the transfer of the undertaking of the acquired bank or of anything contained in this Part, but the suit, appeal or other proceeding may be continued, prosecuted and enforced by or against the Central Government or the transferee bank, as the case may be.

Power of the Central Government to make scheme.

36AF. (1) The Central Government may, after consultation with the Reserve Bank, make a scheme for carrying out the purposes of this Part in relation to any acquired bank.

(2) In particular, and without prejudice to the generality of the foregoing power, the said scheme may provide for all or any of the following matters, namely:—

(a) the corporation, or the company incorporated for the purpose to which the undertaking including the property, assets and liabilities of the acquired bank may be transferred, and the capital, constitution, name and office thereof;

(b) the constitution of the first Board of management (by whatever name called) of the transferee bank, and all such matters in connection therewith or incidental thereto as the Central Government may consider to be necessary or expedient;

(c) the continuance of the services of all the employees of the acquired bank (excepting such of them as, not being workmen within the meaning of the Industrial Disputes Act, 1947, are specifically mentioned in the scheme) in ths Central Government or in the transferee bank, as the case may be, on the same terms and conditions so far as may be, as are specified in clauses (i) and (j) of sub-section (5) of section 45;

(d) the continuance of the right of any person who, on the appointed day, is entitled to or is in receipt of, a pension or other superannuation or compassionate allowance or benefit, from the acquired bank or any provident, pension or other fund or any authority administering such fund, to be paid by, and to receive from, the Central Government or the transferee bank, as the case may be, or any provident, pension or other fund or any authority administering such fund, the same pension, allowance or benefit so long as he observes the conditions on which the pension, allowance or benefit was granted, and if any question arises whether he has so observed such conditions, the question shall be determined by the Central Government and the decision of the Central Government thereon shall be final;

(e) the manner of payment of the compensation payable in accordance with the provisions of this Part to the shareholders of the acquired bank, or where the acquired bank is a banking company incorporated outside India, to the acquired bank in full satisfaction of their, or as the case may be, its, claims;

(f) the provision, if any, for completing the effectual transfer to the Central Government or the transferee bank of any asset or any liability which forms part of the undertaking of the acquired bank in any country outside India;

(g) such incidental, consequential and supplemental matters as may be necessary to secure that the transfer of the business, property, assets and liabilities of the acquired bank to the Central Government or transferee bank, as the case may be, is effectual and complete.

(3) The Central Government may, after consulation with the Reserve Bank, by notification in the Official Gazette, add to, amend or vary any scheme made under this section.

(4) Every scheme made under this section shall be published in the Official Gazette.

(5) Copies of every scheme made under this section shall be laid before each House of Parliament as soon as may be after it is made.

(6) The provisions of this Part and of any scheme made there under shall have effect notwithstanding anything to the contrary contained in any other provisions of this Act or in any other law or any agreement, award or other instrument for the time being in force.

(7) Every scheme made under this section shall be binding on the Central Government or, as the case may be, on the transferee bank and also on all members, creditors, depositors and employees of the acquired bank and of the transferee bank and on any other person having any right, liability, power or function in relation to, or in connection with, the acquired bank or the transferee bank as the case may be.

Compensation to be given to share-holders of the acquired bank.

36AG. (1) Every person who, immediately before the appointed day, is registered as a holder of shares in the acquired bank or, where the acquired bank is a banking company incorporated outside India, the acquired bank, shall be given by the Central Government, or the transferee bank, as the case may be, such compensation in respect of the transfer of the undertaking of the acquired bank as is determined in accordance with the principles contained in the Fifth Schedule.

(2) Nothing contained in sub-section (1) shall affect the rights *inter se* between the holder of any share in the acquired bank and any other person who may have any interest in such shares and such other person shall be entitled to enforce his interest against the compensation awarded to the holder of such share, but not against the Central Government, or the transferee bank.

(3) The amount of compensation to be given in accordance with the principles contained in the Fifth Schedule shall be determined in the first instance by the Central Government, or the transferee bank, as the case may be, in consultation with the Reserve Bank, and shall be offered by it to all those to whom compensation is payable under sub-section (1) in full satisfaction thereof.

