

Report on Trend and Progress of Banking in India for the year ended June 30, 1980  
Submitted to the Central Government in terms of Section 36 (2) of the Banking Regulation  
Act, 1949.



REPORT ON TREND AND PROGRESS OF  
BANKING IN INDIA  
1979-80

LETTER OF TRANSMITTAL

GOVERNOR



Reserve Bank of India  
Central Office  
Bombay  
August 25, 1980  
Bhadra 3, 1902 (Saka).

The Secretary to the Government of India,  
Ministry of Finance,  
Department of Economic Affairs,  
(Banking Division),  
New Delhi.

Dear Sir,

In pursuance of the provisions of Section 36(2) of the Banking Regulation Act, 1949, I transmit herewith two copies of the Report on Trend and Progress of Banking in India for the year ended June 30, 1980.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'I. G. Patel'.

( I. G. Patel )

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## ABBREVIATIONS

The following abbreviations have been used in the Report.

AFC	—	Agricultural Finance Corporation.
ARDC	—	Agricultural Refinance and Development Corporation.
BR Act, 1949	—	Banking Regulation Act, 1949.
BTC	—	Bankers Training College.
CAB	—	College of Agricultural Banking.
CADP	—	Command Area Development Programme.
CAS	—	Credit Authorisation Scheme.
CCB	—	Central Co-operative Bank.
CRR	—	Cash Reserve Ratio.
DCC	—	District Consultative Committee.
DCP	—	District Credit Plan.
DICGC	—	Deposit Insurance and Credit Guarantee Corporation.
DRI Scheme	—	Differential Rates of Interest Scheme.
DPAP	—	Drought Prone Areas Programme.
DTL	—	Demand and Time Liabilities.
FSS	—	Farmers' Service Societies.
GOI	—	Government of India.
HPC	—	High Power Committee.
IBRD	—	International Bank for Reconstruction and Development.
ICICI	—	Industrial Credit and Investment Corporation of India.
IBA	—	Indian Banks' Association.
IDA	—	International Development Association.
IDBI	—	Industrial Development Bank of India.
IFCI	—	Industrial Finance Corporation of India.
LAMPS	—	Large-sized Adivasi Multipurpose Society/Societies.
LDB	—	Land Development Bank.
LIC	—	Life Insurance Corporation.
MMTC	—	Minerals and Metals Trading Corporation.
NABARD	—	National Bank for Agriculture and Rural Development.
NIBM	—	National Institute of Bank Management.
PACS	—	Primary Agricultural Credit Societies.

PC	—	Participation Certificate.
PLDB	—	Primary Land Development Bank.
PUCB	—	Primary Urban Co-operative Bank.
RBI	—	Reserve Bank of India.
RRB	—	Regional Rural Bank.
SAIL	—	Steel Authority of India Ltd.
SBI	—	State Bank of India.
SC/ST	—	Scheduled Caste/Scheduled Tribe.
SCB	—	State Co-operative Bank.
SEB	—	State Electricity Board.
SFC	—	State Financial Corporation.
STC	—	State Trading Corporation.
SFDA	—	Small Farmers' Development Agency.
SIDC	—	State Industrial Development Corporation.
SIIC	—	State Industrial Investment Corporation.
SLR	—	Statutory Liquidity Ratio.
SLDB	—	State Land Development Bank.
UCB	—	Urban Co-operative Bank.
UTI	—	Unit Trust of India.

## CHAPTER 1

### INTRODUCTION

The banking scene in 1979-80 was characterised by frequent adjustments in credit policy, which stemmed from the need to slow down the pace of credit expansion. Side by side with the frequency of such adjustments, there was also a widening of the range of instruments used to bring about the desired deceleration in credit. Basically, the need for the pursuit of such a restrictive credit policy arose from the overhang of primary money, due to the monetary expansion which had taken place during the previous three successive years. The average annual rate of money supply expansion during the three-year period ended March 31, 1979 was 18.4 per cent whereas the average annual rise in real national income was only 4.5 per cent. Furthermore, by July 1979, it was becoming apparent that the prospects for growth during the year were poor and also that inflationary pressures had already assumed somewhat serious dimensions. It is against this broader setting that developments in the banking sector in 1979-80 are reviewed in this Report.

1.2 Unlike in the previous year, the resource position of the banking system was tight almost throughout the year 1979-80. In large part, this was because the rate of growth of deposits of scheduled commercial banks declined rather sharply from 23 per cent in 1978-79 (July-June) to 16.1 per cent in 1979-80.<sup>1</sup> In terms of absolute amounts, aggregate deposits recorded a rise of Rs. 4,612 crores in 1979-80, as against the rise of Rs. 5,359 crores in 1978-79. Part of this deceleration may have emanated from the decline by 3 per cent in real national income in 1979-80, in contrast to an increase of 4.1 per cent recorded in the previous year. Furthermore, the measures taken to tighten credit expansion together with the slowing down in the pace of primary money creation, particularly during the latter part of the year, also contributed to the significant decline in deposit growth. Nominal or money incomes, however, rose substantially and the growth in deposits recorded during the year reflects to some extent the impact of the rise in nominal income.

1.3 While the trend in growth of aggregate deposits is clear, the measurement of the growth rates of demand and time deposits separately, poses some problems because of the changes in classification of savings deposits into demand and time deposits adopted by some banks during different periods of the year. However, making suitable adjustments in the published data it is possible to recompile comparable data relating to the two categories of deposits.<sup>2</sup> On this basis, while demand deposits recorded a growth by 9.7 per cent, time deposits rose by

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1. It is necessary to add a caveat here. The comparison here is between final figures of 1978-79 and the partially revised figures of 1979-80. Going by past experience, it is likely that the final figures of June 1980 will turn out to be higher, thereby moderating somewhat the sharpness of the differences in growth rates. This aspect is discussed in Chapter 2.

2. The details regarding the procedure of adjustments are spelt out in Chapter 2.

19.3 per cent in 1979-80; these rates were substantially lower than the corresponding rates of 25.2 per cent and 21.9 per cent of the previous year.

1.4 The resource position of commercial banks was also affected by the modifications introduced from July 1979 in regard to recourse to Participation Certificates (PCs) Scheme. The Scheme as it had evolved in practice had brought about several distortions in the banking system. It was, therefore, stressed that while marginal recourse to PCs facility was understandable, any large-scale resort to such extra-banking sector's resources, on a continuing basis, was clearly inconsistent with credit planning and control. Banks were therefore asked to limit their involvement in PCs to the minimum. As a result, the level of outstanding PCs was brought down to Rs. 313 crores in June 1980, from the level of Rs. 606 crores in June 1979.

1.5 Modification of PCs Scheme in fact formed part of the kit of credit control instruments used to effectively decelerate credit expansion in 1979-80; other instruments included quantitative ceilings, restriction on utilisation of limits sanctioned under the cash credit system, application of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) to resources raised through PCs, an upward adjustment in interest rates, reduction in the total RBI assistance as well as raising the cost of such assistance, and finally, suasion. The cumulative impact of these measures is reflected in the fact that the expansion in total bank credit during 1979-80 was significantly lower both in absolute amount and in percentage terms than that during the previous year: the expansion was Rs. 2,366 crores or by 12 per cent in 1979-80 as against Rs. 3,621 crores or 22.5 per cent in 1978-79. This decline was, to a large extent, due to a sharp fall in public sector food credit: as against an increase of Rs. 471 crores recorded in 1978-79, food credit actually declined by Rs. 582 crores in 1979-80. The expansion in non-food credit at Rs. 2,948 crores (17.7 per cent) was also lower than the expansion of Rs. 3,150 crores (23.3 per cent) in 1978-79.<sup>1</sup> The non-food credit-deposit ratio of 59 per cent at end-June 1980 was only marginally higher than that a year ago. The deceleration in credit in 1979-80 occurred despite the need for supporting larger inventories with some public sector trading corporations and for providing larger credit to petroleum companies to enable them to meet the higher cost of crude imports.

1.6 It may be recalled that banks had been advised that the absolute increase in non-food credit during the 15-month period from end-March 1979 to end-June 1980 should not exceed the expansion during the 15-month period from end-March 1978 to end-June 1979. Actually, the increase in non-food credit during the former period at Rs. 3,564 crores was only marginally higher than the increase during the latter period (Rs. 3,429 crores). Judged in the light of special factors like

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1. In this case also the limitation regarding comparing final figures of 1978-79 with the partially revised figures of 1979-80 remains valid.



higher level of financing of petroleum companies, etc., referred to earlier, the performance of banks *vis-a-vis* the credit guidelines appears satisfactory.

1.7 From the 1979-80 experience of implementing credit regulations two lessons seem to emerge. First, credit planning and implementation of such plans are an iterative process, in the sense that although the banking system may begin the new year with, say, an Annual Plan, this Plan itself needs to be modified as the year rolls on, in the light of the emerging trends in the economy. Among the factors influencing the trends may be mentioned growth in different sectors, demand situation, prices and the external environment. Secondly, it is much more difficult to slow down credit expansion in the very short run, say, three months or six months, than in the medium-term, say, a year or a fifteen-month period. It is clear that it was not possible for banks generally to adhere to the targets stipulated for a three-month period. In part this inability to implement effectively essentially short-term targets arises from the fact that the cash credit system which continues to dominate banks' lending practices does not lend itself easily to short-term control. Partly, this may be also due to the lags between initiating a measure and the full manifestation of its impact on the credit trends.

1.8 Regarding deployment of credit, it may be recalled that the last Report referred to the two national targets which were expected to be reached by March 1979. First, the share of priority sectors in total outstanding credit should reach a level of not less than one-third of total outstanding credit. Secondly, banks were required to deploy 60 per cent of their total deposit mobilisation from rural and semi-urban areas in the respective areas. The year 1979-80 witnessed further progress in this sphere, although the targets as such could not be fulfilled by all of the banks. At the end of March 1980, advances to priority sectors constituted 31.2 per cent of total (net) bank credit, as against, 29.5 per cent a year ago.<sup>1</sup> Further, available data show that by end-June 1979 public sector banks had achieved credit-deposit ratios of 55.2 per cent and 47.5 per cent for their rural and semi-urban branches, respectively. What is perhaps more important, the number of districts falling in the range above 60 per cent in the case of rural offices and in the range 50 to 60 per cent in the case of semi-urban offices of all scheduled commercial banks had gone up significantly over the year.

1.9 Nationalisation of six private sector banks, with total demand and time liabilities of not less than Rs. 200 crores each, in April 1980, was another important development during the year. This extends further the area of public control over the country's banking system.

1.10 Looking ahead, it is necessary to refer to two important policy decisions by which the course of banking development during the next five

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1. Reference is invited to the foot-note on page 27.

years or so would be influenced. First, public sector banks should strive to raise the proportion of their advances to priority sectors from the present target of 33  $\frac{1}{3}$  per cent to 40 per cent of the total by 1985. Secondly, banks should actively provide financial support to the implementation of the 20-Point Programme which aims at improving the lot of the weaker sections of the population. The modalities of the implementation of the Programme have been chalked out by the Working Group, specially constituted for the purpose by the Reserve Bank, in its Report submitted to the Government of India (GOI) in April 1980. Considering that the present share of priority sectors is 31.2 per cent, banks will have to work out the incremental advances to priority sectors every year, in the light of the projected increase in total credit so as to progressively reach the stipulated target by 1985. Moreover, qualitatively, banks will have to address themselves to adapt their lending attitudes, procedures and techniques with a view to enlarging the assistance to the relatively weaker sections.

## CHAPTER 2

### COMMERCIAL BANKING

#### I. OVER-ALL REVIEW

2.1 The rate of growth of aggregate deposits decelerated from 23 per cent in 1978-79 (July-June) to 16.1 per cent in 1979-80. The deceleration in the growth of deposits has to be viewed in the face of a decline by three per cent in real national income during the year. However, the sharp variation in the growth rates of deposits as reflected in the data may get moderated somewhat when the final data for June 1980 become available; this point has been spelt out later.

2.2 The high rate of monetary expansion for the third year in succession generated inflationary pressures in the economy and called for stringent credit measures. Restraint on non-food credit expansion, raising of the cost of credit and tightening of refinance facilities were the main planks of credit policy measures taken during the year. These measures were sought to be implemented in such a manner that genuine credit needs of production and distribution were met. In retrospect the performance of banks shows that the actual credit expansion was only marginally higher than the norms of the credit targets indicated.

2.3. The nationalisation of six banks and the raising of the target of priority sector advances from 33½ per cent to 40 per cent of total advances to be achieved by banks in the next five years were the other major developments of the year. The role of commercial banks in the implementation of the 20-Point Programme was re-emphasised and steps were initiated to work out the modalities in this regard.

#### II. TRENDS IN DEPOSITS AND CREDIT

##### *Aggregate Deposits : Growth Trends*

2.4 Aggregate deposits of the scheduled commercial banks rose by Rs. 4,612 crores during the year (*i.e.*, between June 29, 1979 and June 27, 1980) as against Rs. 5,359 crores during the preceding year. The rate of growth of aggregate deposits thus decelerated from 23 per cent in 1978-79 to 16.1 per cent in 1979-80.

2.5 The deceleration in deposits growth in 1979-80 has to be basically judged against the background of an actual decline by three per cent in real national income during the year. Further, the impact of the measures taken to tighten credit expansion itself and the slowing down in the pace of primary money creation particularly in the later part of the year 1979-80 also appear to have contributed to the deceleration in deposits growth.

TABLE 2.1—SCHEDULED COMMERCIAL BANKS : DEPOSITS GROWTH

										(Rupees Crores)	
										Variations in (July-June)	
										1978-79 (Final)	1979-80 (Partially revised)
Demand Deposits	..	..	..	..	..	..	..	..	..	+ 1,831 (+19.9)	— 419 (— 3.8)
Time Deposits	..	..	..	..	..	..	..	..	..	+ 3,527 (+25.0)	+ 5,031 (+ 28.6)
Aggregate Deposits	..	..	..	..	..	..	..	..	..	+ 5,359 (+ 23.0)	+ 4,612 (+ 16.1)

Note : Figures in brackets represent growth rates.

2.6 Notwithstanding the decline in real national income, if deposits grew by 16.1 per cent in 1979-80, this is attributable in part to another factor. Because of the unusually high rate of inflation—the rise in wholesale prices was around 20 per cent in 1979-80—nominal or money incomes rose substantially and, therefore, the growth in deposits recorded during the year also reflects the impact of the rise in nominal incomes.

2.7 While the decline in the rate of growth of aggregate deposits in 1979-80 is thus clearly discernible, the sharpness of the decline in growth rates needs to be qualified by two factors. First, it should be recognised that up to the end of May 1980, the accretion to deposits (during the year 1979-80) was almost comparable to the accretion during the corresponding period of the previous year : the incremental deposits during the period July 1979 to May 1980 at Rs. 3,962 crores were only marginally lower than the accretion of Rs. 4,129 crores during the corresponding period of 1978-79. Even in terms of percentage growth rates, the difference between the two periods was only four percentage points. The difference in the growth, both in terms of absolute amount as well as percentage, widened considerably during the month of June 1980 when the accretion to deposits was only Rs. 650 crores in sharp contrast to an accretion of Rs. 1,229 crores in June 1979.<sup>1</sup> Secondly it should be noted that in Table 2.1, the comparison is between the final figures of 1978-79 and the partially revised figures of 1979-80. If past experience is any guide, the final figures are generally higher than the partially revised figures and hence it is quite likely that the final figure for June 1980 would turn out to be higher than the partially revised figures used in the Table. Taken together, these two factors appear to suggest that the difference in growth rates as reflected in the figures given in Table 2.1 is likely to be narrowed down somewhat when the final figures for June 1980 become available.

1. Aggregate deposits registered a steep increase of Rs. 840 crores in the last week of June 1979. This naturally inflated the deposits growth rate in 1978-79 and, as a consequence, the base figure for 1979-80 became higher.

### *Growth of Demand and Time Deposits*

2.8 While the trends in the growth rate of aggregate deposits in 1979-80 are clearly noticeable, the assessment of the relative growth of demand and time deposits during the year poses some difficulties because of the changes in the classification of savings deposits.

2.9 Generally, the Savings Bank Rules of a bank specify a maximum amount that might, at any time, be withdrawn from an account without previous notice; in respect of each account, such maximum amount, or where the balance in the account was not more than this maximum, the whole of the balance, was regarded as a demand liability and the excess over the maximum amount, as a time liability. Under the new procedure laid down by the RBI, which became effective from August 16, 1978, the average of the monthly minimum balances in a savings account on which interest is being credited to that account has to be regarded as a time liability and the excess over the said amount to be regarded as a demand liability. Not all the banks have adopted the new procedure. Some large banks, however, have switched over to the revised classification on different dates since January 1978. The result is that published data on demand and time deposits during 1979-80 have become non-comparable with those of the previous year, though the aggregate deposit figures are not affected by this change.

2.10 To present the data for 1978-79 and 1979-80 on a comparable basis, the published figures of demand and time deposits are adjusted for the changes made by some large banks and are given in Table 2.2. It is clear that the rise in demand deposits at Rs. 941 crores (+9.7 per cent) in 1979-80 (July-June) was lower than the rise of Rs. 1,953 crores (+25.2 per cent) in the previous year; the increase in time deposits at Rs. 3,671 crores was higher in absolute terms than the rise of Rs. 3,405 crores in the previous year, although the rate of growth at 19.3 per cent was lower than that of 21.9 per cent in 1978-79.

TABLE 2.2—GROWTH OF DEMAND AND TIME DEPOSITS : ADJUSTED DATA<sup>1</sup>

										(Rupees Crores)	
										Variation in (July-June)	
										1978-79	1979-80
										(Partially revised)	
										1	2
Demand Deposits	..	..	..	..	..	..	..	..	..	+ 1,953 (+25.2%)	+ 941 (+ 9.7%)
Time Deposits	..	..	..	..	..	..	..	..	..	+ 3,405 (+21.9%)	+ 3,671 (+19.3%)
Aggregate Deposits	..	..	..	..	..	..	..	..	..	+ 5,359 (+23.0%)	+ 4,612 (+16.1%)

<sup>1</sup> Adjusted for changes in the classification of savings deposits on the assumption that those large banks which had adopted the new classification in 1978-79 and 1979-80 had done so from June 1978. (Figures in brackets represent growth rates).

### Deposits Rates

2.11 The interest rates structure underwent a significant change with effect from September 13, 1979 and, as an integral part of this change, deposits rates on savings deposits<sup>1</sup> and on fixed deposits with a maturity of nine months to one year were raised by one-half percentage point and those on fixed deposits of one year and above were raised by one percentage point (Table 2.3).

TABLE 2.3—INTEREST RATES ON DEPOSITS

Class of Deposits	(per cent per annum)			
	Effective from			
	July 25, 1974	June 1, 1977	March 1, 1978	September 13, 1979
	1	2	3	4
I. Current Deposits .. .. .	Nil	Nil	Nil	Nil
II. Savings Deposits .. .. .	5.00	3.00* 5.00*	4.50	5.00 (from 1-10-1979)
III. Fixed Deposits .. .				
1. Up to 14 days .. .	Nil	Nil	Nil	Nil
2. 15 days to 45 days .. .	3.00	3.00	2.50	2.50
3. 46 days to 90 days .. .	3.50	3.50	3.00	3.00
4. 91 days and above but less than 6 months .. .	5.50	4.00	4.00	4.00
5. 6 months and above but less than 9 months .. .	6.00	4.50	4.50	4.50
6. 9 months and above but less than 1 year .. .	7.00	5.00	5.00	5.50
7. 1 year and above but less than 3 years .. .	8.00	6.00	6.00	7.00
8. 3 years and above but up to and inclusive of 5 years .. .	9.00	8.00	7.50	8.50
9. Above 5 years .. .	10.00	10.00	9.00	10.00

*Note :* With effect from February 1, 1975, banks with demand and time liabilities (DTL) of less than Rs. 25 crores were allowed to pay, at their discretion, a rate higher by 0.25 per cent per annum on term deposits up to and inclusive of five years. From October 2, 1975 RRBs were allowed to pay interest at rates higher by 0.50 per cent per annum on fixed deposits up to and inclusive of five years; this was amended to cover the deposits for periods above five years also effective January 1, 1977. However, from June 1, 1977, banks with DTL of less than Rs. 25 crores, as also RRBs, have been allowed to pay a rate higher by 0.25 per cent per annum and 0.50 per cent per annum, respectively, on term deposits up to and inclusive of five years.

Savings deposits : (a) effective July 23, 1974, banks with DTL of less than Rs. 10 crores were allowed to pay a rate higher by 0.50 per cent, (b) with effect from February 1 1975, banks with DTL between Rs. 10 crores and Rs. 25 crores were allowed to pay a rate higher by 0.25 per cent and (c) from July 1, 1977, banks with DTL of less than Rs. 25 crores, as also RRBs, have been allowed to pay a rate higher by 0.25 per cent per annum and 0.50 per cent per annum, respectively.

\* 3 per cent for deposits with cheque facilities and 5 per cent for those without cheque facilities.

### Non-Resident Accounts

2.12 The provisional data on Non-Resident (External) Rupee-Accounts and on Foreign Currency (Non-Resident) Accounts are presented in Table 2.4. As mentioned in the Report for 1978-79, the stipulation about the minimum period of one year and the maximum period of five years applicable to deposits under the Foreign Currency (Non-Resident) Accounts Scheme was discontinued with effect from June 5, 1979 thus bringing such deposits on a par with all other deposits accepted by banks.

1. Raised from October 1, 1979.

TABLE 2.4—NUMBER OF ACCOUNTS AND OUTSTANDING BALANCES UNDER NON-RESIDENT (EXTERNAL) RUPEE ACCOUNTS AND FOREIGN CURRENCY (NON-RESIDENT) ACCOUNTS

*Non-resident (External) Rupee Accounts*

As at the end of	No. of accounts	Amount (in crores of Rupees)
June 1979 .. .. .	3,98,607	530
June 1980 .. .. .	5,29,214	710

Note : Data are provisional.

(Source : Exchange Control Department, RBI)

*Foreign Currency (Non-resident) Accounts*

As at the end of	Foreign Currency	No. of accounts	Amount of deposits ('000)
December 1978* .. .. .	£ Stg.	7,274	1,31,57
December 1979 .. .. .	£ Stg.	8,488	1,41,48
December 1978* .. .. .	U.S. \$	28,474	14,41,91
December 1979 .. .. .	U.S. \$	29,545	14,67,92

\* Revised

Note : Data are provisional.

(Source : Department of Statistics, RBI).

*Trends in Credit*

2.13 The expansion in total bank credit (*i. e.* excluding bills rediscounted with the RBI but including credit extended through issue of PCs) during 1979-80 (end-June 1979 to end-June 1980) at Rs. 2,366 crores<sup>1</sup> (+12 per cent) was lower than the expansion of Rs. 3,621 crores (+22.5 per cent) in 1978-79. The decline in credit growth in 1979-80 both in terms of absolute amount and rate of increase, was the result of the steep fall of as much as Rs. 582 crores in food credit as against a rise of Rs. 471 crores in the preceding year, and a smaller expansion of Rs. 2,948 crores<sup>1</sup> (+17.7 per cent) in non-food credit as against an expansion of Rs. 3,150 crores (+23.3 per cent) in 1978-79 (Table 2.5). The lower expansion in bank credit as compared to that in 1978-79 has, however, to be viewed in the context of a decline of three per cent in real national income in 1979-80, referred to earlier.

2.14 The month-to-month variations in non-food credit during 1979-80 provide an interesting contrast to the trend in 1978-79. Except for a decline in July 1979 of Rs. 172 crores and in May 1980 of Rs. 176 crores, non-food credit recorded a continuous rise in all the months.

1. The variations for 1979-80 are based on the partially revised figures for June 1980 and they may work out somewhat higher on the basis of final figures, when they become available.