(4) If the amount of compensation offered in terms of sub-section (3) is not acceptable to any person to whom the compensation is payable, such person may, before such date as may be notified by the Central Government in the Official Gazette, request the Central Government in writing, to have the matter referred to the Tribunal constituted under section 36AH.

(5) If, before the date notified under sub-section (4), the Central Government receives requests, in terms of that sub-section, from not less than one-fourth in number of the shareholders holding not less than one-fourth in value of the paid-up share capital of the acquired bank, or, where the acquired bank is a banking company incorporated outside India, from the acquired bank, the Central Government shall have the matter referred to the Tribunal for decision.

(6) If, before the date notified under sub-section (4), the Central Government does not receive requests as provided in that sub-section, the amount of compensation offered under sub-section (3), and where a reference has been made to the Tribunal, the amount determined by it, shall be the compensation payable under sub-section (1) and shall be final and binding on all parties concerned.

Constitution of the Tribunal.

36AH. (1) The Central Government may, for the purpose of this Part, constitute a Tribunal which shall consist of a Chairman and two other members.

(2) The Chairman shall be a person who is, or has been, a Judge of a High Court or of the Supreme Court, and, of the two other members, one shall be a person, who, in the opinion of the Central Government, has had experience of commercial banking and the other shall be a person who is a chartered accountant within the meaning of the Chartered Accountants' Act, 1949.

(3) If, for any reason, a vacancy occurs in the office of the Chairman or any other member of the Tribunal, the Central Government may fill the vacancy by appointing

another person thereto in accordance with the provisions of sub-section (2), and any proceeding may be continued before the Tribunal, so constituted, from the stage at which the vacancy occurred.

(4) The Tribunal may, for the purpose of determining any compensation payable under this Part, choose one or more persons having special knowledge or experience of any relevant matter to assist it in the determination of such compensation.

Tribunal to have powers of a civil court.

36AI. (1) The Tribunal shall have the powers of a civil court, while trying a suit, under the Code of Civil Procedure, 1908, in respect of the following matters, namely:—

(a) summoning and enforcing the attendance of any person and examining him on oath;

(b) requiring the discovery and production of documents;

(c) receiving evidence on affidavits;

(d) issuing commissions for the examination of witnesses or documents.

(2) Notwithstanding anything contained in sub-section (1), or in any other law for the time being in force, the Tribunal shall not compel the Central Government or the Reserve Bank,—

(a) to produce any books of account or other documents which the Central Government, or the Reserve Bank, claims to be of a confidential nature;

(b) to make any such books or documents part of the record of the proceedings before the Tribunal; or

(c) to give inspection of any such books or documents to any party before it or to any other person.

Procedure of the Tribunal

36AJ. (1) The Tribunal shall have power to regulate its own procedure.

(2) The Tribunal may hold the whole or any part of its inquiry *in camera.*

(3) Any clerical or arithmetical error in any order of the Tribunal or any error arising therein from any accidental slip or omission may, at any time, be corrected by the Tribunal either of its own motion or on the application of any of the parties.'

Amendment of section 39.

16. Section 39 of the principal Act shall be re-numbered as sub-section (1) thereof and after sub-section (1), as so re-numbered, the following sub-section shall be, and shall be deemed always to have been, inserted, namely :—

"(2) Subject to such directions as may be made by the High Court, the remuneration of the official liquidator appointed under this section, the cost and expenses of his establishment and the cost and expenses of the winding up shall be met out of the assets of the banking company which is being wound up, and notwithstanding anything to the contrary contained in any other law for the time being in force, no fees shall be payable to the Central Government, out of the assets of banking company."

Insertion of new section 47A.

17. After section 47 of the principal Act, the following section shall be inserted, namely :—

Power of Reserve Bank to impose penalty.

"47A. (1) Notwithstanding anything contained in section 46, if a contravention or default of the nature referred to in sub-section (3) or sub-section (4) of section 46, as the case may be, is made by a banking company, then, the Reserve Bank may impose on such banking company —

(a) where the contravention is of the nature referred to in sub-section (3) of section 46, a penalty not exceeding twice the amount of the deposits in respect of which such contravention was made;

(b) where the contravention or default is of the nature referred to in sub-section (4) of section 46, a penalty not exceeding two thousand rupees; and where such contravention or default is a continuing one, a further penalty which may extend to one hundred rupees for every day, after the first, during which the contravention or default continues.