TABLE 2.5—SCHEDULED COMMERCIAL BANKS' DATA

Items	(Rs. Crores)				
	Outstanding as on			Variations during	
	June 30, 1978	June 29, 1979	June 27, 1980*	1978-79 (2-1)	1979-80* (3-2)
	1	2	3	4	5
1. Aggregate Deposits .. .. .	23,312	28,671	33,283	+5,359	+4,612
(a) Demand Deposits .. .. .	9,219	11,050	10,631	+1,831	— 419
(b) Time Deposits .. .. .	14,094	17,621	22,652	+3,527	+5,031
2. Total Bank Credit .. .. .	16,066	19,687	22,053	+3,621	+2,366
<i>of which</i>					
(a) Food procurement advances ..	2,525	2,996	2,414	+ 471	— 582
(b) Bank credit excluding food advances	13,541	16,691	19,639	+3,150	+2,948
3. Bills rediscounted with the RBI .. ..	101	71	75	— 30	+ 4
4. Gross Bank Credit (2+3) .. ..	16,167	19,758	22,128	+3,591	+2,370
5. Investments in Government and other approved securities .. .. .	7,552	9,389	11,825	+1,837	+2,436
(a) Government securities .. .. .	5,497	6,875	8,461	+1,378	+1,586
(b) Other approved securities .. ..	2,055	2,513	3,364	+ 458	+ 851
6. Cash in hand and balances with the RBI	2,755	3,582	4,051	+ 827	+ 469
7. Borrowings from the RBI .. .. .	335	659	488	+ 324	— 171
8. Credit-Deposit Ratio .. .. .	68.9	68.7	66.3		
9. Gross Credit-Deposit Ratio .. .. .	69.4	68.9	66.5		
10. Non-food Credit-Deposit Ratio .. ..	58.1	58.2	59.0		
11. Gross non-food Credit-Deposit Ratio ..	58.5	58.5	59.2		
12. Investments-Deposit Ratio .. .. .	32.4	32.8	35.5		

\* Partially Revised.

Note : Bank credit figures are inclusive of credit extended through issue of participation certificates.

(Source: Returns received under Section 42(2) of the RBI Act, 1934)

The increases were particularly sharp in December 1979 and in March 1980, at as high as Rs. 631 crores and Rs. 684 crores, respectively. In 1978-79, the monthly variations were very sharp, and ranged from a decline of Rs. 264 crores in February 1979 to an increase of Rs. 1,423 crores<sup>1</sup> in December 1978. The incremental gross non-food credit-deposit ratio for the period December 1, 1978 to June 27, 1980 worked out higher at 61.3 per cent as against 57.8 per cent for the period December 1, 1978 to June 29, 1979.

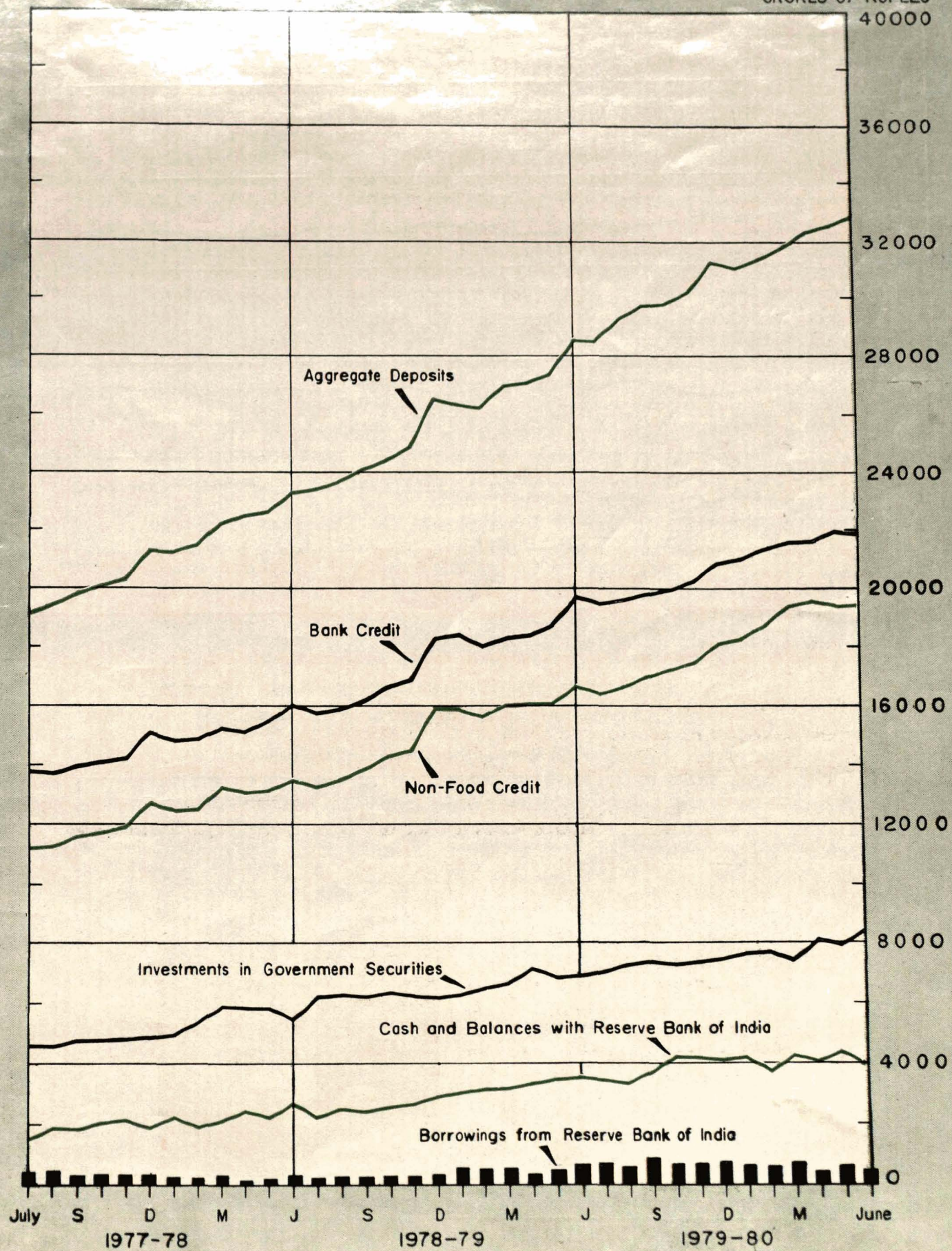
1. The agitation by bank employees from mid-December 1978 to the third week of January 1979 resulted in dislocation of clearing operations throughout the country and contributed in part to an abnormal inflation of credit figures.



# SCHEDULED COMMERCIAL BANKS - SELECTED ITEMS

(AS ON LAST FRIDAY)

CRORES OF RUPEES

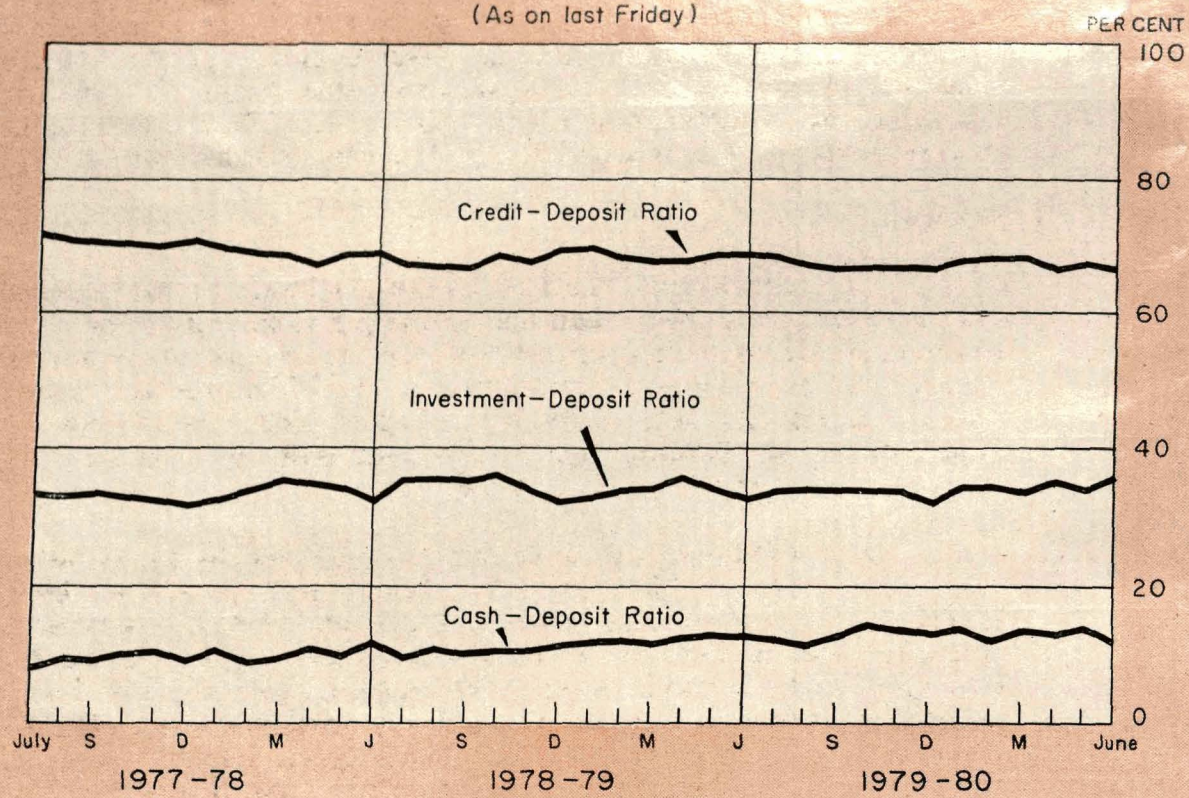




2

## SCHEDULED COMMERCIAL BANKS' CASH, INVESTMENTS AND CREDIT-DEPOSIT RATIOS

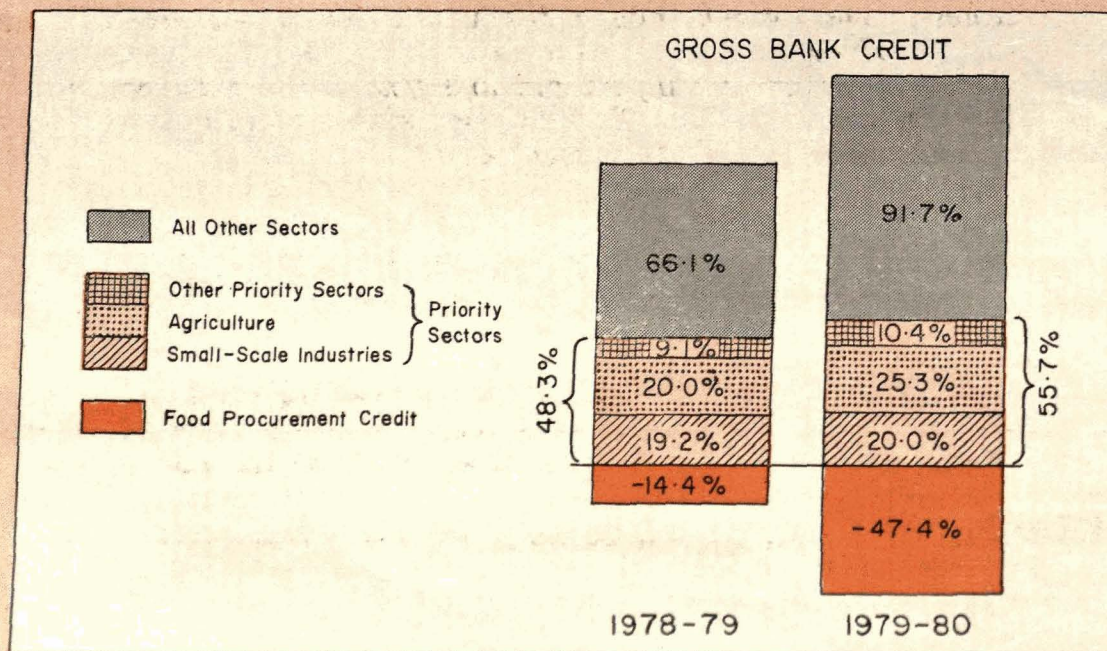
(As on last Friday)



3

## SECTORAL DEPLOYMENT OF GROSS BANK CREDIT VARIATIONS DURING 1978-79 AND 1979-80

(FROM LAST FRIDAY OF JUNE TO LAST FRIDAY OF MARCH)





2.15 Scheduled commercial banks were able to augment their investment portfolios by Rs. 2,436 crores in 1979-80 as compared with the rise of Rs. 1,837 crores recorded during 1978-79. The increase in their cash in hand and balances with the Reserve Bank was Rs. 469 crores, as against an increase of Rs. 827 crores recorded during 1978-79. Banks liquidated their indebtedness to the RBI by Rs. 171 crores in contrast to additional indebtedness of Rs. 324 crores recorded during 1978-79.

#### *Refinance*

2.16 As a general trend, the RBI's total assistance to banks remained at a lower level in 1979-80 than that in the previous year. The refinance limits available to banks against food credit, export credit and under "Small Farmers' Window" amounted to Rs. 277 crores as on June 27, 1980 as against Rs. 672 crores a year ago. The outstandings against these limits, as on the same date, were substantially lower at Rs. 82 crores as against Rs. 509 crores a year before.

2.17 The discretionary refinance limits sanctioned to banks, as on the last Friday of June 1980, were somewhat higher at Rs. 43 crores as against Rs. 33 crores a year before. The limits reached a peak of Rs. 87 crores in January 1980, of which limits aggregating Rs. 35 crores were sanctioned to three banks to tide over problems arising out of dislocation in their operations because of industrial relations problem. The average amount of discretionary refinance limits sanctioned to banks during 1979-80 (July-June) was lower at Rs. 56 crores than that of Rs. 72 crores in the previous year. As on June 27, 1980 the outstandings amounted to Rs. 28 crores as against Rs. 12 crores a year ago. The total outstanding refinance from RBI<sup>1</sup> as on June 27, 1980 was significantly lower at Rs. 110 crores as against Rs. 600 crores a year before.

2.18 The bills rediscounting limits sanctioned as on June 27, 1980 at Rs. 95 crores were lower than those sanctioned a year before (Rs. 118 crores). The average bills rediscounting limits sanctioned to banks during 1979-80 (July-June) were also lower at Rs. 131 crores than those of Rs. 151 crores during the previous year. The outstandings of bills rediscounted as on June 27, 1980 were slightly higher at Rs. 75 crores as against Rs. 71 crores a year before.

### III CREDIT POLICY

#### *Over-all Approach*

2.19 Right from the beginning of the year the emphasis of monetary and credit policy continued to be one of restraint, especially in the light of the emergence of inflationary pressures in the economy and prospects

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1. Excluding refinance against shipping loans, import of capital goods, duty draw-back and refinance to RRBs.

of a decline in national income. The overhang of sizeable monetary expansion of the previous three years, at the average annual rate of 18 per cent, necessarily warranted the pursuit of restrictive monetary policy in 1979-80—a year in which national income was expected to decline. In implementing such a credit policy, however, care had to be taken to ensure that the genuine needs of production, investment and employment generation were met. Against this background, the guideline given to commercial banks in June 1979 that the expansion in bank credit in 1979-80, as a whole, should be less than in the previous year, both in absolute and percentage terms, was reiterated in August 1979. Banks were required to strictly curtail advances to traders as well as manufacturers utilising stocks of sensitive and scarce commodities and to restrict the effective drawing power under the limits for cash credit and inland bills of large borrowers to 80 per cent of the peak levels of actual utilisation during the two-year period ended June 1979.

2.20 Apart from restricting the availability of credit, the cost of credit was also increased in September 1979. With a view to ensuring that the banks provided credit out of their own resources, the refinance facilities were tightened.

**August 1979  
Measures**

2.21 After the initial restraint in credit expansion at the beginning of the financial year 1979-80, the flow of non-food credit had, since the end of May 1979, again started increasing. In the context of the lack of prospects for growth in the economy, as already indicated, and the rising trend in wholesale prices, permitting credit expansion at this rate during the rest of the year would have been hazardous for the economy. As part of the credit policy package announced on August 7, 1979, the Bank reiterated the need for banks to ensure that non-food credit expansion was strictly restricted so that the total credit expansion during the financial year 1979-80 would be significantly less than in the preceding year in absolute terms. Banks were further advised to take steps to strictly curtail (i) advances to traders as well as manufacturers utilising stocks of sensitive and scarce commodities, (ii) clean loans and (iii) advances against shares, securities or real estate. No new credit limits were to be given to traders and manufacturers against sensitive commodities, particularly against sugar, oilseeds, vegetable oils and similar commodities where speculative tendencies were clearly in evidence.

2.22 Further action to strengthen the credit control measures was taken on August 23, 1979. The package of measures included the following.

(a) In the case of all accounts of borrowers enjoying aggregate credit limits of Rs. 25 lakhs and above from the banks, the effective drawing power under the limits for cash credit and inland bills for the period August 23, 1979 to end-December 1979 would be limited to 80 per cent of the peak levels of actual utilisation reached during the

two-year period ended June 1979. However, banks were to ensure that this method of refixing the drawing powers would in no case result in raising the cash credit limits as they stood on August 22, 1979.

(b) Banks could permit additional credit over the level indicated as in (a) above, up to 10 per cent of the effective drawing power, after satisfying themselves that the additional credit needs were completely justified in terms of production increases and/or market dislocations beyond the control of the concerned unit/s. The discretion was to be exercised at a level higher than the branch office. However, in such cases also it was not to result in raising the cash credit limits as it obtained on August 22, 1979.

(c) Where, in respect of cash credit and inland bill limits of Rs. 25 lakhs to Rs. 2 crores banks felt that the additional accommodation required over the redefined drawing power exceeded 10 per cent, such cases were to be examined by a Committee of Executives of the bank constituted for the purpose. In regard to cases requiring the approval of the Board of Directors, such approvals were to be obtained.

(d) In respect of all credit limits subject to credit authorisation by the RBI, additional credit limit over the prescribed level of 80 per cent was to be submitted to the Bank for prior approval.

It was realised that this measure would have to be operated flexibly to enable certain sectors to continue to receive increased credit facilities. Accordingly, exports, sick units, other priority sectors and fertilizers were given special concessions.

2.23 With a view to reducing recourse to central bank credit, refinance facilities were tightened with effect from the last Friday of September 1979. The extent of refinance available from the Bank at 9 per cent in respect of food credit was reduced, effective September 28, 1979, from 50 per cent of the increase in such credit over Rs. 2,000 crores to 30 per cent. The refinance under the "Small Farmers' Window" was limited to 50 per cent of the increase over the level as on the last Friday of December 1978 (as against the earlier base of January 1, 1978).

2.24 Despite the Reserve Bank subjecting outstanding PCs to SLR and CRR, banks continued to have recourse to this source of funds on a sizeable scale. The RBI, therefore, instructed banks (i) to limit outstanding PCs to the July 27, 1979 level by the last Friday of September 1979, (ii) to bring PCs down to the July 27 level, in case they were already above that level and (iii) not to increase PCs if they were below the July 27 level.

September 1979  
Measures :  
Interest Rates  
Structure

2.25 In continuation of the measures taken on August 23, 1979 for regulating further expansion in commercial bank credit, an upward revision in the structure of interest rates was brought about from September 13, 1979. The changes introduced in deposit rates have

already been referred to. The main changes in lending rates are briefly indicated below.

### *Lending Rates*

2.26 Except for certain specified categories, the ceiling rates on short-term advances were raised by three percentage points from 15 to 18 per cent in respect of scheduled commercial banks with demand and time liabilities of Rs. 25 crores and above and from 16 to 19 per cent in the case of scheduled commercial banks with demand and time liabilities below Rs. 25 crores. The minimum lending rates under Selective Credit Control were also raised, the details of which are given later under the relative section (para 2.52).

2.27 The enhanced rates were not made applicable to priority sector advances, pre-shipment and post-shipment export credit, credit to sick units under agreed nursing programmes, credit to Food Corporation of India/State Governments and their agencies for public procurement and distribution of foodgrains and credit to specified public sector agencies for procurement/distribution of other commodities.

2.28 Banks were advised to raise the rate of interest charged by them on short-term advances (a) to trading sector by three percentage points in respect of advances of Rs. 10 lakhs and above and by two percentage points on advances below Rs. 10 lakhs, and (b) to other borrowers by three percentage points on advances of Rs. 2 crores and above and by two percentage points on advances between Rs. 50 lakhs and Rs. 2 crores; for advances below Rs. 50 lakhs, the interest rate was not increased. For term loans with a maturity of not less than three years, the ceiling rates remained unchanged — at 12.5 per cent for capital investment in priority areas and 14 per cent for other purposes. The general minimum lending rate on advances continued to be 12.5 per cent except for preferred categories.

### *Other Measures*

2.29 With effect from September 1, 1979 banks were allowed to grant additional credit (beyond 80 per cent of the actual peak level utilisation) to sick units under the discretion vested in them or refer such proposals to the Bank for authorisation, wherever necessary, on the basis of a realistic assessment of the genuine minimum requirements of the concerned units. Banks could also grant additional credit to borrowers for export purposes or to the priority sectors provided they were satisfied about the genuine needs of the borrowers. Exemptions granted in regard to the allowing of temporary working capital limits by banks to borrowers covered by the CAS were withdrawn. Banks were also advised to evolve specific schemes of credit assistance to meet the needs of small vendors/petty traders and small pedlars who require only a limited amount of credit especially in urban and metropolitan centres.

**November 1979 Measures** 2.30 In view of the fact that the normal seasonal fall in commodity prices did not manifest itself and in the context of the slow-down in agricultural and industrial output, it was considered necessary to continue the existing regime of strict credit discipline in the 1979-80 busy season. Banks were informed on November 23, 1979, that the existing credit regulatory measures were to remain unchanged in regard to SLR/CRR, incremental non-food credit-deposit ratio of 40 per cent and the stipulation that the expansion in non-food credit in 1979-80 be restricted to less than in 1978-79 in both absolute and percentage terms. The August 1979 measure requiring banks to restrict effective drawing power under the limits for cash credit and inland bills to 80 per cent of the peak level of actual utilisation was extended up to end-March 1980.

2.31 Moreover, banks were advised to limit credit expansion within their own resources and their recourse to refinance facilities at the Reserve Bank to only very special cases of need. They were also told that they should meet the credit demand for financing the seasonal requirements for various commodities by making necessary adjustments in their existing commitments to the rest of the sectors. Further, banks were urged to refrain from giving guarantees for private placement of deposits with companies by financial institutions and non-banking institutions and to reduce their reliance on PCs; they were also not to accept special deposits at preferential rates from financial institutions and others since such acceptance would tantamount to circumventing the policy of reducing their reliance on PCs. Banks were asked to raise the advances rates to the permitted maximum especially in respect of large accounts and avoid rate competition among themselves. Inter-bank transfers of large accounts were not to be on the basis of rate concessions.

**March 1980 Measures** 2.32 Towards the close of the financial year, there was clear evidence of a deterioration of the over-all economic situation. While national income in 1979-80 was expected to actually decline, the wholesale price index had risen sharply during 1979-80 (April-March) by as much as 21.4 per cent. There was a further erosion in the external payments situation with a sizeable payments deficit looming large. In this context, the Reserve Bank took additional credit restraint measures on March 25, 1980. To mention the main measures :

2.33 Banks were asked to ensure that the absolute non-food credit (net<sup>1</sup>) expansion during the 15-month period (end-March 1979 to end-June 1980) should not exceed that during the period end-March 1978 to end-June 1979. Food refinance entitlement at 9 per cent was further restricted, effective April 25, 1980, to 30 per cent of the increase in food credit over Rs. 2,200 crores (against Rs. 2,000 crores earlier).

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<sup>1</sup> i. e., excluding bills rediscounted with the Reserve Bank of India, but inclusive of Participation Certificates.