(2) For the purpose of adjudging the penalty under sub-section (1), the Reserve Bank shall hold an inquiry in the prescribed manner after giving the banking company a reasonable opportunity of being heard.

(3) While holding an inquiry under this section, the Reserve Bank shall have power to summon and enforce the attendance of any person to give evidence or to produce any document or any other thing which, in the opinion of the Reserve Bank, may be useful for, or relevant to, the subject matter of the inquiry.

(4) No complaint shall be filed against any banking company in any court of law in respect of any contravention or default in respect of which any penalty has been imposed by the Reserve Bank under this section.

(5) Any penalty imposed by the Reserve Bank under this section shall be payable within a period of fourteen days from the date on which notice issued by the Reserve Bank demanding payment of the sum is served on the banking company and in the event of failure of the banking company to pay the sum within such period, may be levied on a direction made by the principal civil court having jurisdiction in the area where the registered office of the banking company is situated; or, in the case of a banking company incorporated outside India, where its principal place of business in India is situated:

Provided that no such direction shall be made except on an application made to the court by the Reserve Bank or any officer authorised by that Bank in this behalf.

(6) The court which makes a direction under sub-section (5) shall issue a certificate specifying the sum payable by the banking company and every such certificate shall be enforceable in the same manner as if it were a decree made by the court in a civil suit.

(7) Where any complaint has been filed against any banking company in any court in respect of the contravention or default of the nature referred to in sub-section (3) or, as

the case may be, sub-section (4) of section 46, then, no proceedings for the imposition of any penalty on the banking company shall be taken under this section.".

Amendment of section 51.

18. In section 51 of the principal Act,—

(a) in clause (c) of the proviso, after the words and figures "in section 46", the words, figures and letter "or in section 47A" shall be inserted;

(b) the *Explanation* shall be omitted.

Amendment of section 52.

19. In section 52 of the principal Act, in the proviso to sub-section (3), after the words "this section", the brackets, words, figures and letters "(including the rules made for the first time on matters specified in sections 10A and 47A)" shall be inserted.

Insertion of new section after section 55.

20. After section 55 of the principal Act, the following section shall be inserted, namely:—

Power to remove difficulties.

"55A". If any difficulty arises in giving effect to the provisions of this Act, the Central Government may, by order, as occasion requires, do anything (not inconsistent with the provisions of this Act) which appears to it to be necessary for the purpose of removing the difficulty:

Provided that no such power shall be exercised after the expiry of a period of three years from the commencement of section 20 of the Banking Laws (Amendment) Act, 1968.

Amendment of Part V.

21. In Part V, in the provisions of the principal Act, as applied to or in relation to co-operative societies,—

(a) in section 5A, as substituted by clause (d) of section 56 of the principal Act,—

(i) in sub-section (1), for the words "this Part", the words "this Act" shall be substituted;

(ii) in sub-section (2), for the words "this Part", the words "this Act" shall be substituted;

(b) in section 7, as substituted by clause (f) of the said section 56, in sub-section (2), after clause (b), the following clause shall be inserted, namely:—

"(c) any co-operative society, not being a primary credit society, formed by the employees of a banking company or the State Bank of India or any other banking institution notified by the Central Government under section 51 or the employees of a subsidiary of such banking company or the State Bank of India or, as the case may be, such banking institution."

(c) in clause (g) of the said section 56, for the word and figures "section 10", the words, figures and letters "sections 10, 10A, 10B, 10C and 10D" shall be substituted;

(d) in section 18 of the principal Act, as substituted by clause (j) of the said section 56, in the *Explanation*, for clause (c), the following clause shall be substituted, namely :—

"(c) in the case of a State or central co-operative bank, also any deposit of money with it representing the reserve fund or any part thereof required to be maintained with it by any other co-operative society within its area of operation, and in the case of a central co-operative bank, also an advance taken by it from the State co-operative bank of the State concerned;";

(e) for clause (l) of the said section 56, the following clause shall be substituted, namely :—

"(l) for section 20 of the principal Act, the following section shall be substituted, namely :—

Restrictions on loans and advances.