The basis for export credit refinance was to be the monthly average for 1978 instead of the monthly average for 1977. The restriction on the effective drawing power under the limits for cash credit and inland bills of over Rs. 25 lakhs was extended up to end-June 1980.

*Working Group : Priority Sector Lending and 20-Point Programme*

2.34 The RBI constituted a Working Group to work out the modalities of implementation of two important decisions taken at a meeting of the Finance Minister with the Chief Executives of public sector banks in New Delhi on March 6, 1980, viz., (1) public sector banks should aim at raising the proportion of their advances to priority sectors from 33½ per cent to 40 per cent by 1985, and (2) the banks should actively promote implementation of the 20-Point Programme. The two distinct objectives of the 20-Point Programme are : (1) improving the economic well-being of the weaker sections with a view to reducing economic inequalities and (2) ensuring efficient production and equitable distribution of essential commodities particularly those in short supply so as to counteract inflationary pressures and their deleterious effects.

2.35 It was urged on the banks that the emphasis should be not only on priority sectors, but on the weaker and under-privileged groups within each sector. In implementing these decisions it was necessary to reinforce the framework of the district credit plans with special emphasis on the 20-Point Programme.

**Operational  
Modifications**

2.36 While the over-all credit policy continued to be restrictive, the Bank reviewed and modified from time to time the restriction imposed in August 1979 on the effective drawing power under the limits for cash credit and inland bills in respect of borrowers enjoying credit limits of Rs. 25 lakhs and above, so as to vest in banks more discretionary power to grant additional credit in deserving cases. Thus, in December 1979, it was decided that whenever an application was made to the Reserve Bank for authorising an increase in packing credit limits, banks have the discretion to release, pending the Reserve Bank's authorisation, an amount up to 10 per cent of the authorised packing credit limits subject to a maximum of Rs. 25 lakhs. Further, banks could also allow, for a period not exceeding three months, temporary excess drawings in these packing credit limits, or, enhance them without prior authorisation up to 10 per cent of the limits (later raised to 15 per cent) or Rs. 25 lakhs, whichever was less. Similar discretionary powers were granted under further liberalisation in March 1980 in respect of (i) additional working capital facilities urgently required for a new manufacturing unit established by an existing company and (ii) in cases of emergency such as when essential imports have to be cleared, or for purchase of power-generating equipment. The RBI also vested in banks in February 1980 the discretion to allow, in certain cases, additional credit over the redefined credit limits, but not beyond the sanctioned limits obtaining on August 22, 1979, in respect



of borrowers covered by the CAS. Earlier, such additional credit could be allowed only with the RBI's prior approval.

2.37 Reference may also be made to yet another operational modification i.e., relating to valuation of Government securities. In terms of sub-section (2A) of Section 24 of the BR Act, 1949, the unencumbered investments in approved securities which can be taken into account as eligible assets for the purpose of SLR have to be valued at a price not exceeding the current market price. In view of the upward adjustment made in the yields of Government securities and the consequent impact on their market prices, the Reserve Bank decided to give some relief to banks which might find it difficult to comply with the SLR requirements. Banks were, therefore, advised on May 2, 1980 that in cases where the percentage of eligible assets maintained in various forms falls short of the stepped-up liquidity requirements of 34 per cent by reason of a bank valuing its investments at current market price, it will be deemed to have complied with the stipulation if it maintains: (a) a liquidity ratio of not less than 25 per cent (as required in terms of Section 24 of the BR Act), the securities taken into account for this purpose being valued at rates not exceeding the current market prices, and (b) an additional liquidity ratio of 9 per cent, the securities taken into account being valued at book value less so much of the provision, if any, made by the bank for depreciation in the value of its investments, as is not in excess of the depreciation in the market value of the said securities. As this concession would be available only till the end of November 1980 banks were advised to make all efforts to replenish their investments.

**June 1980  
Measures**

2.38 The persistent pressure on prices, and the emerging difficult balance of payments situation pointed to the need for continued caution on the monetary and credit front. The restrictive credit policy measures had to be pursued even through 1980-81. On June 27, 1980 the RBI advised banks not to slacken their efforts to keep credit expansion within reasonable limits, while taking due care to ensure that the essential requirements of production were met. This was necessary even allowing for the anticipated increases in agricultural and industrial production in 1980-81. Banks had to ensure a return flow of funds during the slack season so that they could be in a better position to meet the busy season demand later in the financial year. Banks were to keep their expansion of non-food credit during the slack season strictly within the limits of their own resources and avoid recourse to refinance from the Reserve Bank. The continued need for banks to reduce their reliance on PCs was also reiterated.

2.39 Against this background, the following broad policy measures were announced:

1. The reserve requirements of banks, i.e., the CRR of 6 per cent, the incremental CRR of 10 per cent and the SLR of 34 per cent were to continue.

2. With effect from July 1, 1980, the interest charged by the RBI for rediscounting bills for first tranche, and the rate on stand-by facility were raised from 9 per cent to 11 per cent. In respect of refinance for food and export, the existing rates of 9 per cent and 10 per cent, respectively, were to continue. Likewise, the minimum interest on discretionary refinance was to remain unchanged at 11 per cent.

3. The scheme for refinance against advances to small farmers (under the "Small Farmers' Window") was discontinued with effect from July 1, 1980. The banks were advised that they should arrange to repay the refinance from the RBI against these loans outstanding as on June 30, 1980, in a phased manner, without dislocating the credit facilities provided to farmers under this scheme but the entire refinance should be repaid not later than September 30, 1980. The banks were also advised that on the advances to small farmers they should continue to charge a rate of interest not higher than 11 per cent, as at present.

4. The special scheme for refinance against loans for import of capital goods, as well as in respect of shipping loans, were also discontinued with effect from July 1, 1980. However, under the former scheme, loans sanctioned on or before June 30, 1980 would continue to be eligible for refinance after July 1, 1980, while, under the latter scheme, further refinance would not be provided as soon as commitments reach the limit of Rs. 500 crores.

5. Banks were to devote special attention to the review of all existing credit limits annually and determine, in respect of credit limits of Rs. 1 crore and above, the likely drawals for each quarter on the basis of quarterly statements obtained from borrowing units.

2.40 Banks were also advised that the incidence of the tax on interest income proposed in the Union Budget for 1980-81 was to be passed on to borrowers on a *pro rata* basis. Subsequently, on August 7, 1980, the RBI advised banks on the minimum lending rate and ceiling rate on advances as also the rates of interest in respect of certain special categories of advances/borrowers to be charged by banks with effect from July 1, 1980. A detailed schedule of revised rates is presented in Appendix 1.

#### *Credit Targets and Performance*

2.41 In retrospect, it may be useful to assess the performance of banks in respect of their efforts to contain credit within the stipulated credit targets. The data regarding expansion in non-food bank credit are given in Table 2.6.

2.42 It was impressed on banks from time to time that their non-food credit expansion in 1979-80 should be significantly less than in the previous year in both absolute and relative terms. Further, the banks were also advised about the continuation of the stipulation, effective

TABLE 2.6—NON-FOOD CREDIT EXPANSION  
(April-March)

						(Rupees Crores)	
						1978-79	1979-80 (Partially revised)
Non-food credit expansion (including PCs)	..	..	..	..	..	+ 2,813	+ 3,371
Rate of Growth	..	..	..	..	..	+21.2%	+21.0%
						End-March 1978 to end-June 1979	End-March 1979 to end-June 1980 (Partially revised)
Non-food credit expansion (including PCs)	..	..	..	..	..	+ 3,429	+ 3,564
Rate of Growth	..	..	..	..	..	+25.9%	+22.2%

from December 1, 1978, that their incremental non-food credit-deposit ratio should not exceed 40 per cent. The expansion in non-food credit (inclusive of PCs) at Rs. 3,371 crores in 1979-80 (April-March) was higher than the expansion of Rs. 2,813 crores in the previous year. In terms of the rate of growth, however, non-food credit rose by 21 per cent which was marginally lower than 21.2 per cent in 1978-79. The incremental gross non-food credit-deposit ratio from December 1, 1978 to end-June 1980, however, stood at 61.8 per cent.

2.43 In view of the fact that the banks were not able to comply with these stipulations, they were advised in March 1980 that the absolute increase in non-food credit during the 15-month period from end-March 1979 to end-June 1980 was not to exceed the absolute expansion during the 15-month period from end-March 1978 to end-June 1979. Actually, the increase, in absolute terms, in non-food credit during the 15-month period ended June 1980 was only marginally higher than in the 15-month period in the previous year. Viewed in the light of special factors like the larger financing of petroleum companies, the performance of the banking system *vis-a-vis* the guidelines set out in March 1980 appears to be satisfactory. On the whole, it is thus clear that banks were not able to adhere to essentially short-term targets, but they could comply with the fifteen-month target.

#### *Selective Credit Control*

2.44 While the general framework of Selective Credit Control continued to remain unchanged adjustments were made in the regulations governing advances against selected commodities in the light of the emerging supply position and the trends in prices. The general rise in prices during the year was quite worrying. What is more, in the case of some sensitive commodities, despite the relatively comfortable supply position,

prices began to rise. In this context banks were advised, on June 29, 1979, to keep a strict vigilance on advances to check any tendency to utilise bank finance for hoarding those commodities. Specific instructions issued in relation to advances against these sensitive commodities are discussed here.

(i) *Sugar*

2.45 On sugar advances, banks were advised that (a) clean limits of Rs. 25 lakhs, permitted earlier, to sugar manufacturing units should be withdrawn and loans should be repaid expeditiously, (b) credit drawn by sugar factories for holding stocks of sugar should be reduced in line with the release of stocks from the factories and (c) margin requirements on all advances against sugar should be raised by 10 percentage points. Consumers' co-operatives holding stocks under the scheme of public distribution organised by Government were, however, exempted from this requirement. In the context of the revival of Government control on the release of sugar stocks by mills, differential minimum margins for advances against stocks released and those against stocks not released were reintroduced on June 29, 1979. The revised margins were (i) 75 per cent for each credit limit granted to parties other than those manufacturing sugar and parties manufacturing sugar in respect of stocks released for sale by Government which had left the factory or mill premises and on which excise duty had been paid, (ii) 65 per cent for each credit limit granted against warehouse receipts issued by Central or State Warehousing Corporations, and (iii) 25 per cent for credit granted to parties manufacturing sugar against stocks of sugar, other than those released for sale which had left the factory and on which excise duty had been paid.

2.46 On October 19, 1979 the RBI advised scheduled commercial banks, that taking into account the difficulties experienced by some sugar mills to meet the expenses necessary for off-season repairs and other essential purposes, it had been decided to permit the granting of temporary clean loans to deserving sugar mills to a limited extent, not exceeding Rs. 25 lakhs in the case of each such unit, without prior reference to the RBI, but subject to certain conditions. The clean loans were to be repaid as soon as possible after the commencement of the 1979-80 season but in any case not later than March 31, 1980.

2.47 On a representation made by some of the sugar mills that they had not been able to avail of the clean loan facility for meeting expenses necessary for off-season repairs and other essential purposes by the stipulated date, viz., November 30, 1979, the RBI allowed certain relaxations in this regard. Accordingly, on December 12, 1979, the Bank (1) extended the period for allowing clean loans up to December 31, 1979 in respect of only those sugar mills which were expected to commence crushing in January 1980 or thereafter, subject to certain conditions, (2) extended the deadline for repayment of these loans from March 31, 1980 to May 31, 1980 and (3) allowed clean loans to

those mills also which had not been able to fully liquidate outstandings in respect of such loans granted during 1978 provided these outstandings did not exceed 10 per cent of the original amount of loan. The old outstandings were in such cases to be adjusted from the proceeds of fresh loans.

2.48 Consequent upon the reintroduction of dual pricing policy for sugar by the Government, the Reserve Bank advised the banks on January 8, 1980, that stocks of levy sugar might be valued at the levy price fixed by the Government and stocks of free sale sugar at the tariff value fixed by the Government or at the market value, whichever was lower.

2.49 For financing sugar mills during 1979-80 crushing season, banks were advised in February 1980 that they might sanction credit limits on merits to individual sugar mills enjoying aggregate credit limits of Rs. 25 lakhs and above, up to the extent of 80 per cent of peak levels of actual utilisation reached during the two-year period ended June 1979. Where the credit requirements of the mills, based on the quantum of cane to be crushed in the 1979-80 season so justified, the banks were allowed to sanction additional credit limits without the RBI's prior authorisation, in such a manner that the enhanced limits did not exceed the maximum amount availed in the previous season. The limits fixed for the current season in the above manner were required to be reported to the RBI together with the prescribed return. Banks were advised that increase in credit limits beyond the maximum availment in the previous season, if sought by individual units covered by the CAS, will require prior authorisation and such proposals should be submitted to the Bank with all the necessary data. Banks were further reminded of the earlier instructions issued in 1971 in regard to the importance of mills making adequate provision for the payment of cane dues to the cane growers, out of the credit limits made available by them against the security of stocks of sugar charged to them. In the case of mills which had proved to be habitual defaulters in making payment to the cane growers, banks were advised to monitor data on cane dues, preferably once a week.

(ii) *Pulses, Oils and Oilseeds*

2.50 Scheduled commercial banks were advised, on June 29, 1979 to keep minimum margins of not less than 45 per cent (as against 35 per cent earlier) on advances against pulses for processing units and of not less than 60 per cent for others as against 50 per cent earlier. The minimum margin on advances against warehouse receipts covering pulses was retained at 40 per cent for processors and raised to 50 per cent from 40 per cent for others. Banks were also advised to refrain from granting additional limits against vegetable oils and oilseeds to parties other than Government and Government supported organisations; even in the case of such organisations a strict scrutiny on drawals was required to be maintained.

(iii) *Gur and Khandsari*

2.51 In view of the steep rise in the prices of gur and khandsari it was decided to increase the minimum margin on advances against gur and khandsari from 35 per cent to 50 per cent for manufacturers of these commodities and from 45 per cent to 60 per cent in respect of others, effective March 1, 1980. The minimum margin for advances against warehouse receipts was increased from 30 per cent to 45 per cent.

*Hike in Minimum Interest Rates*

2.52 Reference has already been made to the fact that as part of the measures taken on September 13, 1979 for regulating further expansion of bank credit the minimum interest rates under Selective Credit Control were also raised. Sugar advances to factories, which had attracted only the general minimum lending rate of  $12\frac{1}{2}$  per cent, were made subject to a minimum lending rate of  $15\frac{1}{2}$  per cent under Selective Credit Control in respect of all stocks. The minimum lending rate for advances was raised from 14 per cent to 17 per cent for (i) cotton textile mills in respect of advances for which lower margins of 20 to 25 per cent were prescribed on stocks of cotton and *kapas* of three, four or four and a half months' consumption, as the case may be, and (ii) mills in West Bengal under the National Textile Corporation or its authorised agencies for stocks of cotton and *kapas* of four and a half months' consumption. In all other cases covered by Selective Credit Control, the minimum lending rate was increased from 15 per cent to 18 per cent. Advances against commodities subject to Selective Credit Control continued to be governed by the directive on maximum lending rate also. The restriction on banks in discounting usance bills arising from sales of commodities covered by Selective Credit Control, except when and where specifically permitted by the RBI, continued.

2.53 Consequent to the imposition of tax on interest income of banks in the Union Budget for 1980-81, the banks were further advised on August 7, 1980 to raise the minimum lending rates as mentioned below, effective July 1, 1980.

- (a) On sugar advances to factories  
in respect of all stocks .. .. 16.70 per cent
- (b) Advances to cotton textile mills  
in respect of which lower margins  
of 20 to 25 per cent were prescribed  
on stocks of cotton and *kapas* of  
three, four, or four and a half  
months' consumption, as the case  
may be, and mills in West Bengal  
under the National Textile Cor-  
poration or its authorised agencies

for stocks of cotton/ <i>kapas</i> of four and a half months' consumption ..	18.35 per cent
(c) On other advances against com- modities subject to Selective Credit Control. .. .. .	19.40 per cent

### *Level of Credit*

2.54 In the general credit control measures announced on August 24, 1979, referred to earlier, it was indicated that when the drawing limit, as stipulated in the measures, was lower than the ceilings, if any, prescribed in the concerned Selective Credit Control directive, such lower drawing limit would be effective.

### *Advances against Warehouse Receipts*

2.55 On an examination of the recommendations of the Working Group on Additional Storage Facilities in Rural Areas set up by the GOI to formulate a scheme for the construction of rural godowns in selected villages to provide to the producers adequate storage facilities for foodgrains, the RBI decided that banks may grant advances against warehouse receipts issued by rural godowns at the same margins and rate of interest as are applicable to advances against warehouse receipts issued by Central and State Warehousing Corporations in the case of such agricultural commodities as are covered by the existing directives provided, however, the godowns are staffed with trained personnel and maintained to the standards of godowns of the Central and State Warehousing Corporations. Banks were also advised on June 11, 1980 that in respect of small advances up to Rs. 5,000 against warehouse receipts covering commodities for which support prices were announced, and in respect of which procurement arrangements by State or Central Government agencies existed, the existing relaxation of 10 percentage points in minimum margin for advances against warehouse receipts issued by Warehousing Corporations as compared with the minimum margin for advances against stocks, should be increased to 30 percentage points. This had the effect of reducing minimum margins on advances against warehouse receipts from the existing 40 per cent to 20 per cent in the case of paddy and other foodgrains, from 50 per cent to 30 per cent in the case of pulses, cotton and *kapas* and from 60 per cent to 40 per cent in the case of oilseeds. As regards the rate of interest on advances up to Rs. 5,000, banks, keeping in view the object of the advance, might fix a rate, as close as they might find feasible, to the general minimum lending rate of  $12\frac{1}{2}$  per cent per annum. Banks were also advised to ensure that the concessional advances would be confined to one advance per borrower in respect of stocks held in one rural godown and to evolve a suitable procedure to make sure that the concessional facility intended mainly to assist the small farmer was not extended to others.

*Participation Certificates*

2.56 Under the PC Scheme, a commercial bank can sell/transfer to a third party, who could be another bank or a specified financial institution, a part or all of a loan made by it to a client, i.e., a borrower. The period of maturity of PCs issued to institutions other than commercial banks is not less than 30 days and not more than 180 days. They can be prematurely repaid provided the repayment is not made before the expiry of the minimum period of 30 days. The restriction regarding maturity period is not, however, applicable to PCs issued to other commercial banks. Although the maximum maturity period is stipulated at 180 days, financial institutions have in practice been able to hold a sizeable portion of PCs for periods beyond six months through the device of renewal on a continuing basis of matured PCs. The maximum rate of interest stipulated had varied over the years; it was 10 per cent in 1979-80. In practice, the maximum has also become the average rate of interest. The PC arrangements had been envisaged at the time they were introduced mainly as a means of evening out liquidity imbalances within the financial system. In this limited sense of providing a temporary avenue of investment for "floating funds"—funds awaiting eventual investment—the PC Scheme seemed justified. However, subsequently, financial institutions appear to have found the PCs convenient for investing sizeable amounts on a continuing basis through the renewal of maturing PCs. At the same time, since the cost of raising funds through PCs was relatively lower to them, banks also came to have recourse to PCs on a sizeable scale. The outstanding PCs issued by commercial banks rose sharply from Rs. 157 crores on the last Friday of December 1976 to Rs. 455 crores on the last Friday of December 1978 and further to Rs. 637 crores on the last Friday of July 1979. The sizeable recourse by banks to PCs on a continuing basis posed serious problems for credit planning and control.

2.57 The PCs issued were being treated by banks as a contingent liability and deducted from the figure of their total advances<sup>1</sup>. Thus, the credit extended by banks through issue of PCs to financial institutions other than banks did not get reflected in the advances figure of banks and they were able, if they so desired, to circumvent the RBI's instruction that the incremental gross non-food credit-deposit ratio since December 1, 1978 should not exceed 40 per cent.

2.58 The banks were advised by the RBI in March 1979 that, while marginal recourse to PC facility was understandable and might even be essential, any large use of such resources was clearly inconsistent with credit planning or credit control. A Working Group was constituted to review the banks' recourse to PCs and borrowings in the call money market. In the light of the specific recommendations made on an interim basis by the Working Group, the Bank decided in June

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1. This was in terms of RBI letter dated June 21, 1977.



1979 to subject funds raised through PCs to SLR and CRR with a view to discouraging banks from taking excessive recourse to PCs. The Reserve Bank advised the scheduled commercial banks that from July 27, 1979, the outstanding PCs issued by banks should cease to be treated as a contingent liability and would have to be treated as deposits and would be subject to SLR and CRR in stages over the period end-July 1979 to end-September 1979.

2.59 Banks were further advised that the amount of PCs issued should not be deducted from the figure of total advances as they had been required to do earlier. Banks, which had purchased PCs, were advised not to include the amount of such certificates in total advances as was the practice till then.

2.60 As a result of the implementation of these instructions data on bank credit given in the weekly press communiques of the RBI relating to scheduled banks/scheduled commercial banks' position for the week ended July 27, 1979 and thereafter and those given in the earlier press communiques have become non-comparable. Bank credit figures prior to July 27, 1979 were inclusive of PCs issued by banks to other banks, but did not include PCs issued by banks to financial institutions other than banks, while bank credit data for July 27, 1979 and thereafter are inclusive of all PCs—those issued by banks to other banks as well as those issued by banks to other financial institutions. A detailed discussion on the use of PCs by the banks, problems of comparability of bank credit data and related issues is provided in Appendix 2.

#### IV. DEPLOYMENT OF CREDIT

##### *Sectoral Deployment of Credit*

2.61 Data on sectoral deployment of gross bank credit are available up to end-March 1980. During the period end-June 1979 to end-March 1980, gross bank credit showed a smaller expansion—both in absolute and relative terms of Rs. 1,891 crores (+ 9.8 per cent) as compared with an increase of Rs. 2,187 crores (+13.7 per cent) during the corresponding period of 1978-79. This was largely because of a sharper decline of Rs. 896 crores in public food procurement credit during the period, as compared with a fall of Rs. 315 crores in the same period of the previous year. Non-food gross credit increased by Rs. 2,787 crores during July 1979-March 1980 as compared to an expansion of Rs. 2,502 crores in the same period in the earlier year (Table 2.7). Available data indicate that the larger growth in non-food credit was mainly due to a sharp increase in the credit extended to oil companies to enable them to bridge the resource gap caused by the increase in the international prices of crude and, to some extent, the reduction in the supplier's credit and larger credit provided to public sector corporations (e.g., STC and MMTC) to make payments for the import of essential commodities and raw materials.

TABLE 2·7—SECTORAL DEPLOYMENT OF GROSS BANK CREDIT

		(Rs. Crores)					
Items		Outstandings		Variations	Outstandings		Variations
		June 1978	March 1979	March 1979 over June 1978	June 1979@	March 1980@	March 1980 over June 1979
		1	2	3	4	5	6
I. Public Food Procurement	.. ..	2,525	2,210	— 315	2,996	2,100	— 896
II. (a) Priority Sectors	.. ..	4,334	5,390	+ 1,056 (42·2)	5,677	6,729	+ 1,052 (37·7)
(i) Agriculture	.. ..	1,726	2,163	+ 437 (17·5)	2,288	2,766	+ 478 (17·2)
(ii) Small-Scale Industries	..	1,756	2,177	+ 421 (16·8)	2,252	2,630	+ 378 (13·6)
(iii) Other Priority Sectors	..	852	1,050	+ 198 (7·9)	1,137	1,333	+ 196 (7·0)
(b) Industry (Medium & Large)		6,249	7,173	+ 924 (36·9)	7,291	8,341	+ 1,050 (37·7)
(c) Wholesale Trade	.. ..	1,424	1,567	+ 143 (5·7)	1,612	1,915	+ 303 (10·9)
(i) Cotton Corporation of India		138	181	+ 43 (1·7)	209	229	+ 20 (0·7)
(ii) Food Corporation of India (Fertiliser)	.. ..	250	208	— 42 (—1·7)	222	210	— 12 (—0·4)
(iii) Jute Corporation of India	..	2	28	+ 26 (1·0)	31	56	+ 25 (0·9)
(iv) Others	.. ..	1,034	1,150	+ 116 (4·6)	1,150	1,420	+ 270 (9·7)
(d) Other Sectors	.. ..	1,428	1,807	+ 379 (15·2)	1,767	2,149	+ 382 (13·7)
III. Non-Food Gross Bank Credit (a+b+c+d)	.. ..	13,435	15,937	+ 2,502 (100·0)	16,347	19,134	+ 2,787 (100·0)
<i>of which</i>							
Export Credit	.. ..	1,142	1,500	+ 358	1,449	1,640	+ 191
IV. Gross Bank Credit (I + III)	.. ..	15,960	18,147	+ 2,187	19,343	21,234	+ 1,891

@ Provisional.

Note : 1 Data relate to major banks which account for about 95% of gross bank credit. Further, these data besides taking into account the bills rediscounted with the RBI also include bills rediscounted with the IDBI and other approved institutions and Participation Certificates.  
 2 Figures in brackets are proportions to non-food incremental credit.

(Source : Credit Planning and Banking Development Cell, RBI)

2.62 Advances to priority sectors, increased by Rs. 1,052 crores (+ 18.5 per cent) as against a rise of Rs. 1,056 crores (+ 24.4 per cent) in the corresponding period of the previous year. At the end of March 1980, priority sector advances constituted 31.2 per cent of the total (net) bank credit as against 29.5 per cent a year earlier<sup>1</sup>. Advances to priority sectors constituted 38.2 per cent of the incremental net non-food bank credit (including PCs) during July-March 1979-80; this incremental ratio was lower than the ratio of 41.7 per cent during the same period in the earlier year. Of the increase in advances to priority sectors, agriculture and small-scale industries accounted for Rs. 478 crores (a rise of 20.9 per cent during the nine months) and Rs. 378 crores (+ 16.8 per cent), respectively, as compared to increases of Rs. 437 crores (+ 25.3 per cent) and Rs. 421 crores (+ 24 per cent), respectively, in the corresponding period of the previous year.

2.63 The share of advances to medium and large industries in incremental non-food gross credit during July-March 1979-80 showed an increase of Rs. 1,050 crores, or 37.7 per cent of non-food incremental credit as against an increase of Rs. 924 crores (36.9 per cent of non-food incremental credit) during the corresponding period of 1978-79. The outstanding credit to industry (medium and large) at the end of March 1980 stood at Rs. 8,341 crores and formed 39.3 per cent of gross credit; the outstanding credit at the end of March 1979 was Rs. 7,173 crores or 39.5 per cent of gross credit. Total credit to industry (large, medium and small-scale industries) increased by Rs. 1,428 crores during the period as compared to an increase of Rs. 1,345 crores in the corresponding period of 1979. The major industries which accounted for the increase were engineering (Rs. 471 crores), iron and steel (Rs. 120 crores) and chemicals (Rs. 185 crores). The industry which recorded the largest decline in credit was sugar (Rs. 95 crores) (Table 2.8). There was an increase of Rs. 303 crores in advances to wholesale trade (other than food procurement) as compared with an increase of Rs. 143 crores during July-March 1978-79. The sharp rise in advances to wholesale trade (other than food procurement) was, as mentioned earlier, due to larger credit provided to public sector corporations.

2.64 Credit to 'other sectors' which represents residual sectors and includes advances to financial institutions, hire purchase agencies, personal loans, etc., increased by Rs. 382 crores during July-March 1979-80, as against a rise of Rs. 379 crores in the corresponding period of 1978-79.

#### *Regional and Rural/Urban Pattern of Credit Deployment*

2.65 The reduction of the degree of imbalances in inter-regional and rural-urban pattern of credit deployment has been an important plank of

1. The data relate to priority sector advances of major banks (which constitute 95 per cent of gross bank credit) as per cent of bank credit, including PCs, but exclusive of bills rediscounted. At the time the policy target of 33½ per cent of total credit was prescribed, PCs were not included in the figures of bank credit. The ratio of priority sector advances to bank credit would work out to 30.3 per cent in March 1979 and 31.9 per cent in March 1980, if PCs are excluded from the figures of bank credit.

TABLE 2-8—INDUSTRY-WISE DEPLOYMENT OF GROSS BANK CREDIT

(Rs. Crores)

	Outstandings		Variations	Outstandings		Variations
	June 1978	March 1979	March 1979 over June 1978	June 1979@	March 1980@	March 1980 over June 1979
	1	2	3	4	5	6
Industry (Total of Small-Scale, Medium & Large-Scale Industries) ..	8,005	9,350	+ 1,345	9,543	10,971	+ 1,428
1. Coal .. .. .	80	65	— 15	69	64	— 5
2. Iron & Steel .. .. .	425	487	+ 62	500	620	+ 120
3. Other Metals & Metal Products ..	256	313	+ 57	319	385	+ 66
4. All Engineering .. .. .	2,057	2,515	+ 458	2,534	3,005	+ 471
5. Electricity (Generation & Transmission)	79	70	— 9	74	96	+ 22
6. Cotton Textiles .. .. .	915	1,008	+ 93	959	1,038	+ 79
7. Jute Textiles .. .. .	107	135	+ 28	132	136	+ 4
8. Other Textiles .. .. .	414	484	+ 70	492	560	+ 68
9. Sugar .. .. .	401	358	— 43	400	305	— 95
10. Tea .. .. .	115	159	+ 44	166	185	+ 19
11. Vegetable Oils (including Vanaspati)	104	150	+ 46	150	145	— 5
12. Tobacco & Tobacco Products ..	111	88	— 23	110	102	— 8
13. Paper & Paper Products .. ..	169	194	+ 25	212	238	+ 26
14. Rubber & Rubber Products .. ..	151	181	+ 30	188	226	+ 38
15. Chemicals, Dyes, Paints, Drugs & Pharmaceuticals .. .. .	875	983	+ 108	1,034	1,219	+ 185
<i>of which</i>						
<i>Fertiliser</i> .. .. .	157	167	+ 10	197	195	— 2
16. Cement .. .. .	45	59	+ 14	62	82	+ 20
17. Leather & Leather Products .. ..	121	145	+ 24	178	172	— 6
18. Construction .. .. .	81	99	+ 18	105	107	+ 2
19. SAFAUNS* .. .. .	119	246	+ 127	248	258	+ 10
20. Residual .. .. .	1,380	1,611	+ 231	1,611	2,028	+ 417

@ Provisional.

\* Ships Acquired from Abroad Under New Scheme.

(Source : Credit Planning and Banking Development Cell, RBI)

banking and credit policy in more recent years. The branch expansion policy is designed to reduce imbalances in banking development between States and among districts within a State.

2.66 So far as credit deployment is concerned, there continues to be a great degree of regional variations, notwithstanding efforts made to reduce regional disparities. At the end of June 1979, the all-India credit-deposit ratio stood at 69.5 per cent. Region-wise, the Northern Region and the Southern Region had credit-deposit ratios above the all-India level (Table 2.9). The North-Eastern Region had the lowest credit-deposit ratio of 36 per cent. Among the different States/Union Territories, the ratios show a wide range of variation from 2.6 per cent in Sikkim to 313.2 per cent in Chandigarh. This situation may be due to various factors such as lack of necessary infrastructure, varying ability of different regions to absorb credit, etc.

2.67 At this stage, the limitations of using the credit-deposit ratio as the sole indicator should be pointed out. The credit-deposit ratios may not necessarily depict the true picture of the extent to which resources mobilised by banks in a particular region/State are utilised in that region/State. First, the ratios do not take into account investment of bank funds in securities of State Governments, debentures of State-level institutions, etc., which contribute to the financing of development projects and infrastructural facilities. Secondly, in some cases the ratios may be high due to the relatively lower magnitude of deposits on the basis of which the ratios are worked out. Thirdly, allowance has to be made for what is called the 'migration of credit', i.e., loans sanctioned by a bank in its offices in a given area may not necessarily represent the financing of activities located in that area. For instance, credit sanctioned at head offices of certain banks may actually be utilised in States other than the State where the head office is located. Interestingly enough, the disparities in credit-deposit ratios become less glaring, if the ratios of credit according to utilisation rather than those of sanction are considered. The data on credit-deposit ratio on the basis of sanction and utilisation are available up to June 1978 (Table 2.10). It could be seen that for the North-Eastern Region, as on the last Friday of June 1978, the credit-deposit-ratio on the basis of sanction stood at 38.4 per cent whereas on the basis of utilisation, the ratio was 54.4 per cent. Like-wise, Chandigarh had a credit-deposit ratio of 349.6 per cent, while the ratio was only 39.6 per cent as per utilisation. Admittedly, the fact still remains that the credit-deposit ratios based on the utilisation of credit were higher than the national average in the Northern and Southern Regions and lower in the other Regions. Thus the inter-State variations, even on the basis of utilisation ratios, continue to be large.

2.68 As the unusually low credit-deposit ratios in certain rural areas gave rise to the apprehension that rural branches might become the conduit for the flow of resource from the rural to the urban areas, public sector banks were advised that by March 1979 the rural and semi-urban

TABLE 2.9—STATE-WISE CREDIT-DEPOSIT RATIOS OF OFFICES OF PUBLIC AND PRIVATE SECTOR SCHEDULED COMMERCIAL BANKS ACCORDING TO POPULATION GROUPS

(As on the last Friday of June 1979)

Region/State/Union Territory	Rural			Semi-Urban			Urban/Metropolitan			Grand Total		
	Public	Private	Total	Public	Private	Total	Public	Private	Total	Public	Private	Total
	1	2	3	4	5	6	7	8	9	10	11	12
<b>Northern Region</b> .. ..	45.0	28.7	40.0	49.3	41.3	47.6	111.4	78.5	105.0	93.6	63.4	87.2
Haryana .. ..	75.3	50.1	67.3	63.3	57.6	62.2	66.8	85.5	70.0	66.2	60.9	65.1
Himachal Pradesh .. ..	32.4	30.7	31.5	22.4	20.5	22.1	—	—	—	28.0	24.8	27.6
Jammu & Kashmir .. ..	41.1	14.8	25.9	48.8	51.8	50.2	29.7	40.5	35.8	34.0	36.4	35.4
Punjab .. ..	27.0	20.7	24.8	39.2	30.1	37.1	44.5	59.7	47.5	38.4	35.1	37.6
Rajasthan .. ..	80.5	80.4	80.5	67.1	59.9	65.7	66.8	47.7	62.8	69.1	55.7	66.5
Chandigarh .. ..	55.6	16.4	24.1	4.5	13.5	9.5	369.4	93.5	319.5	366.1	88.1	313.2
Delhi .. ..	267.3	25.9	202.6	—	—	—	114.1	93.3	110.6	114.3	93.2	110.7
<b>North-Eastern Region</b> .. ..	26.8	90.3	29.7	33.7	38.7	34.0	42.3	52.7	43.4	34.8	50.6	36.0
Assam .. ..	28.7	73.3	29.8	38.8	45.5	39.2	46.2	53.5	47.1	39.4	51.9	40.3
Manipur .. ..	51.5	100.0	51.7	11.8	—	11.8	17.6	43.8	19.4	21.6	43.4	22.8
Meghalaya .. ..	18.1	—	18.1	19.2	19.8	19.2	—	—	—	19.1	19.8	19.1
Nagaland .. ..	6.5	9.5	6.6	37.2	26.7	35.1	—	—	—	29.2	24.9	28.4
Sikkim .. ..	—	—	—	2.6	—	2.6	—	—	—	2.6	—	2.6
Tripura .. ..	55.2	139.3	77.8	38.0	91.2	39.9	—	—	—	40.9	124.4	48.0
Arunachal Pradesh .. ..	9.6	26.5	10.6	—	—	—	—	—	—	9.8	24.5	10.6
Mizoram .. ..	2.6	—	2.6	7.0	15.8	7.8	—	—	—	6.5	14.0	7.0
<b>Eastern Region</b> .. ..	48.6	128.1	52.5	31.3	40.3	31.6	63.2	65.6	63.6	53.9	66.3	55.5
Bihar .. ..	61.1	87.9	62.1	34.4	39.4	34.5	40.7	40.0	40.7	40.4	48.7	40.6
Orissa .. ..	69.1	238.6	87.1	55.1	59.3	55.4	56.2	46.0	55.0	58.2	85.4	61.1
West Bengal .. ..	33.0	77.5	34.7	23.4	32.0	23.7	68.4	67.2	68.2	59.2	66.4	60.3
Andaman & Nicobar Islands .. ..	38.4	—	38.4	20.2	—	20.2	—	—	—	23.0	—	23.0
<b>Central Region</b> .. ..	56.3	47.2	55.3	52.2	38.8	51.1	45.6	56.1	46.7	49.1	50.4	49.2
Madhya Pradesh .. ..	64.2	102.3	65.9	55.3	54.7	55.3	50.5	77.8	52.1	53.7	76.1	54.8
Uttar Pradesh .. ..	54.1	42.2	52.6	51.1	37.0	49.6	43.9	52.2	44.8	47.5	46.7	47.4
<b>Western Region</b> .. ..	42.6	55.8	42.9	42.9	48.9	43.2	75.4	88.7	77.1	66.9	85.3	68.9
Gujarat .. ..	33.5	28.6	33.5	37.3	29.7	37.2	66.6	64.2	66.6	51.8	61.0	52.0
Maharashtra .. ..	68.1	59.3	67.5	50.3	47.6	50.0	77.5	90.0	79.4	74.6	86.8	76.4
Dadra & Nagar Haveli .. ..	63.5	—	63.5	—	—	—	—	—	—	63.5	—	63.5
Goa, Daman & Diu .. ..	22.8	29.9	22.9	45.5	65.1	46.5	—	—	—	37.7	60.4	38.6
<b>Southern Region</b> .. ..	84.3	64.9	78.4	64.0	47.9	59.3	90.0	74.7	86.8	82.1	63.8	77.7
Andhra Pradesh .. ..	111.4	89.3	104.4	75.9	48.0	65.8	69.8	52.6	65.2	76.7	56.2	70.6
Karnataka .. ..	78.9	51.4	70.4	69.9	47.5	63.8	86.3	60.9	81.2	81.7	55.4	75.5
Kerala .. ..	51.7	56.5	53.5	45.0	47.1	45.7	100.0	96.6	99.3	67.0	61.1	65.3
Tamil Nadu .. ..	93.6	68.6	88.9	71.2	49.6	67.0	101.9	98.6	101.3	94.0	83.6	92.0
Lakshadweep .. ..	8.2	—	8.2	—	—	—	—	—	—	8.2	—	8.2
Pondicherry .. ..	91.6	65.5	89.9	37.1	12.9	35.8	61.6	38.7	60.7	61.3	38.8	60.4
<b>All India</b> .. ..	55.2	50.8	54.4	47.5	45.1	47.2	80.0	76.4	79.4	70.0	67.0	69.5

Note : The data are provisional.

(Source : Returns on Aggregate Deposits and Gross Bank Credit).

TABLE 2.10—REGION-WISE AND STATE-WISE CREDIT-DEPOSIT RATIO BASED ON SANCTION AND UTILISATION OF CREDIT

(As on the last Friday)

Region/State/Union Territory	JUNE 1975		JUNE 1976		JUNE 1977		JUNE 1978*	
	Credit-Deposit Ratio		Credit-Deposit Ratio		Credit-Deposit Ratio		Credit-Deposit Ratio	
	As per sanction	As per utilisation	As per sanction	As per utilisation	As per sanction	As per utilisation	As per sanction	As per utilisation
	1	2	3	4	5	6	7	8
<b>Northern Region</b>	69.5	65.6	103.6	101.4	101.3	100.5	88.6	90.5
Haryana	66.6	122.9	55.8	119.7	58.8	108.3	60.8	90.8
Himachal Pradesh	20.8	21.2	19.4	18.9	21.2	21.8	24.2	24.9
Jammu & Kashmir	32.7	31.9	35.6	31.1	32.0	27.6	23.0	19.9
Punjab	35.4	62.6	31.2	73.3	32.5	76.2	36.1	78.8
Rajasthan	66.9	71.6	62.7	62.9	60.3	67.5	59.2	65.1
Chandigarh	303.3	45.1	376.5	20.4	379.8	49.0	349.6	39.6
Delhi	77.7	63.6	147.8	136.1	141.6	133.0	116.8	115.5
<b>North-Eastern Region</b>	39.8	73.1	40.6	64.7	38.9	53.0	38.4	54.4
Assam	48.1	92.0	47.9	79.7	44.9	62.9	43.1	63.9
Manipur	34.8	35.5	31.6	23.5	33.5	33.5	34.9	35.1
Meghalaya	14.6	15.2	19.1	19.0	16.4	18.5	19.2	21.1
Nagaland	23.9	25.1	33.8	46.9	34.6	39.7	28.6	31.8
Sikkim	—	—	1.2	0.4	3.3	3.3	6.1	6.3
Tripura	16.3	24.1	23.4	27.4	29.2	33.0	40.4	43.2
Arunachal Pradesh	7.3	53.7	5.0	46.4	6.4	26.9	6.5	21.4
Mizoram	4.1	0.8	2.9	2.9	3.2	3.2	6.6	6.3
<b>Eastern Region</b>	63.3	63.5	60.0	60.8	59.0	59.4	58.5	57.5
Bihar	44.8	63.5	43.5	61.3	38.4	54.2	41.2	53.4
Orissa	57.8	69.6	54.9	68.7	61.3	70.8	60.8	70.0
West Bengal	70.0	63.1	66.3	60.2	66.1	60.5	64.2	58.1
	(85.3)	(44.9)	(83.2)	(43.4)	(82.0)	(45.8)	(80.3)	(43.8)
Andaman & Nicobar Islands	23.5	23.9	19.4	19.4	19.1	36.3	21.2	24.1
<b>Central Region</b>	56.5	63.8	46.4	53.9	47.8	52.6	48.0	51.4
Madhya Pradesh	63.5	67.5	50.7	53.5	51.4	53.7	53.6	55.8
Uttar Pradesh	54.3	62.6	45.0	54.0	46.6	52.2	46.2	50.0
<b>Western Region</b>	74.2	71.0	72.7	69.4	65.9	62.6	67.0	63.6
Gujarat	60.4	67.4	56.6	63.2	52.4	57.3	51.1	54.9
Maharashtra	80.2	73.1	79.6	72.6	71.6	65.2	73.8	67.5
	(86.0)	(64.5)	(85.9)	(64.6)	(75.7)	(56.3)	(78.9)	(60.7)
Dadra & Nagar Haveli	103.6	146.4	126.5	167.6	126.1	160.9	85.7	111.7
Goa, Daman & Diu	45.0	49.1	41.9	45.8	38.1	43.1	39.3	42.6
<b>Southern Region</b>	91.2	93.6	95.0	95.4	82.7	84.2	79.3	80.0
Andhra Pradesh	79.6	84.1	71.7	74.4	66.4	69.1	70.0	72.4
Karnataka	95.6	101.1	99.9	104.0	87.9	91.4	82.6	85.0
Kerala	68.7	72.2	71.2	73.2	64.0	65.6	62.8	60.7
Tamil Nadu	105.7	103.9	119.3	114.2	100.9	99.7	93.6	92.9
	(117.7)	(82.2)	(152.3)	(103.3)	(119.0)	(90.0)	(113.1)	(80.7)
Lakshadweep	7.3	19.5	4.8	6.0	3.9	3.9	6.6	6.6
Pondicherry	90.2	109.7	74.9	89.6	77.3	93.4	70.5	78.9
<b>All India</b>	72.2	72.2	77.2	77.2	72.5	72.5	69.9	69.9

\*Provisional.

Figures in brackets relate to Metropolitan Centres only.

(Source : Basic Statistical Returns)

branches separately should achieve a credit-deposit ratio of at least 60 per cent. While it is not necessary that this ratio should be achieved separately branch-wise, district-wise or region-wise, the banks have been asked to ensure that wide disparity in the ratios between different States/Regions is avoided in order to minimise regional imbalances in credit deployment. The data available for end-June 1979 show that, at the all-India level, credit-deposit ratios for rural and semi-urban branches were 54.4 per cent and 47.2 per cent, respectively (Table 2.9). The public sector banks had achieved a credit-deposit ratio of 55.2 per cent and 47.5 per cent for their rural and semi-urban branches, respectively. The credit-deposit ratios of public sector banks exceeded 60 per cent in 12 States/Union Territories in respect of their rural branches and in five States/Union Territories in respect of their semi-urban branches at the end of June 1979. The credit-deposit ratios for rural and semi-urban branches were much lower in many other States.

2.69 Data on frequency distribution of districts based on credit-deposit ratios for rural and semi-urban bank offices for June 1979 are presented in Table Nos. 2.11 and 2.12. The rural branches achieved a credit-deposit ratio over 60 per cent in 164 out of 392 districts at end-June 1979 as against 148 out of 388 districts at end-June 1978. The number of districts coming in the range of 40 to 50 per cent at 48 at end-June 1979 was higher as compared to 29 districts at end-June 1978. At the same time the number of districts with the credit-deposit ratio of 20 per cent or less declined from 72 at end-June 1978 to 48 at end-June 1979 (Table 2.11).

TABLE 2.11—FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS FOR RURAL OFFICES OF ALL SCHEDULED COMMERCIAL BANKS

(As on the last Friday of June).

			(Rupees Crores)					
Frequency (Credit-Deposit Ratio)			1978			1979		
			No. of districts	Deposits@	Advances	No. of districts	Deposits@	Advances
			1	2	3	4	5	6
Up to 20%	..	..	72	445 (6)	54	48	422 (9)	50
20% - 30%	..	..	53	491 (9)	120	52	598 (12)	148
30% - 40%	..	..	49	303 (6)	109	45	317 (7)	111
40% - 50%	..	..	29	137 (5)	62	48	333 (7)	150
50% - 60%	..	..	37	269 (7)	147	35	325 (9)	176
Above 60%	..	..	148 (38.1)£	734 (5)	756	164 (41.8)£	1,069 (7)	1,032
Total	..	..	388	2,379	1,248	392	3,064	1,667

Note : The data are provisional.

@ Figures in brackets represent amount of deposits per district under each size class (in crores of rupees).

£ As percentage of total number of districts.

(Source : Returns on Aggregate Deposits and Gross Bank Credit).



2.70 The semi-urban branches achieved a credit-deposit ratio above 60 per cent in 98 out of 347 districts at the end of June 1979 as compared to 113 out of 346 districts a year earlier (Table 2.12). The number of districts (59) falling in the range of 50 to 60 per cent at end-June 1979 was higher than the position a year before (35). At the same time, as in the case of rural offices, the number of districts with credit-deposit ratio of 20 per cent and less declined from 40 at the end of June 1978 to 28 at the end of June 1979.

TABLE 2.12—FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS FOR SEMI-URBAN OFFICES OF ALL SCHEDULED COMMERCIAL BANKS

(As on the last Friday of June)

(Rupees Crores)

Frequency (Credit-Deposit Ratio)	1978			1979		
	No. of districts	Deposits@	Advances	No. of districts	Deposits@	Advances
	1	2	3	4	5	6
Up to 20%	40	582 (15)	92	28	530 (19)	82
20% - 30%	57	815 (14)	195	56	1,129 (20)	267
30% - 40%	55	1,086 (20)	373	54	1,173 (22)	418
40% - 50%	46	703 (15)	324	52	1,059 (20)	480
50% - 60%	35	529 (15)	280	59	1,041 (18)	575
Above 60%	113 (32.7)£	1,467 (13)	1,193	98 (28.2)£	1,511 (15)	1,218
Total	346	5,182	2,457	347	6,443	3,040

Note : The data are provisional.

@ Figures in brackets represent amount of deposits per district under each size class (in crores of rupees).