20. (1) No co-operative bank shall —

(a) make any loans or advances on the security of its own shares; or

(b) grant unsecured loans or advances —

(i) to any of its directors; or

(ii) to firms or private companies in which any of its directors is interested as partner or managing agent or guarantor or to individuals in cases where any of its directors is a guarantor; or

(iii) to any company in which the chairman of the Board of directors of the co-operative bank (where the appointment of a chairman is for a fixed term) is interested as its managing agent, or where there is no managing agent, as its chairman or managing director :

Provided that nothing in clause (b) shall apply to the grant of unsecured loans or advances —

(a) made by a co-operative bank —

(i) against bills for supplies or services made or rendered to Government or bills of exchange arising out of *bona-fide* commercial or trade transactions, or

(ii) in respect whereof trust-receipts are furnished to the co-operative bank;

(b) made by a primary co-operative bank to any of its directors or to any other person within such limits and on such terms and conditions as may be approved by the Reserve Bank in this behalf.

(2) Every co-operative bank shall, before the close of the month succeeding that to which the return relates, submit to the Reserve Bank a return in the prescribed form and manner showing all unsecured loans and advances granted by it to companies in cases [other than those in which the co-operative bank is prohibited under sub-section (1) to make unsecured loans and advances] in which any of its directors is interested as director or managing agent or guarantor.

(3) If, on examination of any return submitted under sub-section (2), it appears to the Reserve Bank that any loans or advances referred to in that sub-section are being granted to

the detriment of the interests of the depositors of the co-operative bank, the Reserve Bank may, by order in writing, prohibit the co-operative bank from granting any such further loans or advances or impose such restrictions on the grant thereof as it thinks fit, and may by like order direct the co-operative bank to secure the re-payment of such loan or advance within such time as may be specified in the order.";

(f) in sub-section (2) of section 22, as substituted by clause (o) of the said section 56, for the proviso, the following proviso shall be substituted, namely :—

"Provided that nothing in clause (b) of sub-section (1) shall be deemed to prohibit —

(i) a co-operative society carrying on business as a co-operative bank at the commencement of the Banking Laws (Application to Co-operative Societies) Act, 1965,

(ii) a co-operative bank which has come into existence as a result of the division of any other co-operative society, or the amalgamation of other co-operative societies carrying on business in either case as a co-operative bank or banks at such commencement, or

(iii) a primary credit society which becomes a primary co-operative bank after such commencement, from carrying on banking business until it is granted a licence in pursuance of this section or is, by a notice in writing, notified by the Reserve Bank that the licence cannot be granted to it.";

(g) in sub-section (1) of section 23, as substituted by clause (p) of the said section 56, in clause (b) of the proviso, for the words "opening of branches", the words "opening or changing the location of branches" shall be substituted;

(h) in sub-section (2A) of section 24, as substituted by clause (q) of the said section 56, for clause (b), the following clause shall be substituted, namely :—

"(b) In computing the amount for the purpose of clause (a),—

(i) any cash or balances maintained in India by a co-operative bank, other than a scheduled State co-operative 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 and also any balances maintained with the State co-operative bank of the State concerned, and, in the case of a primary co-operative bank, also any balances maintained with the central co-operative bank of the district concerned or with the State co-operative bank of the State concerned in excess of the aggregate of the cash or balances or both required to be maintained under section 18; and

(ii) any balance maintained by a scheduled State co-operative 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 in current account maintained in India by a scheduled State co-operative bank with the State Bank of India or with any other bank which may be notified by the Central Government, shall be deemed to be cash maintained in India.