£ As percentage of total number of districts.

(Source : Returns on Aggregate Deposits and Gross Bank Credit).

2.71 Thus, 42 per cent of districts covered by rural bank branches and 28 per cent of districts covered by semi-urban bank branches showed a credit-deposit ratio over 60 per cent at the end of June 1979. The corresponding percentages in June 1978 were 38 and 33, respectively. There is considerable scope for further progress in this direction.

2.72 Data on state-wise frequency distribution of districts based on credit-deposit ratios as at end-June 1979 for rural and semi-urban bank offices are presented in Table Nos. 2.13 and 2.14, respectively. Of the 164 districts in which rural bank offices achieved credit-deposit ratio of over 60 per cent, 25 districts were from Madhya Pradesh, 20 from Andhra Pradesh, 17 from Uttar Pradesh, 15 from Rajasthan, 14 from Karnataka, and 13 each from Maharashtra and Tamil Nadu. Out of 98 districts in which semi-urban bank offices had over 60 per cent credit-deposit ratio, 14 districts were from Andhra Pradesh, 13 from Uttar Pradesh, and 11 each from Madhya Pradesh and Rajasthan.

TABLE 2.13—STATE-WISE FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS OF OFFICES OF SCHEDULED COMMERCIAL BANKS IN RURAL CENTRES

(As on the last Friday of June 1979)

(Amount in lakhs of rupees)

Region/State/Union Territory	Frequency (Credit-Deposit Ratio)								
	Up to to 20%			20% — 30%			30% — 40%		
	No. of Dis-tricts	Deposits	Advances	No. of Dis-tricts	Deposits	Advances	No. of Dis-tricts	Deposits	Advances
	1	2	3	4	5	6	7	8	9
<b>I. Northern Region</b>	11	218,95	24,00	12	155,52	37,08	5	40,39	13,39
Haryana .. ..	—	—	—	—	—	—	—	—	—
Himachal Pradesh .. ..	4	39,14	5,36	2	8,69	2,48	3	15,82	5,31
Jammu & Kashmir .. ..	4	12,05	1,37	4	27,61	6,64	—	—	—
Punjab .. ..	3	167,76	17,27	3	114,60	26,94	1	22,93	7,57
Rajasthan .. ..	—	—	—	2	3,25	69	1	1,64	51
Chandigarh .. ..	—	—	—	1	1,37	33	—	—	—
Delhi .. ..	—	—	—	—	—	—	—	—	—
<b>II. North-Eastern Region</b>	17	16,23	92	8	34,28	8,21	5	8,27	2,97
Assam .. ..	1	2,35	5	5	32,40	7,80	2	7,21	2,60
Manipur .. ..	1	26	1	—	—	—	2	82	28
Meghalaya .. ..	2	1,85	24	2	1,61	34	1	24	9
Nagaland .. ..	6	3,34	17	1	27	7	—	—	—
Sikkim .. ..	—	—	—	—	—	—	—	—	—
Tripura .. ..	—	—	—	—	—	—	—	—	—
Arunachal Pradesh .. ..	4	7,29	42	—	—	—	—	—	—
Mizoram .. ..	3	1,14	3	—	—	—	—	—	—
<b>III. Eastern Region</b>	6	72,59	11,10	9	88,14	22,32	11	67,24	24,13
Bihar .. ..	3	28,56	3,36	6	37,51	9,15	7	27,71	8,88
Orissa .. ..	—	—	—	—	—	—	2	8,06	2,84
West Bengal .. ..	3	44,03	7,74	2	49,94	13,03	2	31,47	12,41
Andaman & Nicobar Islands ..	—	—	—	1	69	14	—	—	—
<b>IV. Central Region</b>	6	27,75	4,22	14	91,86	23,31	17	91,23	31,08
Madhya Pradesh .. ..	1	1,55	31	4	13,22	3,38	7	19,40	7,19
Uttar Pradesh .. ..	5	26,20	3,91	10	78,64	19,93	10	71,83	23,89
<b>V. Western Region</b>	6	85,50	9,41	7	198,86	48,15	6	76,20	25,85
Gujarat .. ..	4	55,06	4,58	6	121,39	29,45	3	30,48	9,98
Maharashtra .. ..	1	24,86	4,52	—	—	—	3	45,72	15,87
Dadra & Nagar Haveli .. ..	—	—	—	—	—	—	—	—	—
Goa, Daman & Diu .. ..	1	5,58	31	1	77,47	18,70	—	—	—
<b>VI. Southern Region</b>	2	1,29	8	2	29,50	8,61	1	33,61	13,22
Andhra Pradesh .. ..	—	—	—	—	—	—	—	—	—
Karnataka .. ..	—	—	—	—	—	—	—	—	—
Kerala .. ..	—	—	—	1	28,47	8,32	1	33,61	13,22
Tamil Nadu .. ..	1	32	—	—	—	—	—	—	—
Lakshadweep .. ..	1	97	8	—	—	—	—	—	—
Pondicherry .. ..	—	—	—	1	1,03	29	—	—	—
<b>ALL INDIA</b>	48	422,31	49,73	52	598,16	147,68	45	316,94	110,64

Note : The data are provisional. .. Negligible.  
 (Source : Returns on Aggregate Deposits and Gross Bank Credit.)

TABLE 2.13—STATE-WISE FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS OF OFFICES OF SCHEDULED COMMERCIAL BANKS IN RURAL CENTRES—(Concluded)

(As on the last Friday of June 1979)

(Amount in lakhs of rupees)

Region/State/Union Territory	Frequency (Credit-Deposit Ratio)											
	40% — 50%			50% — 60%			Above 60%			Total		
	No. of Dis-tricts	Depo-sits	Advan-ces	No. of Dis-tricts	Depo-sits	Advan-ces	No. of Dis-tricts	Depo-sits	Advan-ces	No. of Dis-tricts	Depo-sits	Advan-ces
	10	11	12	13	14	15	16	17	18	19	20	21
<b>I. Northern Region</b>	9	66,15	30,75	9	50,45	27,46	27	173,90	149,83	73	705,36	282,51
Haryana .. ..	2	12,77	6,06	2	13,68	7,45	7	66,19	48,84	11	92,64	62,35
Himachal Pradesh .. ..	1	8,31	3,70	—	—	—	2	9,61	9,42	12	81,57	26,27
Jammu & Kashmir .. ..	1	4,12	1,82	1	4,57	2,67	—	—	—	10	48,35	12,50
Punjab .. ..	2	36,03	16,88	1	12,35	6,72	2	26,16	18,77	12	279,83	94,15
Rajasthan .. ..	3	4,92	2,29	5	19,85	10,62	15	67,76	64,33	26	97,42	78,44
Chandigarh .. ..	—	—	—	—	—	—	—	—	—	1	1,37	33
Delhi .. ..	—	—	—	—	—	—	1	4,18	8,47	1	4,18	8,47
<b>II. North-Eastern Region</b>	3	10,08	4,27	1	3,45	1,95	5	6,62	5,10	39	78,93	23,42
Assam .. ..	1	8,83	3,76	1	3,45	1,95	—	—	—	10	54,24	16,16
Manipur .. ..	1	6	3	—	—	—	2	1,22	90	6	2,36	1,22
Meghalaya .. ..	—	—	—	—	—	—	—	—	—	5	3,70	67
Nagaland .. ..	—	—	—	—	—	—	—	—	—	7	3,61	24
Sikkim .. ..	—	—	—	—	—	—	—	—	—	—	—	—
Tripura .. ..	—	—	—	—	—	—	3	5,40	4,20	3	5,40	4,20
Arunachal Pradesh .. ..	1	1,19	48	—	—	—	—	—	—	5	8,48	90
Mizoram .. ..	—	—	—	—	—	—	—	—	—	3	1,14	3
<b>III. Eastern Region</b>	8	49,33	22,11	6	34,54	18,97	21	78,98	106,46	61	390,82	205,09
Bihar .. ..	5	18,14	8,19	3	15,58	8,64	7	2,567	56,95	31	153,17	95,17
Orissa .. ..	—	—	—	1	3,17	1,80	10	41,01	40,86	13	52,24	45,50
West Bengal .. ..	3	31,19	13,92	2	15,79	8,53	3	11,87	8,36	15	184,29	63,99
Andaman & Nicobar Islands .. ..	—	—	—	—	—	—	1	43	29	2	1,12	43
<b>IV. Central Region</b>	14	84,45	38,01	8	43,25	23,94	42	208,20	181,75	101	546,74	302,31
Madhya Pradesh .. ..	5	14,57	6,66	3	8,81	4,98	25	53,33	50,52	45	110,88	73,04
Uttar Pradesh .. ..	9	69,88	31,35	5	34,44	18,96	17	154,87	131,23	56	435,86	229,27
<b>V. Western Region</b>	8	47,81	21,46	3	29,37	16,09	17	124,96	120,68	47	562,70	241,64
Gujarat .. ..	3	37,75	16,82	—	—	—	3	52,83	38,93	19	297,51	99,76
Maharashtra .. ..	5	10,06	4,64	3	29,37	16,09	13	71,09	81,09	25	181,10	122,21
Dadra & Nagar Haveli .. ..	—	—	—	—	—	—	1	1,04	66	1	1,04	66
Goa, Daman & Diu .. ..	—	—	—	—	—	—	—	—	—	2	83,05	19,01
<b>VI. Southern Region</b>	6	75,34	33,83	8	164,13	87,32	52	476,00	468,71	71	779,87	611,77
Andhra Pradesh .. ..	—	—	—	1	3,30	1,77	20	185,24	195,05	21	188,54	196,82
Karnataka .. ..	2	41,18	17,30	3	88,19	46,87	14	104,31	100,31	19	233,68	164,48
Kerala .. ..	2	32,97	16,02	3	51,58	26,92	4	41,95	36,50	11	188,58	100,98
Tamil Nadu .. ..	—	—	—	1	21,06	11,76	13	142,05	133,45	15	163,43	145,21
Lakshadweep .. ..	—	—	—	—	—	—	—	—	—	1	97	8
Pondicherry .. ..	2	1,19	51	—	—	—	1	2,45	3,40	4	4,67	4,20
<b>ALL INDIA</b>	48	333,16	150,43	35	325,19	175,73	164	1068,66	1032,53	392	3064,42	1666,74

TABLE 2.14—STATE-WISE FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS OF OFFICES OF SCHEDULED COMMERCIAL BANKS IN SEMI-URBAN CENTRES

(As on the last Friday of June 1979)

(Amount in lakhs of rupees)

Region/State/Union Territory	Frequency (Credit-Deposit Ratio)								
	Up to 20%			20% — 30%			30% — 40%		
	No. of Dis-tricts	Deposits	Advances	No. of Dis-tricts	Deposits	Advances	No. of Dis-tricts	Deposits	Advances
	1	2	3	4	5	6	7	8	9
<b>I. Northern Region</b>	<b>6</b>	<b>126,59</b>	<b>18,65</b>	<b>10</b>	<b>202,92</b>	<b>47,29</b>	<b>6</b>	<b>149,68</b>	<b>53,48</b>
Haryana .. .. .	—	—	—	—	—	—	—	—	—
Himachal Pradesh .. .. .	2	50,33	9,55	3	13,00	3,43	—	—	—
Jammu & Kashmir .. .. .	1	1,77	8	—	—	—	1	6,32	2,02
Punjab .. .. .	1	69,91	8,53	4	157,09	35,67	3	125,47	44,84
Rajasthan .. .. .	1	1,54	20	3	32,83	8,19	2	17,89	6,62
Chandigarh .. .. .	1	3,04	29	—	—	—	—	—	—
Delhi .. .. .	—	—	—	—	—	—	—	—	—
<b>II. North-Eastern Region</b>	<b>7</b>	<b>47,00</b>	<b>6,53</b>	<b>3</b>	<b>40,31</b>	<b>10,54</b>	<b>6</b>	<b>62,61</b>	<b>21,77</b>
Assam .. .. .	1	1,13	16	3	40,31	10,54	3	34,70	10,80
Manipur .. .. .	1	1,10	13	—	—	—	—	—	—
Meghalaya .. .. .	2	30,23	5,33	—	—	—	—	—	—
Nagaland .. .. .	1	1,70	22	—	—	—	1	10,16	3,94
Sikkim .. .. .	1	5,88	15	—	—	—	—	—	—
Tripura .. .. .	—	—	—	—	—	—	2	17,75	7,03
Arunachal Pradesh .. .. .	—	—	—	—	—	—	—	—	—
Mizoram .. .. .	1	6,96	54	—	—	—	—	—	—
<b>III. Eastern Region</b>	<b>7</b>	<b>200,21</b>	<b>32,53</b>	<b>16</b>	<b>563,54</b>	<b>134,12</b>	<b>10</b>	<b>77,27</b>	<b>26,49</b>
Bihar .. .. .	1	17,99	3,47	7	310,06	70,22	4	44,82	14,36
Orissa .. .. .	1	1,78	14	—	—	—	5	21,15	7,76
West Bengal .. .. .	5	180,44	28,92	8	247,48	62,69	1	11,30	4,37
Andaman & Nicobar Islands ..	—	—	—	1	6,00	1,21	—	—	—
<b>IV. Central Region</b>	<b>3</b>	<b>15,18</b>	<b>2,14</b>	<b>23</b>	<b>206,68</b>	<b>50,07</b>	<b>14</b>	<b>105,45</b>	<b>37,87</b>
Madhya Pradesh .. .. .	1	2,78	48	5	22,94	5,88	9	44,70	15,37
Uttar Pradesh .. .. .	2	12,40	1,66	18	183,74	44,19	5	60,75	22,50
<b>V. Western Region</b>	<b>5</b>	<b>141,33</b>	<b>21,97</b>	<b>2</b>	<b>37,29</b>	<b>9,31</b>	<b>11</b>	<b>486,19</b>	<b>171,20</b>
Gujarat .. .. .	4	138,20	21,42	2	37,29	9,31	5	315,17	112,13
Maharashtra .. .. .	—	—	—	—	—	—	6	171,02	59,07
Dadra & Nagar Haveli .. .. .	—	—	—	—	—	—	—	—	—
Goa, Daman & Diu .. .. .	1	3,13	55	—	—	—	—	—	—
<b>VI. Southern Region</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2</b>	<b>78,46</b>	<b>15,97</b>	<b>7</b>	<b>291,00</b>	<b>106,68</b>
Andhra Pradesh .. .. .	—	—	—	—	—	—	1	46,17	18,42
Karnataka .. .. .	—	—	—	—	—	—	1	23,34	8,78
Kerala .. .. .	—	—	—	1	78,28	15,92	2	152,74	55,93
Tamil Nadu .. .. .	—	—	—	—	—	—	2	62,82	21,41
Lakshadweep .. .. .	—	—	—	—	—	—	—	—	—
Pondicherry .. .. .	—	—	—	1	18	5	1	5,93	2,14
<b>ALL INDIA</b>	<b>28</b>	<b>530,31</b>	<b>81,82</b>	<b>56</b>	<b>1129,20</b>	<b>267,30</b>	<b>54</b>	<b>1172,20</b>	<b>417,49</b>

Note : The data are provisional.

(Source : Returns on Aggregate Deposits and Gross Bank Credit).

TABLE 2.14—STATE-WISE FREQUENCY DISTRIBUTION OF DISTRICTS BASED ON CREDIT-DEPOSIT RATIOS OF OFFICES OF SCHEDULED COMMERCIAL BANKS IN SEMI-URBAN CENTRES—(Concluded)

(As on the last Friday of June 1979)

(Amount in lakhs of rupees)

Region/State/Union Territory	Frequency (Credit-Deposit Ratio)											
	40% — 50%			50% — 60%			Above 60%			Total		
	No. of Dis-tricts	Depo-sits	Advan-ces	No. of Dis-tricts	Depo-sits	Advan-ces	No. of Dis-tricts	Depo-sits	Advan-ces	No. of Dis-tricts	Depo-sits	Advan-ces
	10	11	12	13	14	15	16	17	18	19	20	21
<b>I. Northern Region</b>	9	120,05	54,05	10	158,46	85,09	20	327,48	257,85	61	1085,18	516,41
Haryana .. ..	1	9,90	4,65	4	104,78	56,07	6	155,74	107,46	11	270,42	168,18
Himachal Pradesh ..	1	5,04	2,13	—	—	—	—	—	—	6	68,37	15,11
Jammu & Kashmir ..	1	8,23	3,49	1	5,92	2,99	1	3,01	4,09	5	25,25	12,67
Punjab .. ..	1	68,83	31,26	1	31,75	17,41	2	76,53	58,55	12	529,58	196,26
Rajasthan .. ..	5	28,05	12,52	4	16,01	8,62	11	92,20	87,75	26	188,52	123,90
Chandigarh .. ..	—	—	—	—	—	—	—	—	—	1	3,04	29
Delhi .. ..	—	—	—	—	—	—	—	—	—	—	—	—
<b>II. North-Eastern Region</b>	2	6,73	3,08	1	59,23	31,13	1	53	59	20	216,41	73,64
Assam .. ..	1	4,61	2,19	1	59,23	31,13	—	—	—	9	139,98	54,82
Manipur .. ..	—	—	—	—	—	—	—	—	—	1	1,10	13
Meghalaya .. ..	—	—	—	—	—	—	1	53	59	3	30,76	5,92
Nagaland .. ..	—	—	—	—	—	—	—	—	—	2	11,86	4,16
Sikkim .. ..	—	—	—	—	—	—	—	—	—	1	5,88	15
Tripura .. ..	1	2,12	89	—	—	—	—	—	—	3	19,87	7,92
Arunachal Pradesh ..	—	—	—	—	—	—	—	—	—	—	—	—
Mizoram .. ..	—	—	—	—	—	—	—	—	—	1	6,96	54
<b>III. Eastern Region</b>	9	99,48	43,63	4	31,27	16,59	12	121,23	91,70	58	1093,00	345,06
Bihar .. ..	7	85,80	37,15	3	21,40	11,61	7	58,65	48,94	29	538,72	185,75
Orissa .. ..	2	13,68	6,48	1	9,87	4,98	4	42,88	30,17	13	89,36	49,53
West Bengal .. ..	—	—	—	—	—	—	1	19,70	12,59	15	458,92	108,57
Andaman & Nicobar Islands	—	—	—	—	—	—	—	—	—	1	6,00	1,21
<b>IV. Central Region</b>	18	268,23	123,13	14	109,11	60,03	24	239,09	208,56	96	943,74	481,80
Madhya Pradesh .. ..	8	47,96	21,72	10	67,36	37,63	11	53,26	51,10	44	239,00	132,18
Uttar Pradesh .. ..	10	220,27	101,41	4	41,75	22,40	13	185,83	157,46	52	704,74	349,62
<b>V. Western Region</b>	7	316,87	147,30	12	235,57	130,04	8	138,20	105,73	45	1355,45	585,55
Gujarat .. ..	2	98,85	46,06	2	126,71	14,91	3	61,82	48,59	18	678,04	252,42
Maharashtra .. ..	4	56,61	25,34	10	208,86	115,13	5	76,38	57,14	25	512,87	256,68
Dadra & Nagar Haveli ..	—	—	—	—	—	—	—	—	—	—	—	—
Goa, Daman & Diu ..	1	161,41	75,90	—	—	—	—	—	—	2	164,54	76,45
<b>VI. Southern Region</b>	7	247,53	108,68	18	447,34	252,50	33	684,39	553,43	67	1748,72	1037,26
Andhra Pradesh .. ..	1	19,37	7,93	5	91,80	52,07	14	246,70	187,60	21	404,04	266,02
Karnataka .. ..	3	80,31	36,12	6	112,09	64,12	9	109,32	98,43	19	325,06	207,45
Kerala .. ..	3	147,85	64,63	2	81,31	45,04	3	90,26	69,94	11	550,44	251,46
Tamil Nadu .. ..	—	—	—	5	162,14	91,27	7	238,11	197,46	14	463,07	310,14
Lakshadweep .. ..	—	—	—	—	—	—	—	—	—	—	—	—
Pondicherry .. ..	—	—	—	—	—	—	—	—	—	2	6,11	2,19
<b>ALL INDIA</b>	52	1058,89	479,87	59	1040,98	575,38	98	1510,92	1217,86	347	6442,50	3039,72

### *Credit Authorisation Scheme (CAS)*

2.73 The CAS, which has been in operation since 1965, continued to play a significant role as an effective instrument of credit regulation, particularly in the background of the RBI's policy of keeping inflationary pressures under check. The more important measures taken in this regard since August 1979 have been referred to earlier (Section III on Credit Policy). Banks were expected to sharpen their instruments of credit appraisal and undertake a review, stricter than before, of the need-based credit requirements of their borrowers, particularly large borrowers, and allow/recommend higher limits provided they were satisfied that the additional credit was justified by higher output in production in physical terms or increases in licensed capacity. However, where the projected increase in turnover was mainly on account of escalation of prices of inputs, the borrowers were expected to depend to a large extent on their own resources to meet the gap and not on automatic and easy access to bank credit, which would only strengthen the inflationary trends. But, where such escalation of prices was on account of statutory measures, a portion of the gap could be met (with the RBI's approval in the case of CAS parties) by the banking system.

### *Changes in CAS*

2.74 The Bank has been reviewing the working of the Scheme from time to time in order to introduce an element of flexibility in its operation. The changes made and clarifications issued subsequent to the last Report are indicated below:

#### *(i) Letters of Credit (L/Cs)*

2.75 Letter of credit limits for the acquisition of capital assets and also for other purposes sanctioned by the banks to borrowers covered by the CAS were brought under the purview of the Scheme in August 1978, except for those in specified circumstances. Such limits sanctioned by banks to Government agencies as also other agencies engaged in the distribution of fertilisers were exempted from the requirement of prior authorisation with effect from March 24, 1980. Banks were advised that while sanctioning limits for the opening of L/Cs for this purpose, they were to ensure that the obligations under these facilities were met by the borrowers out of their own resources and/or by drawing the cash credit accounts within the existing limits.

#### *(ii) Scheme for Rupee Finance to cover Import of Capital Goods*

2.76 (a) The scheme of rupee finance to cover import of capital goods was introduced by the GOI in April 1978 with a view to ensuring that non-availability of rupee finance would not hold up the implementation of worthwhile projects for which Government was willing to allocate foreign exchange. This scheme was, as a special case, made applicable to State Electricity Boards (SEBs) for import of gas turbine

generating sets. However, this facility has been allowed as a one-time exception and policy guidelines in regard to bank finance to SEBs already in force, remain otherwise unchanged. Banks were entitled to RBI refinance in respect of the loans granted by them under the above scheme to the SEBs to the extent of the foreign exchange component only.

(b) Term loans allowed under the Scheme, which did not require prior authorisation under the CAS before June 1979, were brought under its purview; this, however, was not to apply to the loans which otherwise fall under the exempted category.

(iii) *Term Loan Proposals*

2.77 The banks were advised in May 1978 that all individual term loan proposals for amounts exceeding Rs. 50 lakhs were normally to be made in consultation with, if not in association with, the IDBI or other concerned term lending institutions. It was decided during the year that only such of the term loan proposals where aggregate rupee assistance sought from term lending institutions exceeded Rs. 1 crore were to be referred to the IDBI for the prior clearance of the financing pattern of the project. However, in regard to term loans sanctioned under the Scheme for rupee finance to cover import of capital goods, the earlier instructions for making prior reference to the IDBI relating to individual term loan proposals for amounts exceeding Rs. 50 lakhs remained unchanged.

(iv) *IDBI Bills Rediscounting Scheme*

2.78 Limits sanctioned by banks for financing deferred receivables pertaining to domestic sales under the IDBI Bills Rediscounting Scheme do not require prior authorisation under the CAS. Under the above Scheme, the maximum amount for rediscounting bills/promissory notes pertaining to a single buyer has been fixed at Rs. 100 lakhs (face value of bills) over a limit year (July to June); the maximum amount in the case of SEBs has been fixed at Rs. 200 lakhs. Sanction of acceptance limits by banks on behalf of buyers under the Scheme also does not require prior authorisation. Both the exemptions mentioned above are also available to borrowers outside the Scheme provided the terms and conditions are in conformity with those prescribed under the Scheme.

*Working of CAS*

2.79 During the period July 1979 to June 1980, the number of parties covered under the CAS rose from 1,059 to 1,093. These figures are inclusive of 192 public sector undertakings as against 187 at the end of June 1979. The total limits in force relating to the parties covered under the Scheme were Rs. 13,026 crores at the end of June 1980, which showed an increase of Rs. 1,058 crores during the period under review.

The share of public sector undertakings at Rs. 7,131 crores showed an increase of Rs. 684 crores, while that of the private sector at Rs. 5,895 crores rose by Rs. 374 crores.

2.80 The pattern of purpose-wise distribution of the total limits in force, as at the end of June 1980, remained more or less unchanged, 88.2 per cent being for working capital purposes including packing credit and bills (Rs. 11,495 crores), 8.8 per cent for term finance (Rs. 1,141 crores) and 3 per cent for sale of machinery on deferred payment basis (Rs. 390 crores). Activity-wise, of the total limits, engineering, manufacture of chemicals/chemical products and cotton textiles claimed Rs. 2,044 crores (15.7 per cent), Rs. 945 crores (7.3 per cent) and Rs. 869 crores (6.7 per cent), respectively. Industry as a whole accounted for Rs. 7,480 crores or 57.4 per cent of the total limits. Of the total limits in force of Rs. 7,131 crores relating to public sector, trading accounted for about 58.5 per cent (the share of food procurement being 40.7 per cent and fertiliser distribution 8 per cent), engineering 8.9 per cent, generation and distribution of electricity 5.2 per cent, petroleum industry 4.5 per cent and production of iron and steel 3.5 per cent. The major portion of the limits to the petroleum industry was authorised during the quarter January-March 1980.

#### *Term Lending by Commercial Banks*

2.81 The involvement of banks in term lending has increased significantly over the years. Data on term lending of commercial banks are available for the period ended June 1978. The total number of term loan accounts increased from 237 thousands at the end of June 1977 to 302 thousands at the end of June 1978, thus rising from 32.3 per cent to 34.8 per cent of the total number of all accounts (Table 2.15). Total credit limits sanctioned in respect of term loans rose from Rs. 2,337 crores to Rs. 3,194 crores during the same period recording an increase of 36.7 per cent as compared with an increase of 27 per cent in the previous year. The outstanding term loans went up from Rs. 1,964 crores at the end of June 1977 to Rs. 2,516 crores at the end of June 1978, recording an increase of 33.8 per cent over the year. Outstanding term loans at the end of June 1978 constituted 17.8 per cent of the total bank credit as against 16.3 per cent a year ago.

#### *Commercial Banks' Participation in ARDC Programmes*

2.82 The involvement of commercial banks in the implementation of normal ARDC schemes and projects assisted by IDA/IBRD through the ARDC is steadily increasing. As on June 30, 1980, the Corporation sanctioned 8,718 schemes to commercial banks including RRBs involving a total financial assistance of Rs. 1,759 crores of which the Corporation's commitment was Rs. 1,417 crores. The Corporation had disbursed an amount of Rs. 728 crores by the end of June 1980 as against Rs. 491 crores by the end of June 1979. Minor irrigation and farm mechanisation schemes accounted for the major share in the



TABLE 2.15—SCHEDULED COMMERCIAL BANKS' TERM LOANS (OUTSTANDING) 1972-78

(Rupees Crores)								
As on last Friday	No. of Accounts		Credit Limit		Amount Outstanding		Total Bank credit (outstanding) excluding food procurement advances	
	Term Loans	Total of all accounts	Term Loans	Total Bank Credit	Term Loans	Total Bank Credit		
	1	2	3	4	5	6	7	
December 1972 .. ..	89,231 (21.4)	416,567	839 (8.6)	9,702	601 (11.9)	5,051	4,892 (12.3)	
June 1973 .. ..	103,340 (22.4)	460,384	974 (9.3)	10,428	706 (12.2)	5,771	5,303 (13.3)	
December 1973 .. ..	119,385 (23.4)	509,424	1,067 (9.4)	11,370	832 (13.0)	6,396	6,044 (13.8)	
June 1974 .. ..	129,894 (24.3)	535,204	1,280 (9.9)	12,881	924 (12.7)	7,289	6,766 (13.7)	
December 1974 .. ..	141,701 (25.7)	550,330	1,354 (11.0)	12,362	1,021 (13.9)	7,359	7,150 (14.3)	
June 1975 .. ..	152,998 (26.7)	572,306	1,554 (11.4)	13,589	1,148 (14.0)	8,180	7,385 (15.5)	
December 1975 .. ..	171,536 (28.4)	605,046	1,612 (11.1)	14,468	1,307 (14.5)	9,030	8,094 (16.1)	
June 1976 .. ..	196,123 (30.5)	643,382	1,840 (11.0)	16,740	1,516 (14.3)	10,568	8,383 (18.1)	
December 1976 .. ..	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	
June 1977 .. ..	237,278 (32.3)	733,578	2,337 (12.6)	18,503	1,964 (16.3)	12,064	9,528 (20.6)	
December 1977* .. ..	271,611 (33.8)	803,649	2,612 (13.0)	20,126	2,173 (16.0)	13,547	11,191 (19.4)	
June 1978* .. ..	302,244 (34.8)	869,280	3,194 (14.6)	21,914	2,516 (17.8)	14,145	11,620 (21.7)	

\* Provisional.

- Note : 1. Data relate to accounts with credit limit over Rs. 10,000.  
 2. Figures in brackets given under cols. 1, 3 and 5 indicate percentages of term loans to totals reported in cols. 2, 4 and 6, respectively.  
 3. Figures in brackets under col. 7 indicate percentage of term loans under col. 5 to total in col. 7.

(Source : Basic Statistical Returns)

schemes of commercial banks. The refinance assistance disbursed for these schemes amounted to Rs. 503 crores and covered 4,569 schemes at the end of June 1980. Since 1977-78 commercial banks have become the largest agency using ARDC refinance. (Refer to Section on ARDC in Chapter 3).

### Farmers' Service Societies (FSS)

2.83 In pursuance of the recommendations of the National Commission on Agriculture, Farmers' Service Societies are being organised and financed by commercial banks, district central co-operative banks

(DCCBs) and RRBs for disbursing credit in rural areas. These societies are multi-purpose in character and are expected to function as a single contact point for providing a package of agricultural credit and related services. By the end of June 1979, 216 FSS had been set up in 13 States and in the Union Territories of Delhi and Pondicherry by 18 public sector banks and three private sector banks.

#### *Differential Rates of Interest (DRI) Scheme*

2.84 Lending under the DRI Scheme by public sector banks made further progress during the period July 1978 to June 1979. The number of borrowal accounts rose by 360 thousands from 1470 thousands to 1830 thousands. The amount of loans outstanding went up from Rs. 74 crores to Rs. 114 crores recording an increase of Rs. 40 crores. The average amount of loan per account increased from Rs. 501 at the end of June 1978, to Rs. 619 at the end of June 1979. The number of borrowal accounts of members of scheduled castes/scheduled tribes also increased by 194 thousands from 560 thousands to 754 thousands and the amount of loans outstanding from Rs. 28 crores to Rs. 47 crores. The percentage of DRI advances to total advances at the end of the previous year made by public sector banks increased from 0.6 at the end of June 1978 to 0.8 at the end of June 1979 as against the stipulated target of 1 per cent. The percentage of outstanding advances to SC/ST to total DRI advances increased from 38 in June 1978 to 42 in June 1979 (as against the target of 40 per cent). Of the increase in outstanding advances of Rs. 40 crores made during the year those to SCs/STs accounted for 49 per cent.

2.85 The number of borrowal accounts in the case of private sector commercial banks increased by 15,900 from 1,700, at the end of June 1978, to 17,600 at the end of June 1979. The amount of loans outstanding increased by Rs. 204 lakhs from Rs. 11 lakhs to Rs. 215 lakhs. Advances to members of the SC/ST increased by 8,500 accounts from 1,000 to 9,500 and the amount of loans outstanding by Rs. 122 lakhs from Rs. 6 lakhs to Rs. 128 lakhs. It may be recalled that the targets fixed under the DRI Scheme for public sector banks were extended to private sector banks during 1978-79; this extension resulted in substantial growth in the advances under the Scheme.

#### *Sick Industrial Undertakings*

2.86 The Sick Industrial Undertakings Cell in the RBI constituted in November 1976 continued to monitor the banks' performance in identifying sick units and taking remedial action, besides bringing about co-ordination in the efforts of banks, financial institutions, Government and other agencies in the rehabilitation of sick units. Though the identification of sick units and taking the decision in regard to the nursing of such of the sick units which are potentially viable are primarily the functions of the financing banks/institutions, the Cell endeavoured to mould the institutional attitude towards the rehabili-

tation of such units. The Cell took the initiative in deserving cases and convened meetings of banks and financial institutions to discuss the problems of the concerned sick units to secure the co-ordination of all concerned.

2.87 With a view to ensuring that the organisational set up and the monitoring machinery established by banks were both appropriate and adequate for tackling effectively the problems of sick units financed by them, the Cell undertook case studies of three Bombay-based banks during the year. The findings of the study were conveyed to the concerned banks.

2.88 In pursuance of the decisions of the High Power Committee set up in 1978 under the Chairmanship of the then Finance Minister to look into the problems of sick units, banks were required to submit quarterly progress reports in regard to the implementation of the various decisions of the Committee. Consolidated progress reports were submitted to Government during the year for the quarters ended March, June and September 1979.

2.89 The Cell co-ordinates the activities of the State Level Inter-Institutional Committees recently constituted in all the States under the Convenorship of the regional offices of the RBI on the recommendation of the High Power Committee. These Committees, besides providing a useful forum for the exchange of information and discussion on the problems faced by the small and medium-sized industrial units and small entrepreneurs, are expected to deal with problems relating to (a) co-ordination between banks and financial institutions, (b) provision of adequate infrastructural facilities to industrial units and (c) general problems relating to grant of credit to such units.

2.90 While approving credit proposals as part of the rehabilitation programme for sick units, including amalgamation/merger with the healthy units, it was observed in certain cases that banks entered into commitments involving undue sacrifices on their part. If rehabilitation programme has to be taken up mainly on considerations of social obligations, it is necessary that equitable sacrifice is made by all the participants, viz., bank/financial institution, owners of units, other creditors, Government and labour. This point was impressed on banks in August 1979. Banks were also advised that if the rehabilitation schemes envisaged some concessions like reduction in interest rates below the stipulated minimum rates they should invariably obtain the Reserve Bank's clearance before making any commitments in this regard.

2.91 In terms of the RBI instructions, banks have been submitting quarterly statements relating to sick industrial undertakings enjoying credit limits of Rs. 1 crore and above from the banking system. The information contained in the statements furnished by banks for the quarter ended June 1979 revealed that the number of sick units of the above

category had increased to 345 involving aggregate bank credit of Rs. 1,102 crores as against 334 units involving bank finance of Rs. 983 crores, as at the end of September 1978.

*Assistance to People affected by Natural Calamities*

2.92 The disastrous floods in Morvi town and 33 adjacent villages in Gujarat required rehabilitation measures largely for trade and industry. Apart from the general guidelines issued earlier for extension of assistance by banks in such cases, certain concessions in regard to scale of finance, rate of interest for small borrowers, period of repayment, etc., were allowed in respect of finance extended to the people affected in Morvi.

2.93 The IBA in association with the Agricultural Finance Corporation (AFC) assessed the extent of damage and the nature of relief required to be provided to the affected people in Morvi and in Vidarbha in Maharashtra, where 3,042 villages were reported to have been affected due to the damage caused by floods. They circulated to member banks a set of model guidelines for relief measures to be taken in case of natural calamities like floods, drought, etc. The GOI in consultation with the RBI also issued similar guidelines to banks.

*Village Adoption Scheme*

2.94 Banks continued to follow the area approach and adopted villages under the "Village Adoption Scheme" for extending financial assistance for the integrated development of village economy in all its aspects in a phased manner. As at the end of December 1979, banks had adopted 89,242 villages and financed 2.7 million accounts involving an amount of Rs. 640 crores as against 81,239 villages and 2.4 million accounts involving Rs. 541 crores at the end of June 1979.

*Lead Bank Scheme*

2.95 The High Power Committee (HPC) constituted by the RBI for the purpose of keeping the progress of the Lead Bank Scheme under constant review and for issuing policy guidelines for its effective implementation considered the following important issues.

*(i) Preparation of District Credit Plans (DCPs) for 1980-82 and Annual Action Plans for 1980.*

2.96 With a view to systematising the entire work of the DCPs which was earlier characterised by a lack of uniformity in pattern, methodology and period and more importantly to bring about a proper synchronisation of the DCP with the Sixth Plan, the Reserve Bank advised the lead banks in September 1978 to terminate their existing DCPs in December 1979 and undertake the formulation of fresh DCPs for their lead districts covering a period of three years from January 1980 to December 1982 and also the

Annual Action Plans before the commencement of each year. Detailed guidelines regarding the preparation of the DCPs indicating, among others, the objectives, contents, approach to estimation of credit outlays for different purposes, methodology to be followed, identification and fixation of responsibilities for different items of work necessary for the efficient implementation of the DCP, etc., were issued in March 1979.

2.97 The new credit plan is a comprehensive plan indicating credit targets for institutional credit agencies in the district on a block-wise, sector-wise, scheme-wise and bank-wise basis. One of the innovative features of the preparation of the new DCP is the introduction of participative planning by the constitution of a district level Task Force comprising representative of the DCCB, commercial banks having a large number of branches in the district and the district plan official besides the district convenor of the lead bank, for the preparation of the plan. The draft DCP after being circulated to all concerned agencies has to be finalised at the District Consultative Committee (DCC) meetings.

2.98 A time-bound programme was given to the lead banks according to which the entire work of preparation of the DCPs was to be completed in nine consecutive stages by December 1979. Owing to various constraints, like the non-availability of the Sixth Plan data and district development schemes and inadequate organisational set up of lead banks at the district level for the preparation of DCPs, the time schedule could not be strictly adhered to. The HPC, accordingly, extended the period of preparation of the perspective DCPs up to March 1980 but insisted that the Annual Action Plan for 1980 should at least be launched for implementation by the end of January 1980. So far, DCPs in respect of 357 districts out of 397 districts have been prepared. The DCPs for the remaining 40 districts have been delayed mainly due to inaccessibility of the area and disturbed law and order conditions in the North-Eastern Zone.

*(ii) Monitoring the Preparation and Implementation of DCPs*

2.99 To oversee the effective implementation of the Lead Bank Scheme, it was decided that RBI Officers, designated as Lead District Officers, should be closely associated with the monitoring of the preparation and implementation of the DCPs. The Lead District Officers would maintain active liaison with all the participating financial institutions and the Government functionaries so as to make the Lead Bank Scheme a success.

2.100 The HPC, in the light of a Report by its Sub-Committee, introduced modified formats for reporting by financial institutions on the progress in the implementation of DCPs and in recoveries of advances. It was also decided that the RBI would take over the responsibility for collection, consolidation and supply of data at the district level.

2.101 As the DCC, by virtue of its constitution and functioning, may not be in a position to exercise supervision over the working of the Lead Bank Scheme on an on-going basis, lead banks have been advised to constitute a Standing Committee of the DCC which meets at least once a month. It may be stated that the Task Force, referred to earlier has been continued as a Standing Committee of the DCC, the District Co-operation Officer and the Lead District Officer from RBI also being members of the Standing Committee. Thus, those involved in the preparation of the credit plan are also concerned with its implementation.

2.102 All commercial banks were advised to evolve a procedure to oversee whether their branches in the various districts were fulfilling their shares in the DCPs allocated to them. They were also advised to report to their Board of Directors every half-year about their performance *vis-a-vis* the shares in the credit plans of the various districts.

(iii) *Swapping of Lead Responsibility*

2.103 The broad consensus of the HPC on this subject was that the existing arrangements might continue and no change in the lead responsibility was called for. Any requests for additional lead responsibilities would have to be considered only after an assessment of the banks' performance in their existing lead districts.

## V. BRANCH EXPANSION POLICY AND PROGRESS

2.104 The branch licensing policy formulated in September 1978 for the three years 1979-81 envisaged the opening of 6,500 additional offices in the rural and semi-urban areas of the deficit districts (*viz.*, districts where the average population per office was higher than the national average of 20,000 as on June 30, 1978). The Bank elicited suggestions from the Governments of all the States/Union Territories regarding the centres in the rural and semi-urban areas of the deficit districts where they would like bank offices to be opened in the light of the needs of developmental programmes. In accordance with the guidelines laid down in the branch licensing policy, detailed programmes of branch expansion on a district-by-district basis for each State/Union Territory were drawn up by the RBI. Till the end of June 1980, the RBI issued authorisations to banks for opening 6,121 offices in rural and semi-urban areas. The allottee banks were advised to gear up their machinery so as to accelerate the pace of expansion by opening offices at the centres allotted to them.

2.105 The branch licensing policy continues to accord top priority to the opening of bank branches in all the unbanked community development block headquarters in the country, in view of the special position they occupy in the Government scheme of developmental administration. Of the 653 centres identified as unbanked community development block headquarters, 131 block headquarters were found to

be falling within a distance of three kilometres from the nearest functioning commercial bank offices and with a view to avoiding duplication of effort and wasteful competition among banks, those block headquarters were treated as banked. Five block headquarters although falling beyond 3 Kms. from the nearest functioning commercial bank offices have been treated as covered as the close-by bank offices, as per information received, were found to be adequately catering to their banking needs. Another 168 block headquarters were found having been served only by offices of RRBs. The need for providing these headquarters with commercial bank offices capable of providing a full range of banking facilities was examined. It was found that in 160 block headquarters RRBs were providing adequate banking services.

2.106 As regards the remaining 357 unbanked block headquarters offices have been opened at 187 block headquarters and in respect of 131 unbanked block headquarters licences are pending with banks. In the case of the remaining 39 unbanked block headquarters banks have expressed their inability to open offices mainly due to lack of infrastructural facilities and this question is being pursued with the concerned banks/State Governments.

2.107 Perhaps one of the reasons why the tempo of branch expansion was slower than in the immediately preceding years was the attention that the banks were devoting to the process of consolidation in the light of Reserve Bank's advice. During the calendar year 1979, commercial banks opened 2,058 offices as compared to 2,516 in the previous year. As a result, the national average population per bank office which was 19,000 at the end of December 1978 further declined to 17,000 as at the end of December 1979.

2.108 During the year 1979-80 (end-June 1979 to end-June 1980), commercial banks opened 2,224 offices as against 2,191 offices in the corresponding period of the previous year. The thrust into unbanked areas was stronger as is reflected in the fact that 1,735 offices or 78 per cent of the total new offices were opened in such areas. The bulk of the newly banked centres (57.6 per cent) were in the backward States of Uttar Pradesh, Bihar, Madhya Pradesh, Orissa, Rajasthan and West Bengal. Of the new offices opened during the year 354 offices were opened by State Bank of India and its associate banks, 948 by 20 nationalised banks, 713 by RRBs and 209 by private sector banks.

2.109 The branch licensing policy permits expansion in urban/metropolitan areas on a highly selective basis. The Bank granted permission for opening only 388 offices in such areas during the period.

#### *Offices of Indian Commercial Banks in Foreign Countries*

2.110 The branch expansion programme of Indian banks abroad continued to be mainly dictated by factors like earning of foreign exchange, furtherance of India's foreign trade with other countries and as-

TABLE 2.16—STATE-WISE DISTRIBUTION OF BANK OFFICES AS AT THE END OF JUNE 1978, JUNE 1979, DECEMBER 1979 AND JUNE 1980

State/Union Territory	No. of offices as at the end of				Opened during 1978-79 (July 1978 to June 1979)	Of which at un-banked centres	Opened during 1979-80 (July 1979 to June 1980)	Of which at un-banked centres	Population per bank office (in thousands) as at the end of		
	June 1978	June 1979	December 1979	June 1980					June 1979	December 1979	June 1980
	1	2	3	4	5	6	7	8	9	10	11
Andhra Pradesh .. .. .	2,134	2,366	2,433	2,477	232	162	112	91	18	18	18
Assam .. .. .	414	448	465	466	32	24	20	12	33	31	31
Bihar .. .. .	1,397	1,594	1,775	1,907	198	151	313	282	35	32	30
Gujarat .. .. .	2,077	2,162	2,204	2,243	85	43	82	67	12	12	12
Haryana .. .. .	674	720	732	746	46	32	27	21	14	14	13
Himachal Pradesh .. .. .	292	313	320	324	21	14	12	9	11	11	11
Jammu & Kashmir .. .. .	337	371	386	394	34	30	23	19	12	12	12
Karnataka .. .. .	2,339	2,531	2,598	2,636	193	132	106	74	12	11	11
Kerala .. .. .	2,011	2,098	2,128	2,191	87	59	93	74	10	10	10
Madhya Pradesh .. .. .	1,465	1,626	1,769	1,842	162	122	216	176	26	24	23
Maharashtra .. .. .	2,913	3,113	3,255	3,320	200	98	207	135	16	15	15
Manipur .. .. .	32	35	35	35	3	1	—	—	31	31	31
Meghalaya .. .. .	49	53	54	55	4	4	2	1	19	19	18
Nagaland .. .. .	29	33	35	35	4	3	2	2	16	15	15
Orissa .. .. .	660	718	767	815	59	46	97	85	31	29	27
Punjab .. .. .	1,425	1,469	1,509	1,544	44	22	75	59	9	9	9
Rajasthan .. .. .	1,150	1,317	1,421	1,471	167	136	154	108	20	18	18
Tamil Nadu .. .. .	2,552	2,675	2,740	2,814	123	87	141	104	15	15	15
Tripura .. .. .	67	69	76	77	2	2	8	5	23	20	20
Uttar Pradesh .. .. .	3,055	3,369	3,629	3,740	313	239	370	312	26	24	24
West Bengal .. .. .	1,804	1,910	1,994	2,040	106	52	131	84	23	22	22
Andaman & Nicobar Islands .. .. .	12	12	12	12	—	—	—	—	10	10	10
Arunachal Pradesh .. .. .	13	17	19	19	4	3	2	2	28	25	25
Chandigarh .. .. .	74	76	78	78	2	1	1	1	3	3	3
Dadra & Nagar Haveli .. .. .	4	4	4	4	—	—	—	—	19	19	19
Delhi .. .. .	768	820	828	837	54	2	18	3	5	5	5
Goa, Daman & Diu .. .. .	216	225	229	232	9	7	7	5	4	4	4
Lakshadweep .. .. .	5	5	5	5	—	—	—	—	6	6	6
Mizoram .. .. .	6	12	12	12	6	6	—	—	28	28	28
Pondicherry .. .. .	42	43	45	48	1	—	5	4	11	10	10
<b>TOTAL .. .. .</b>	<b>28,016</b>	<b>30,202</b>	<b>31,557</b>	<b>32,419</b>	<b>2,191</b>	<b>1,478</b>	<b>2,224</b>	<b>1,735</b>	<b>18</b>	<b>17</b>	<b>17</b>

Note : (1) 5 Offices were closed during the period July 1978 to June 1979.  
 (2) 7 Offices were closed during the period July 1979 to June 1980.  
 (3) Data for Sikkim are not available.