Explanation. — For the purposes of this sub-section, —

(a) approved securities, or a portion thereof, representing investment of Agricultural Credit Stabilization Fund of a co-operative bank shall not be deemed to be unencumbered approved securities;

(b) balance with the State co-operative bank of the State concerned or with the Central co-operative bank of the District concerned, or a portion thereof, representing investment of Agricultural Credit Stabilization Fund of a co-operative bank shall not be deemed to be cash maintained in India;

(c) in case a co-operative bank has taken an advance against any balance maintained with the State Bank of India or with any other bank which may be notified in this behalf by the Central Government or with the State co-operative bank of the State concerned or with the Central co-operative bank of the district concerned, such balance to the extent to which it has been drawn against or availed of shall not be deemed to be cash maintained in India.";

(i) in the proviso to sub-section (1) of section 35, as inserted by clause (w) of the said section 56, the following shall be added at the end, namely :—

"and may, if it considers it necessary and expedient so to do, supply a copy of the said report to the State co-operative bank or the Registrar of co-operative societies of the State in which the inspected bank is registered";

(j) in clause (zb) of the said section 56, after the word, figures and letter "Part IIA", the word, figures and letter, "Part IIC," shall be inserted.'

Insertion of new Schedule. 22. After the Fourth Schedule to the principal Act, the following Schedule shall be inserted, namely :—

'THE FIFTH SCHEDULE

(See section 36AG)

PRINCIPLES OF COMPENSATION

1. The compensation to be given under section 36AG shall be an amount equal to the value of the assets of the acquired bank as on the day immediately before the appointed day, computed in accordance with the provisions of Part I of this Scheduled *less* the total amount of liabilities thereof computed in accordance with the provisions of Part II of this Schedule.

Part I. — Assets

For the purposes of this Part "assets" means the total of the following:—

(a) the amount of cash in hand and with the Reserve Bank and the State Bank of India (including foreign currency notes which shall be converted at the market rate of exchange);

(b) the amount of balances with any bank, whether on deposit or current account, and money at call and short notice, balances held outside India being converted at the market rate of exchange :

Provided that any balances which are not realisable in full shall be deemed to be debts and valued accordingly;

(c) the market value, as on the day immediately before the appointed day, of any securities, shares, debentures, bonds and other investments, held by the bank concerned.

Explanation. — For the purposes of this clause,

(i) securities of the Central and State Governments [other than the securities specified in sub-clauses (ii) and (iii) of this *Explanation*] maturing for redemption within five years from the appointed day shall be valued at the face value or the market value, whichever is higher;

(ii) securities of the Central Government, such as Post Office Certificates and Treasury Savings Deposit Certificates and any other securities or certificates issued or to be issued under the Small Savings Scheme of the Central Government, shall be valued at their face value or the encashable value of the market value, as on the day immediately before the appointed day, whichever is higher;

(iii) where the market value of any Government security such as the zamindari abolition bonds or other similar security in respect of which the principal is payable in instalments, is not ascertainable or is, for any reason, not considered as reflecting the fair value thereof or as otherwise appropriate, the security shall be valued at such an amount as is considered reasonable having regard to the instalments of principal and interest remaining to be paid, the period during which such instalments are payable, the yield of any security, issued by the Government to which the security pertains and having the same or approximately the same maturity, and other relevant factors;

(iv) where the market value of any security, share, debenture, bond or other investment is not considered reasonable by reason of its having been affected by abnormal factors, the investment may be valued on the basis of its average market value over any reasonable period;

(v) where the market value of any security, share, debenture, bond or other investment is not ascertainable, only such value, if any, shall be taken into account as is considered reasonable having regard to the financial position of the issuing concern, the dividend paid by it during the preceding five years and other relevant factors;

(d) the amount of advances (including loans, cash credits, overdrafts, bills purchased and discounted), and other debts, whether secured or unsecured, to the extent to which they are reasonably considered recoverable, having regard to the value of the security, if any, the operations on the account, the reported worth and respectability of the borrower, the prospects of realisation and other relevant considerations;

(e) the value of any land or buildings;

(f) the total amount of the premia paid, in respect of all leasehold properties, reduced in the case of each such premium by an amount which bears to such premium the same proportion as the expired term of the lease in respect of which such premium shall have been paid bears to the total term of the lease;

(g) the written down value as per books, or the realisable value, as may be considered reasonable, of all furniture, fixtures and fittings;

(h) the market or realisable value, as may be appropriate, of other assets appearing on the books of the bank, no value being allowed for capitalised expenses, such as share selling commission, organisational expenses and brokerage, losses incurred and similar other items.

Part II. — Liabilities

For the purposes of this Part "liabilities" means the total amount of all outside liabilities existing on the appointed day, and all contingent liabilities which the Central Government or the transferee bank may reasonably be expected to be required to meet out of its own resources on or after the appointed day and where the acquired bank is a banking company incorporated outside India, includes the liabilities of the offices and branches in India of the acquired bank to its offices and branches outside India.

2. If the acquired bank is not incorporated in India, the assets or, as the case may be, the liabilities of the bank shall be, for the purposes of Part I and Part II, and subject to the other provisions therein, the assets and liabilities of the offices of the bank situated in India.

COMPENSATION PAYABLE TO SHAREHOLDERS

3. Every shareholder of the acquired bank to whom the compensation is payable, shall be given such amount as compensation as bears to the total compensation, calculated in accordance with the provisions of paragraph 1, the same proportion as the amount of paid-up capital of the shares held by the shareholder bears to the total paid-up capital of the acquired bank.

CERTAIN DIVIDENDS NOT TO BE TAKEN INTO ACCOUNT

4. No separate compensation shall be payable for any profits or any dividend in respect of any period immediately preceding the appointed day, for which, in the ordinary course, profits would have been transferred or dividend declared after the appointed day.'

CHAPTER III

AMENDMENTS TO THE RESERVE BANK OF INDIA ACT, 1934

Amendment of section 2. 23. In the Reserve Bank of India Act, 1934 (hereinafter in this Chapter referred to as the principal Act), in section 2,—

(a) to clause (cii), the following proviso shall be added, namely :—

"Provided that this sub-clause shall not apply to the admission of a co-operative bank as a member by reason of such co-operative bank subscribing to the share capital of such co-operative society out of funds provided by the State Government for the purpose.";

(b) to clause (ciii), the following proviso shall be added, namely :—

"Provided that this sub-clause shall not apply to the admission of a co-operative bank as a member by reason of such co-operative bank subscribing to the share capital of such co-operative society out of funds provided by the State Government for the purpose.";

(c) to clause (civ), the following proviso shall be added, namely :—

"Provided that this sub-clause shall not apply to the admission of a co-operative bank as a member by reason of such co-operative bank subscribing to the share capital of such co-operative society out of funds provided by the State Government for the purpose.".

Amendment of section 17.

24. In section 17 of the principal Act,—

(1) in the proviso to clause (3A)—

(a) for sub-clause (b) of clause (1) the following sub-clause shall be substituted, namely :—

"(b) maturing not later than one hundred and eighty days from the date of the loan or advance, and 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; or"; (b) for clause (ii), the following clause shall be substituted namely:-

"(ii) it has granted a pre-shipment loan or advance to an exporter or any other person in India in order to enable him to export goods from India, the amount of the loan or advance drawn and outstanding at any time being not less than the outstanding amount of the loan or advance obtained by the borrowing bank from the Bank.".

(2) for clause (11A), substitute —
"(11A) the acting as agent for the Central Government, —

(a) in guaranteeing the due performance by any small-scale industrial concern, approved by the Central Government, of its obligations to any bank or other financial institution in respect of loans and advances made, or other credit facilities provided, to it by such bank or other financial institution and the making as such agent of payments in connection with such guarantee, and

(b) in administering any scheme for subsidising the rate of interest or other charges in relation to any loans or advances made, or other credit facilities provided, by banks or other financial institutions for the purpose of financing or facilitating any export from India and the making as such agent of payments on behalf of the Central Government;";

(3) in clause (12), for the words "gold coin and bullion", the words "gold or silver coins and gold and silver bullion" shall be substituted;

(4) after clause (15A), the following clause shall be inserted namely:-

"(15B) the providing of facilities for training in banking and for the promotion of research, where, in the opinion of the Bank, such provision may facilitate the exercise by the Bank of its powers and functions, or the discharge of its duties.".

Amendment of section 24.