(Source : Department of Banking Operations and Development, RBI)

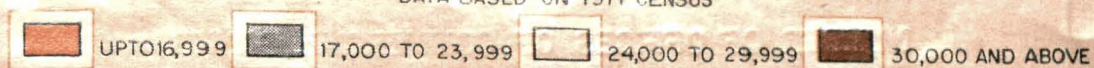


## AVERAGE POPULATION PER COMMERCIAL BANK OFFICE

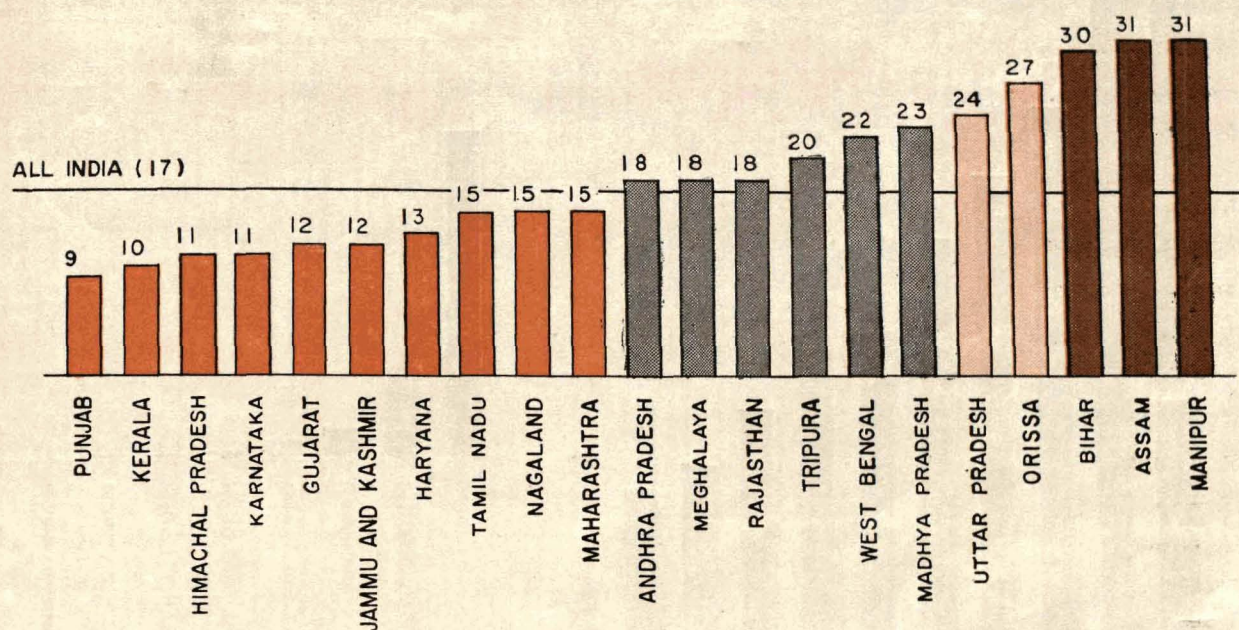
AS ON JUNE 30, 1980

(FIGURES ARE IN THOUSANDS)

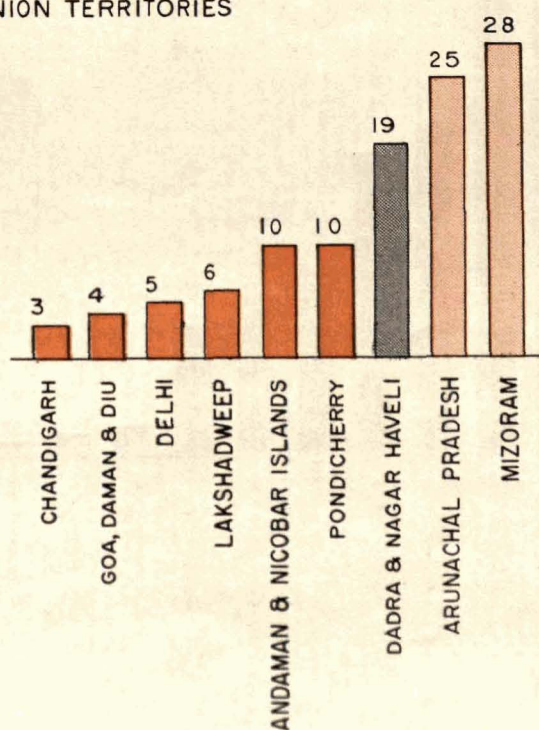
DATA BASED ON 1971 CENSUS



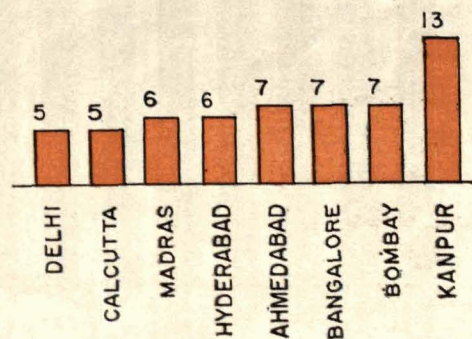
## STATES



## UNION TERRITORIES



## METROPOLITAN CITIES





# NUMBER OF OFFICES OF COMMERCIAL BANKS STATE-WISE

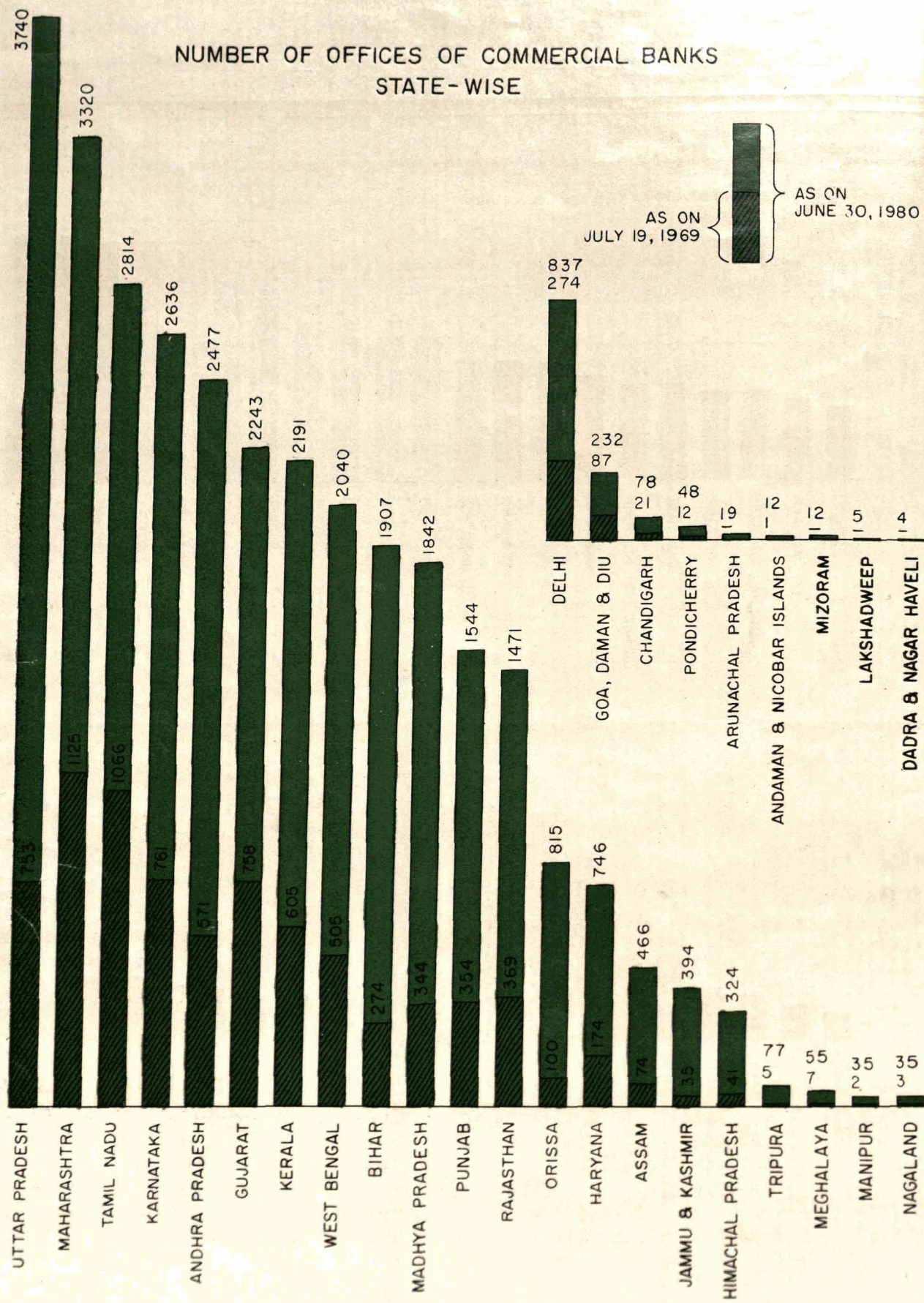


TABLE 2.17—BANK GROUP-WISE DISTRIBUTION OF OFFICES OPENED DURING 1978-79 AND 1979-80

Bank Group	New offices opened by commercial banks						Bank offices as on			No. of banks as on		
	1978-79			1979-80			June 30, 1979	December 31, 1979	June 30, 1980	June 30, 1979	December 31, 1979	June 30, 1980
	July-December 1978	January-June 1979	July-June 1978-79	July-December 1979	January-June 1980	July-June 1979-80						
	1	2	3	4	5	6	7	8	9	10	11	12
1. State Bank of India ..	168 (84)	73 (43)	241 (127)	117 (77)	125 (77)	242 (154)	5,052	5,168	5,293	1	1	1
2. Associate Banks of State Bank of India ..	105 (69)	38 (22)	143 (91)	66 (36)	46 (21)	112 (57)	2,335	2,401	2,447	7	7	7
3. 14 Nationalised Banks	566 (316)	224 (151)	790 (467)	531 (420)	296 (235)	827 (655)	14,533	15,062	15,356	14	14	14 ✓
4. 6 Banks nationalised on 15-4-1980 .. ..	161 (87)	49 (30)	210 (117)	80 (65)	41 (26)	121 (91)	2,607	2,686	2,726	—	—	6 ✓
5. Regional Rural Banks	318 (298)	243 (226)	561 (524)	432 (392)	281 (253)	713 (645)	1,965	2,397	2,678	56	60	73
6. Other Scheduled Commercial Banks .. ..	173 (108)	67 (38)	240 (146)	133 (88)	72 (42)	205 (130)	3,519	3,652	3,724	39	39	33@
7. Foreign Banks ..	—	—	—	—	—	—	129	129	129	14	14	14 ✓
8. All Scheduled Commercial Banks .. ..	1,491 (962)	694 (510)	2,185 (1,472)	1,359 (1,078)	861 (654)	2,220 (1,732)	30,140	31,495	32,353	131	135	148 ✓
9. Non-scheduled Commercial Banks ..	1 (1)	5 (5)	6 (6)	—	4 (3)	4 (3)	62	62	66	5	5	5
10. All Commercial Banks	1,492 (963)	699 (515)	2,191 (1,478)	1,359 (1,078)	865 (657)	2,224 (1,735)	30,202	31,557	32,419	136	140	153

Note : @ 6 banks nationalised on April 15, 1980 have been shown separately.  
Figures in brackets are numbers of unbanked centres in which offices were opened.

(Source : Department of Banking Operations & Development, RBI).

sistance to Indian entrepreneurs in the setting up of joint ventures abroad. Priority in the opening of offices was given to countries having potential for the absorption of Indian exports and technical know-how and to international financial centres having regard to their capacity to serve as reservoirs of funds for branches.

2.111 During the period under review (July 1979 to June 1980) four Indian banks opened six branches in foreign countries. Besides, the SBI up-graded its representative office at Tokyo in Japan into a full-fledged branch. In addition, Indian banks also set up (a) four representative offices—one each in USA, Nigeria, Tanzania and Australia, (b) a joint venture exchange company in Kuwait and (c) a Deposit Taking Company in Hong Kong.

TABLE : 2.18—POPULATION GROUP-WISE DISTRIBUTION OF COMMERCIAL BANKS' OFFICES

(Number of offices as at the end of the month)

				June 1976	% to Total	Decem- ber 1976	% to Total	June 1977	% to Total	Decem- ber 1977	% to Total	June 1978
				1	2	3	4	5	6	7	8	9
Rural	..	..	..	7,687	36.2	8,839	37.4	9,532	38.4	11,092	41.0	11,802
Semi-urban	..	..	..	6,387	30.1	7,024	29.7	7,211	29.1	7,493	27.8	7,586
Urban	..	..	..	3,739	17.8	4,135	17.5	4,263	17.2	4,445	16.5	4,542
Metropolitan/Port Town	..	..	..	3,407	16.1	3,657	15.4	3,796	15.3	3,966	14.7	4,086
<b>Total</b>	..	..	..	<b>21,220</b>	<b>100.0</b>	<b>23,655</b>	<b>100.0</b>	<b>24,802</b>	<b>100.0</b>	<b>26,996</b>	<b>100.0</b>	<b>28,016</b>
				% to Total	Decem- ber 1978	% to Total	June 1979	% to Total	Decem- ber 1979	% to Total	June 1980	% to Total
				10	11	12	13	14	15	16	17	18
Rural	..	..	..	42.1	12,806	43.4	13,333	44.1	14,444	45.8	15,101	46.6
Semi-urban	..	..	..	27.1	7,778	26.4	7,845	26.0	7,960	25.2	8,078	24.9
Urban	..	..	..	16.2	4,668	15.8	4,717	15.6	4,803	15.2	4,856	15.0
Metropolitan/Port Town	..	..	..	14.6	4,252	14.4	4,307	14.3	4,350	13.8	4,384	13.5
<b>Total</b>	..	..	..	<b>100.0</b>	<b>29,504</b>	<b>100.0</b>	<b>30,202</b>	<b>100.0</b>	<b>31,557</b>	<b>100.0</b>	<b>32,419</b>	<b>100.0</b>

Note : Rural Centres : Places with population up to 10,000. Semi-urban Centres : Places with population over 10,000 and up to 1,00,000. Urban Centres : Places with population over 1,00,000 and up to 10,00,000. Metropolitan Centres : Places with population over 10,00,000.

(Source : Department of Banking Operations and Development, RBI)



*Indian Banks' Business Abroad*

2.112 The aggregate deposits of the Indian bank offices abroad increased from Rs. 1,396 crores, as at the end of June 1978, to Rs. 1,476 crores as at the end of December 1978. Credit extended by these offices increased from Rs. 977 crores to Rs. 1,144 crores during the same period.

*Nationalisation of Six Banks*

2.113 A major development having a bearing on the commercial banking system in the country was the nationalisation on April 15, 1980 of six more banks in the private sector, whose demand and time liabilities in India as on March 14, 1980 amounted to not less than Rs. 200 crores. The six banks were (1) The Andhra Bank Ltd., (2) Corporation Bank Ltd., (3) The New Bank of India Ltd., (4) The Oriental Bank of Commerce Ltd., (5) The Punjab and Sind Bank Ltd. and (6) Vijaya Bank Ltd. The objective was further to control the heights of the economy, to meet progressively and serve better the needs of the development of the economy and to promote the welfare of the people. The amount to be paid in respect of the transfer of undertakings of these six banks was Rs. 18.5 crores. With the nationalisation of these six banks, the number of public sector banks increased to 28 (comprising the SBI and its seven subsidiaries and 20 nationalised banks) exclusive of RRBs. Consequent to the nationalisation, the share of public sector banks in the total deposits and outstanding credits rose from 84.1 per cent and 84.2 per cent, respectively, to 90.8 per cent and 90.7 per cent respectively<sup>1</sup>.

*Foreign Banks in India*

2.114 The policy regarding licensing of branches of foreign banks in India continued to be very selective. In doing so, apart from the principle of reciprocity, account was also taken of the need to diversify the presence of international banking community in India rather than enlarge the presence of the foreign banks, which are already represented in the country. In accordance with this policy, two new foreign banks, viz., Emirates Commercial Bank Ltd., Abu Dhabi, and European Asian Bank, Hamburg, were granted licences to open a branch each at Bombay.

*Regional Rural Banks*

2.115 During the year under review, 17 more RRBs were set up—one each in Andhra Pradesh and Jammu and Kashmir, two in Orissa, four each in Bihar and Madhya Pradesh and five in Uttar Pradesh. Thus, the total number of RRBs stood at 73 covering 130 districts in 17 States as at the end of June 1980 as against 56 RRBs a year earlier. The total number of branches of RRBs rose by 688 from 1,990, as at the end of June 1979, to 2,678, as at the end of June 1980 (Table 2.19).

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1. Based on provisional data for April 18, 1980.

TABLE 2.19—STATE-WISE OFFICES OF REGIONAL RURAL BANKS

(As on June 30, 1980)

States							No. of RRBs	No. of Branches	No. of Districts
							1	2	3
1. Andhra Pradesh	..	..	..	..	..	..	4	265	9
2. Assam	..	..	..	..	..	..	1	42	3
3. Bihar	..	..	..	..	..	..	14	448	22
4. Gujarat	..	..	..	..	..	..	2	39	2
5. Haryana	..	..	..	..	..	..	2	76	4
6. Himachal Pradesh	..	..	..	..	..	..	1	27	3
7. Jammu & Kashmir	..	..	..	..	..	..	2	54	8
8. Karnataka	..	..	..	..	..	..	4	211	7
9. Kerala	..	..	..	..	..	..	2	150	3
10. Madhya Pradesh	..	..	..	..	..	..	9	203	15
11. Maharashtra	..	..	..	..	..	..	1	70	4
12. Orissa	..	..	..	..	..	..	6	186	8
13. Rajasthan	..	..	..	..	..	..	4	208	8
14. Tamil Nadu	..	..	..	..	..	..	1	75	2
15. Tripura	..	..	..	..	..	..	1	30	3
16. Uttar Pradesh	..	..	..	..	..	..	15	447	18
17. West Bengal	..	..	..	..	..	..	4	147	11
<b>Total</b>	..	..	..	..	..	..	<b>73</b>	<b>2,678</b>	<b>130</b>

(Source : Rural Planning and Credit Cell and DBOD, RBI).

2.116 According to the progress reports received from 57 RRBs, their deposits and advances aggregated Rs. 123 crores and Rs. 167 crores, respectively, as on the last Friday of December 1979. A year earlier these were Rs. 74 crores and Rs. 122 crores, respectively. Advances to small/marginal farmers, landless labourers and rural artisans outstanding amounted to Rs. 154 crores as on December 31, 1979 and formed 92 per cent of the total advances. At the end of 1978, the relative amount and percentage were Rs. 113 crores and 93 per cent, respectively.

2.117 The RRBs continued to avail of the Refinance Scheme introduced on October 1, 1976. For the refinance year 1979-80 (July-June) limits aggregating Rs. 76 crores were sanctioned to 45 RRBs. The amounts drawn against these limits and outstanding, as on the last Friday of June 1980, amounted to Rs. 67 crores.

2.118 The Steering Committee on RRBs constituted in the RBI decided to undertake a quick study of all the issues having a bearing on the viability of RRBs. Accordingly, 15 RRBs which had been in existence for three years, or which had attained a loan business of Rs. 3 crores and above by the end of December 1978 were selected for study. The object of the study was to find out (1) whether these RRBs had become viable as envisaged by the Dantwala Committee (Committee on RRBs 1977), and if not, what the factors hindering their growth were, (2) whether the branches of RRBs had become viable after reaching a loan business of Rs. 6 lakhs and, if not, what the underlying reasons thereof were, (3) the level of loan business at which an RRB could become viable not only from the standpoint of meeting all its expenses but also from the point of view of building up minimum reserves over a reasonable period of time, and (4) the size of margin which an RRB would require to become viable as compared to the margin available then.

2.119 The broad findings of the study were that it is not possible for all branches to become viable because some branches are located at centres where the potential is limited. Some branches cannot expand their business because of keen competition from branches of commercial banks and co-operative banks. The RRBs have so far been able to achieve the main objective of helping the weaker sections in the rural areas by purveying credit to suit their requirements despite the constraint of limited area of operation, an unhelpful topography (in some areas) and an unenterprising clientele.

## VI. WORKING RESULTS OF SCHEDULED COMMERCIAL BANKS

2.120 The working results of 66 scheduled commercial banks (22 public sector banks, 12 foreign banks and 32 other Indian banks) based on the published Profit and Loss Accounts of the banks for the calendar year 1979 are given in Table 2.20. As in the earlier years, the banks continued to adopt different accounting procedures in regard to the recording/payment of bonus to staff in their Profit and Loss Account. While a few of the banks treated bonus as a part of establishment expenditure comprising salaries, wages, etc., some others included it under contingency reserves, the provision for payment of bonus being made out of the profit for the year. Since contingency reserves would include provisions for other purposes also the actual bonus paid would be lower than the figure shown as contingency reserves. However, in the absence of details in this regard, for the purpose of this analysis, the entire contingency reserves have been taken as representing bonus payments.

2.121 The profits of the banks after providing for taxation and bonus/ex-gratia payments to staff, registered a significant rise in 1979 in both absolute and percentage terms. The aggregate profits at Rs. 42 crores



TABLE 2.20—WORKING RESULTS OF SCHEDULED COMMERCIAL BANKS

		(Rupees Crores)					
No. of reporting banks		State Bank Group			Nationalised Banks		
		(8)			(14)		
		1977	1978	1979	1977	1978	1979
		1	2	3	4	5	6
I.	Total Earnings .. ..	675.49 (24.3)	801.55 (18.7)	1,008.17 (25.8)	1,263.59 (18.7)	1,442.56 (14.2)	1,790.09 (24.1)
	of which						
	Interest and discount ..	563.47 (25.4)	668.30 (18.6)	841.89 (26.0)	1,132.81 (19.7)	1,299.68 (14.7)	1,626.79 (25.2)
II.	Total Expenditure ..	666.63 (24.7)	791.88 (18.8)	997.03 (25.9)	1,248.30 (19.4)	1,426.70 (14.3)	1,771.05 (24.1)
	of which						
	(a) interest paid on deposits, borrowings, etc.	409.84 (29.0)	490.88 (19.8)	622.41 (26.8)	829.81 (21.3)	938.25 (13.1)	1,177.07 (25.5)
	(b) Salaries, allowances, provident fund and bonus/ex-gratia payment to staff ..	196.19 (18.6)	226.43 (15.4)	285.68 (26.2)	301.13 (15.3)	351.10 (16.6)	432.84 (23.3)
III.	Profit after provision for taxation and bonus/ex-gratia payment to staff .. ..	8.86 (0.8)	9.67 (9.1)	11.14 (15.2)	15.29 (-22.0)	15.86 (3.7)	19.04 (20.1)

		Other Indian Scheduled Commercial Banks@			Foreign Banks			Total		
		(32)			(12)			(66)		
		1977	1978	1979	1977	1978	1979	1977	1978	1979
		7	8	9	10	11	12	13	14	15
I.	Total Earnings .. ..	181.83 (23.9)	221.12 (21.6)	281.54 (27.3)	130.16 (3.5)	138.13 (6.1)	158.98 (15.1)	2,251.07 (19.7)	2,603.36 (15.6)	3,238.78 (24.4)
	of which									
	Interest and discount ..	158.87 (26.1)	196.25 (23.5)	248.68 (26.7)	101.40 (2.9)	107.51 (6.0)	124.28 (15.6)	1,956.55 (20.8)	2,271.74 (16.1)	2,841.64 (25.1)
II.	Total Expenditure ..	179.41 (24.7)	218.60 (21.8)	277.41 (26.9)	126.87 (7.2)	132.35 (4.3)	151.16 (14.2)	2,221.21 (20.6)	2,569.53 (15.7)	3,196.65 (24.4)
	of which									
	(a) Interest paid on deposits, borrowings, etc.	101.74 (30.2)	126.94 (24.8)	161.82 (27.5)	56.65 (6.0)	61.21 (8.1)	70.85 (15.8)	1,398.04 (23.3)	1,617.28 (15.7)	2,032.15 (25.7)
	(b) Salaries, allowances, provident fund and bonus/ex-gratia payment to staff ..	50.47 (24.1)	60.78 (20.4)	77.21 (27.0)	27.99 (20.5)	28.62 (2.3)	32.73 (14.4)	575.78 (17.4)	666.93 (15.8)	828.46 (24.2)
III.	Profit after provision for taxation and bonus/ex-gratia payment to staff .. ..	2.42 (-17.7)	2.52 (4.1)	4.13 (63.9)	3.29 (-55.5)	5.78 (75.7)	7.82 (35.3)	29.86 (-23.1)	33.83 (13.3)	42.13 (24.5)

Note: Figures in brackets represent percentage changes over the previous year.