25. For section 24 of the principal Act, the following section shall be substituted, namely:-

Denominations of notes.

"24. (1) Subject to the provisions of sub-section (2), bank notes shall be of the denominational values of two rupees, five rupees, ten rupees, twenty rupees, fifty rupees, one hundred rupees, five hundred rupees, one thousand rupees, five thousand rupees and ten thousand rupees or of such other denominational values, not exceeding ten thousand rupees, as the Central Government may, on the recommendation of the Central Board, specify in this behalf.

(2) The Central Government may, on the recommendation of the Central Board, direct the non-issue or the discontinuance of issue of bank notes of such denominational values as it may specify in this behalf.".

Amendment of section 33.

26. In section 33 of the principal Act, in sub-section (4), for the figures and word "2.88 grains", the figures and word "0.118489 grammes", and for the words "at the market rate", the words "at rates not exceeding the market rates" shall be substituted.

Amendment of section 45I.

27. In section 45I of the principal Act to clause (c), the following *Explanation* shall be added, namely:-

"*Explanation*.— For the removal of doubts, it is hereby declared that a company registered under section 3 of the Insurance Act, 1938, for any class of insurance business and a company, not being a banking company, a corporation or a firm, carrying on as its principal business, the management, conduct or supervision, as the foreman or agent, of any transaction or arrangement by which it enters into an agreement with a number of subscribers that every one of them shall subscribe a certain sum by instalments for a definite period and that each subscriber in his turn, as determined by lot or by auction or by tender or in such other manner as provided for in the agreement, shall be entitled to a prize amount shall be deemed to be, a financial institution as defined in this clause.".

Insertion of new section 54AA.

28. After section 54A of the principal Act, the following section shall be inserted, namely:-

Power of Bank to depute its employees to other institutions.

'54AA. (1) The Bank may, notwithstanding anything contained in any law for the time being in force or in any contract, depute any member of its staff for such period as it may think fit to any institution which is either wholly or substantially owned by the Bank, and thereupon the person so deputed shall, during the period of his deputation, render such service to the institution as that institution may require.

(2) Where a person has been deputed to an institution under sub-section (1), he shall not be entitled to claim any salary, emoluments and other terms and conditions of

service which he would not have been entitled to claim if he had not been so deputed.

(3) Nothing contained in this section shall empower the Bank to depute any member of its staff to any institution on any salary, emoluments or other terms and conditions which is or are less favourable to him than that or those to which he is entitled immediately before such deputation.

(4) For the purposes of this section, an institution shall be deemed to be substantially owned by the Bank if in the capital of the institution the Bank has not less than forty per cent share.

Explanation.— The word "capital" means, in relation to the Unit Trust, the initial capital of that Trust.'.

CHAPTER IV

AMENDMENTS TO THE STATE BANK OF INDIA ACT, 1955

Amendment of section 33.

29. In the State Bank of India Act, 1955 (hereinafter in this Chapter referred to as the principal Act), in section 33,-

(a) in sub-clause (f) of clause (i), for the words "goods which are hypothecated", the words "goods or other assets which are hypothecated or assigned" shall be substituted;

(b) in clause (xviii), for the words "six months", the words "twelve months" shall be substituted;

(c) in clause (xixb), —

(i) for the words "the advancing or lending of money to", the words "the advancing or lending of money to, or discounting or purchase of any negotiable instrument on behalf of," shall be substituted;

(ii) for the words "in excess of six months but not exceeding ten years", the words "in excess of twelve months but not exceeding fifteen years" shall be substituted;

(d) in clause (xixc), for the words "six months", the words "twelve months" shall be substituted.

Amendment of secion 34.

30. In section 34 of the principal Act,—

(a) in clause (a) of sub-section (1), for the words "six months", the words "twelve months" shall be substituted;

(b) in sub-section (3),—

(1) for sub-clause (ii) of clause (b) (excluding the proviso), the following sub-clause shall be substituted, namely:—

"(ii) save as otherwise provided in this Act, twelve months from the date aforesaid if the instrument or security is drawn or issued for any other purpose.".

(2) in the proviso, for the words "six months,", the words "twelve months," shall be substituted.