@Figures relate to 32 comparable other Indian Scheduled Commercial Banks in private sector with deposits of Rs. 10 crores and over as at end-December 1979.

(Source: Profit and Loss Accounts of banks)

recorded an increase of Rs. 8 crores as compared with the rise in 1978 of Rs. 4 crores. In terms of percentage variation over the previous year, the profits of the 14 nationalised banks and the State Bank of India Group increased by 20.1 per cent and 15.2 per cent, respectively, while the profits of other scheduled commercial banks rose by 63.9 per cent and those of foreign banks by 35.3 per cent in 1979.

2.122 Both the earnings and expenditures recorded sizeable increases in absolute terms in 1979 as compared with 1978 reflecting partly the changes in interest rate structure effected in September 1979. Total earnings rose by Rs. 635 crores (+24.4 per cent) as against a rise of Rs. 352 crores (+15.6 per cent) in 1978 while aggregate expenditures rose by Rs. 627 crores (+24.4 per cent) in 1979 as compared with Rs. 348 crores (+15.7 per cent) in 1978. In respect of earnings, interest and discount accounted for about 90 per cent of the increase and in regard to expenditures, interest paid accounted for 66 per cent in 1979.

## VII. EXPORT FINANCE

### *Duty Drawback Credit Scheme, 1976*

2.123 The Scheme benefits exporters who avail of interest-free finance from banks up to 90 days against shipping bills provisionally certified by the Customs Authorities towards refund of duty. The financing banks are eligible to avail of interest-free refinance from the RBI pending the final settlement of duty drawback claims of the exporters. During the period November 1, 1979 to June 30, 1980, limits aggregating Rs. 17 crores were sanctioned to 27 banks which had availed of refinance to the extent of Rs. 8 crores as on April 25, 1980.

### *Export Credit (Interest Subsidy) Scheme, 1968*

2.124 As in the previous years, the RBI continued to disburse interest subsidy at one and a half per cent per annum from the Marketing Development Assistance Fund of the Ministry of Commerce, GOI, to commercial banks and certain eligible co-operative banks on the export credit extended by them for specific periods to exporters. Besides, a special subsidy at three per cent and one and a half per cent per annum, as the case may be, was also paid on behalf of the Ministry of External Affairs to the IDBI, United Commercial Bank, Union Bank of India and Punjab National Bank in respect of certain special lines of credit made available to Bangladesh for its imports from India. This was in addition to the subsidy at  $1\frac{1}{2}$  per cent per annum paid from the Marketing Development Assistance Fund. The particulars of subsidy paid during the period July 1979 to June 1980 are as under :

	(In lakhs of Rupees)
1. Special subsidy at 3 per cent and $1\frac{1}{2}$ per cent per annum	63
2. General subsidy at $1\frac{1}{2}$ per cent per annum	14,78

*Standing Committee on Export Finance*

2.125 Some of the important matters dealt with by the Committee during the period are given below :

(i) *Export finance to the units in the Kandla Free Trade Zone and Santa Cruz Electronics Export Processing Zone*

2.126 Keeping in view the export obligation to the units set up in Kandla Free Trade Zone and Santa Cruz Electronics Export Processing Zone at Bombay, banks were advised to extend working capital finance to such units at concessional rates of interest and also not to insist on the production of letters of credit or firm orders for export at the time of availment of pre-shipment credit.

(ii) *Export of Diamonds*

2.127 The exporters of diamonds were facing recessionary trends in the export of diamonds from India in the wake of developments in the diamond market in U.S.A. and some other countries. The export off-take of diamonds had fallen resulting in the accumulation of finished products with the exporters/diamond polishing units. This situation posed serious liquidity problems and affected a large number of workers in the diamond cutting and polishing industry. In view of the socio-economic repercussions and the need for putting the diamond export trade on a firmer footing for ensuring its continued growth, banks were advised to review the pre-shipment and post-shipment finance extended to diamond exporters and ensure that, wherever necessary, increased finance to meet their genuine credit requirements was extended.

(iii) *Problems of Repatriation of Export Proceeds from Countries experiencing Exchange Difficulties*

2.128 It was observed that in respect of exports to Nigeria, Ghana, Israel, Sudan, Syria, Taiwan, Turkey, Vietnam, Yemen, Zaire and Zambia, repatriation of export proceeds was delayed on account of foreign exchange difficulties faced by these countries. In order to provide relief to the exporters in such cases, it was decided that in the case of export bills (demand or usance) drawn on the aforesaid countries, the lending banks would charge concessional rate of interest to the exporters and would be eligible for interest subsidy from the date of purchase/discount of a bill/making an advance against export bill sent for collection till the date of receipt of proceeds thereof in India or payment by Export Credit and Guarantee Corporation, whichever was earlier, subject to the maximum period of 180 days, provided the bill was paid on due date in local currency and certain conditions were fulfilled. This relaxation was made operative till March 1980 and the position was under review.

## VIII. BANKING LEGISLATION/REGULATION

*Banking Law (Amendment) Bill, 1978*

2.129 It was mentioned in the last Report that the Banking laws (Amendment) Bill was introduced in the Lok Sabha in December 1978. However, it could not be taken up for consideration on account of other legislative business. Meanwhile, the Lok Sabha was dissolved and the Bill lapsed. The Bill, therefore, will have to be reintroduced after being considered afresh by Government. Meantime, the GOI requested the Bank to review the position and suggest fresh amendments, if any, to the RBI Act, 1934, BR Act, 1949, and the SBI Act, 1955, for being included in the Bill. The suggestions of the RBI are under the consideration of the Government.

*Indo-Pak Banking Agreement, 1949*

2.130 In terms of the Scheme evolved by the RBI in consultation with the GOI, the Bank has been following up the progress made in the settlement by the banks (designated) of the claims of non-Muslim evacuees who left their deposits with banks in Pakistan at the time of the partition of the country. During the course of the year, it was observed by the Bank that an amount of Rs. 871 thousands was settled by the banks out of the total amount of Rs. 1632 thousands credited to them. Considering the poor progress made in this regard, the Bank has given wider publicity about the arrangements made to speed up payment to non-Muslim evacuees by issuing press note and advertisement. Besides, the Reserve Bank made another effort to settle the claims of the court deposit holders who migrated to India during the partition disturbance. The matter is under the active consideration of the GOI.

## IX. COMMITTEES AND WORKING GROUPS: APPOINTMENT, RECOMMENDATIONS AND FOLLOW-UP

A. *Appointment*1 *Working Group on the Modalities of Implementation of the Priority Sector Lending and 20-Point Economic Programme by Banks*

2.131 Pursuant to the decision taken at the Finance Minister's meeting with the Chief Executive Officers of public sector banks on March 6, 1980, the RBI constituted, on March 13, 1980, a Working Group to examine and report on the modalities of implementation of the 20-Point Programme. The terms of reference of the Working Group were: (1) identification of the specific groups which are to be assisted under the 20-Point Programme, (2) the ways and means of rendering assistance to the beneficiaries identified under the Programme, (3) to look into the question of fixing sub-targets (within the enhanced over-all target of 40 per cent for assistance to priority sectors) to the identified

beneficiaries, (4) to consider whether certain types of assistance to the beneficiaries identified under the Programme which is presently not treated as "priority sector" should be included in the "priority" category, (5) to consider the modalities of evaluation of the performance of banks in lending to priority sectors particularly under the Programme, (6) to suggest an appropriate machinery within the banks to monitor the progress of the assistance to the priority sectors particularly under the Programme and (7) to make any other recommendations which are incidental or related to the terms of reference above.

2.132 The Group submitted its Report on April 22, 1980. A copy of the Report has been forwarded to Government and the Report is under their consideration.

2. *Working Group on Monitoring System for Bank Advances for Priority Sectors and 20-Point Programme*

2.133 In pursuance of another decision taken at the meeting of the Finance Minister with the Chief Executive Officers of public sector banks, referred to earlier, the RBI constituted another Working Group on March 13, 1980, to review the monitoring system for bank advances for priority sectors and 20-Point Programme. The terms of reference were: (1) to make a quick examination of the existing system of data collection in respect of advances to the priority sectors, (2) to consider how best the existing system could be rationalised to facilitate collection of data in respect of assistance to specified categories of borrowers under the 20-Point Programme and (3) to make any other recommendations which are incidental or related to the terms of reference mentioned above.

2.134 The Report of the Group, signed on May 20, 1980 is under examination.

3. *Working Group to review Training Arrangements in Banks*

2.135 The RBI appointed, in December 1979, a Working Group to review the training arrangements in banks and at the apex level in relation to training needs. The terms of reference were: (1) to make a quick assessment of the training needs of the banking system (including the RRBs), (2) to examine the role of the RBI, the existing central training establishments like National Institute of Bank Management (NIBM), Bankers Training College (BTC) and College of Agricultural Banking (CAB) and the Committee of Direction in Government in the formulation and implementation of training programmes for public sector banks and assess the adequacy of the present arrangements (viewed together with the training facilities created by the public sector banks themselves) in relation to the perceived training needs, and (3) to consider the need for setting up of a central agency for co-ordinating and overseeing the training needs and arrangements in banks, and whether such an agency should be a Standing Committee, as suggested by the James

Raj Committee, or whether any other body should be set up for the purpose. The work of the Group is in progress.

**B. Follow-up**

2.136 The action taken during the year on the major recommendations of various Committees/Working Groups is summarised below.

1. *Committee to study functioning of Public Sector Banks (James Raj Committee)*

(i) *Independent status to some of the subsidiaries of the SBI*

2.137 An internal Committee was set up by the SBI to go into the question of its future relationship with the associate banks. The recommendation of the James Raj Committee on providing independent status to some of the subsidiaries of the SBI is being examined by the RBI in the light of the findings of the Committee of the SBI which has submitted its report.

(ii) *Setting up of new public sector banks, one each in the North-Eastern, Central and Northern Regions*

2.138 The suggestions for strengthening the banking facilities in the States of Uttar Pradesh, Rajasthan, Orissa, Madhya Pradesh, Bihar, etc., are being examined.

(iii) *Provision of RBI's refinance in respect of lending to small-scale industrial units by banks/setting up of Refinance Corporation by Government*

2.139 A Working Group, which was set up by the RBI, to examine the question of setting up an apex financial institution for meeting the credit requirements of the small and decentralised sector of industry has submitted its report and its recommendations are being processed.

(iv) *Establishment of training colleges in Eastern and North-Eastern Regions*

2.140 In pursuance of the recommendation of the Working Group on the Problems of Bank Credit in the North-Eastern Region, the three lead banks in the North-Eastern Region have started joint training programmes at SBI Training Centre at Gauhati. It has also been decided to place these training arrangements on a more permanent footing by forming a new autonomous body to be sponsored by the lead banks. As regards establishment of a separate training College in the Eastern Region, including Eastern UP, it was suggested that similar joint training centres could be set up by the concerned lead banks. The BTC and CAB could conduct suitable programme at these areas. The lead banks of the region have been asked to consider the above suggestion.

2. *Working Group to study the Problems arising out of the Adoption of Multi-Agency Approach in Agricultural Financing (Kamath Working Group)*

(i) *Interest rates structure*

2.141 The pattern of interest rates charged by commercial and co-operative banks has been made more or less uniform in the light of the recommendations of the Kamath Working Group and the Study Group on Interest Rates Structure of Co-operatives.

(ii) *Terms and conditions, documentation and procedures for lending to agriculture and allied activities*

2.142 Based on the recommendations made by the Working Group set up by the GOI on simplification of application forms and lending procedures for loans to agriculture and allied activities (Baldev Singh Group), instructions were issued to banks in regard to introduction of uniform and simplified application forms, documentation and lending procedures, including 'no dues certificates', margin requirements, security norms, etc. The other suggestions of the Kamath Working Group relating to inspection and supervision charges, and credit guarantee premium were referred to the Committee of Bankers set up by the IBA; these are now being examined on the basis of the Committee's report, which has since been received in the RBI.

3. *Expert Group on Agricultural Credit Schemes of Commercial Banks*

(i) *Recommendations relating to branch managers*

2.143 Based on the comments received from banks on the recommendations relating to branch managers attending block development committee meetings, transfer of managers of rural branches, staff requirements and their training needs, etc., instructions have been issued to all banks advising them to implement the suggestions made by the Group to the extent possible.

(ii) *Recommendation on State Governments identifying opportunities and developing credit schemes for repairs and desilting of tanks*

2.144 The ARDC, the comments of which were invited, on this recommendation, has pointed out that apart from developing organisational arrangements to supervise the distribution of water from the tanks as well as for recovery of loan instalments, the State Governments may have to give rights for perpetual use of water to the beneficiaries or their organisation (say, groups of borrowers or co-operatives) so that they come forward to mortgage lands for bank loan for improvement of tanks. Alternatively, State Governments may have to carry out the tank improvement work under special statutes with provision for creating a statutory charge on the land and get the work executed

through agencies like Irrigation/Land Development Corporations. Bank finance could be made available to such corporations. In that case, State Governments may have to provide guarantees. The matter has been taken up with State Governments.

(iii) *Guidelines to banks on Village Adoption Scheme*

2.145 A quick study conducted by the RBI on the Village Adoption Scheme more or less bore out the conclusions reached by the Expert Group that villages were adopted on an *ad hoc* basis with very little action taken for developing them in an integrated manner. The question of suitably modifying the Scheme is under consideration.

4. *Working Group on Operational Efficiency and Profitability of Banks*

(i) *Introduction of revised proformae of balance sheets and profit and loss accounts*

2.146 The comments received from the public sector banks, major private sector banks and the IBA on the revised proformae are being examined.

(ii) *The system of audit of all categories of banks to be made uniform on the lines of the practice followed by SBI*

2.147 A Committee has been set up by the RBI for enlarging banks' statutory auditors' panel. This Committee has been requested to look into the above-mentioned suggestion.

5. *Reports of the Five Working Groups<sup>1</sup>*

(i) *Issue of instructions*

2.148 The commercial banks were advised to initiate urgent action in respect of such of the recommendations of the Working Groups which concerned the banking system. The main objective of the recommendations of the aforesaid Groups was to ensure smooth and adequate flow of credit to priority sectors and weaker sections of the society. Banks were, therefore, advised that DCCs would be the appropriate forum to discuss common problems (including supply of inputs, power, marketing arrangements, etc.) and to evolve ways and means to overcome them to ensure speedy implementation of the instructions.

2.149 Government desired that Reserve Bank should send a progress report on a quarterly basis outlining the action initiated by commercial banks for implementing the recommendations of the five Working

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1 The Working Groups related to (i) Differential Rates of Interest, (ii) Bank Credit for Small-Scale Industries, (iii) Agricultural Credit, (iv) Role of Banks in promoting Employment and (v) Problems of Sick Industrial Units and were appointed as a sequel to the Prime Minister's meeting with the Chief Executives of Banks and Term Lending Institutions on October 8, 1978.



Groups. The Special Cell in the Bank was entrusted with the work relating to the monitoring and collection of requisite information from banks for the preparation of quarterly progress reports for submission to Government. Four such reports relating to the quarters ended December 1978, March, June and September 1979 were prepared and sent to Government. While the first progress report covered the measures initiated by the RBI and those expected to be taken by banks for implementing the recommendations, the second and third reports highlighted, in qualitative and quantitative terms, the organisational and administrative changes made by the banks. These changes also included delegation of adequate sanctioning powers to branch managers, simplification of lending procedures, staffing pattern of rural branches and creation of Special Monitoring Cells at regional level as well as head office level, etc. The second and the third reports also brought out the improvements discernible in the flow of credit to priority sectors and especially to artisans, village and cottage industries, tiny sectors, small and marginal farmers, etc. The progress report for the quarter ended December 1979 is being finalised.

*(ii) Provision of bank finance in North-Eastern Region*

2.150 The Working Group on Small-Scale Industries with special reference to DICs had suggested that pending the establishment of bank offices, particularly in North-Eastern Region, the feasibility of making alternative arrangements for the provision of institutional finance to artisans and village and cottage industrial units should be examined on a priority basis. With this end in view, a quick study was carried out by the Bank, jointly with the IDBI, to survey the existing State and sub-State level organisations in the Region and for identifying those amongst them which have the institutional capabilities to provide financial assistance to the aforesaid sectors in the unbanked areas. The survey report was received and it is under examination in the Bank.

*(iii) Provision of integrated marketing finance to decentralised industries*

2.151 A Small Group was constituted in the RBI with representatives from the RBI, IDBI, SBI and four nationalised banks along with the representatives of the all-India promotional organisations (viz., Small Industries Development Organisation, Handloom Board, Handicrafts Board, Silk Board and the Khadi and Village Industries Commission) to consider various issues relating to the provision of integrated marketing finance for decentralised industries. It was also expected to act as a monitoring agency at the central level in respect of finance to village and cottage industries.

*6. Study Group on Follow-up of Bank Credit (Tandon Committee)*

2.152 The Committee of Direction constituted by the RBI in 1975 has been serving as a useful means to maintain flexibility in the operation of the new lending policies. During the period under reference,

the Committee held four meetings and discussed a number of issues in regard to the application/modification of lending norms as also other matters on which the Committee's views could be obtained with advantage before taking decisions. The Bank examined the views of the Committee on various issues and where necessary, advised banks suitably to enable them to further improve their operational flexibility and to develop a better understanding of the new lending system. Some of the major issues discussed by the Committee, decisions taken and guidelines/instructions issued to banks are given below.

(a) In November 1978, the Reserve Bank had issued certain broad guidelines to banks in regard to consortium advances. Since the borrowers still complained about inconvenience and undue delay in obtaining sanctions/decisions from banks, the Bank further examined the issues and in December 1979 made certain additions/modifications to the guidelines already issued. The guidelines, *inter alia*, provide that multiple banking arrangement may be put on formal consortium basis. In order to obviate the delay caused by processing of the loan proposals by each of the financing banks separately, banks were advised that a Consortium Committee comprising senior executives of member banks for the purpose of appraisal and follow-up of the bank finance, may be constituted. Guidelines have also been provided regarding sharing of ancillary business among the financing banks, uniformity in documentation and terms and conditions of the advances, regulation of drawings from the accounts from all the consortium members on an agreed ratio, responsibility of the consortium leader to arrange for obtaining the credit authorisation from RBI wherever necessary, need to act concertedly on unsatisfactory advances, etc.

(b) The question of continuance or otherwise of the several types of facilities which are exempt from the CAS was considered in the context of the changed method of appraisal of working capital limits following the acceptance of the recommendations of the Tandon Committee and it was decided that the issue might be further examined by the Reserve Bank in the light of the views expressed by the Committee.

(c) Reserve Bank had earlier advised banks emphasising the need to relate additional accommodation strictly to increase in output or permitted inventories. The existing CAS forms in which the borrowers were required to furnish data to their bankers in support of their requests for credit limits did not provide for information, on such characteristics like production/sales in physical terms, etc. The issue was discussed by the Committee and banks were advised to obtain from their larger borrowers information in regard to the physical quantity of goods produced/to be produced, their unit price, etc., in the format drawn up by the Bank. The information is to be furnished to the Bank along with other CAS forms when applications for the RBI's authorisation are made under the CAS.

(d) The relaxations in inventory norms allowed for the fertiliser industry were reviewed. It was decided that as the level of inventory holdings

differed from unit to unit, there was no need to allow a general relaxation for the industry as a whole and that relaxation from the prescribed norms might be considered on a case-to-case basis.

(e) The question of allowing relaxations from the inventory norms in respect of engineering (automobiles and ancillary) industries was discussed and it was decided that such relaxation might be considered on merits of individual cases.

(f) The desirability of introducing a uniform format in which loan proposals could be put up by banks to their Boards was discussed. Reserve Bank invited comments/suggestions on the format prepared by it from those who participated in the meeting of the Committee as also the Bank's nominees on the Boards of nationalised banks. The format is being finalised by the Bank.

(g) The issue regarding problems faced by banks in lending to diamond industry as also the question whether any norms/guidelines could be evolved in the matter of financing this industry, was discussed in the Committee. While noting the special characteristics of financing this industry, it was decided not to prescribe any such norms/guidelines to banks in the matter, for the present.

#### 7. *Working Group to review the System of Cash Credit in Banks*

2.153 The inability of the banks to implement the credit restraint measures introduced during the period end-November 1978 to end-March 1979 when the advances exceeded the level of 40 per cent specified by the Reserve Bank for incremental (non-food) credit-deposit ratio brought to focus the need for re-examining the cash credit style of lending. In this context, the RBI constituted a Working Group to review the System of Cash Credit in Banks in all its aspects. The final report of the Working Group submitted to the Bank in September 1979 is under consideration.

#### 8. *Working Group to study the Problems of Bank Credit in the North-Eastern Region*

2.154 The Lead Banks and the Governments of the States/Union Territories have been taking active steps towards the implementation of the recommendations of the Group. The progress in implementation of the various recommendations of the Group relating to changes in operational methods and lending practices of the banks, manpower planning, publicity campaigns for guidance of borrowers and co-ordination between the banks and the Governmental agencies, etc., are being discussed and reviewed from time to time at the joint meetings of the bankers and Governments of State/Union Territories. The issues relating to up-dating of land records, providing infrastructural facilities, organising of LAMPS, PACS, etc., are also being taken up at the Local Committee and North-Eastern Council Meetings. The three concerned lead banks continued to conduct the joint training courses for officials of Lead Banks as also other banks and State Governments.

9. *Expert Group on State Enactments having a bearing on Commercial Banks' Lending to Agriculture (Talwar Committee)*

2.155 With a view to facilitating the smooth flow of agricultural credit from commercial banks, the Expert Group (Talwar Committee) on State Enactments having a bearing on Commercial Banks' Lending to Agriculture had recommended in 1971 enactment by all States and Union Territories of a model bill on the lines suggested in its report, together with certain administrative measures. Sixteen States, viz., Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Orissa, Punjab, Rajasthan, Tripura, Uttar Pradesh and West Bengal have so far enacted legislation to give effect to the recommendations of the Group. Excepting Bihar and Tripura all these States have also framed rules for the purpose of giving effect to the provisions of the Acts passed by them.

2.156 As regards the administrative measures to be initiated the position is as under.

*Stamp Duty*

2.157 All the sixteen States, referred to above, have taken measures to extend exemption from stamp duty on agricultural loans of commercial banks up to a certain level. Similar steps have been taken by the States of Andhra Pradesh, Jammu and Kashmir, Kerala and Nagaland.

*Registration Fee*

2.158 The States of Andhra Pradesh, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Orissa, Rajasthan, Tamil Nadu, Tripura and West Bengal have exempted loans up to a certain level granted by commercial banks to farmers from payment of registration fee.

*Fee for Non-Encumbrance Certificate*

2.159 The States of Andhra Pradesh, Bihar, Gujarat, Karnataka, Madhya Pradesh, Orissa, Tamil Nadu and West Bengal have either provided full exemption from, or reduced to nominal level, the fees for non-encumbrance certificates issued to farmers.

2.160 The States of Assam, Bihar, Gujarat, Karnataka, Orissa, Uttar Pradesh and West Bengal have enacted Public Moneys (Recovery of Dues) Act, which enables them to initiate direct proceedings against the defaulting borrowers for recovery of sums due to the commercial banks in respect of financial assistance provided by banks under State-sponsored schemes, as if the dues were arrears of land revenue.

### 10. Working Group on Customer Service in Banks

2.161 During the year, the Small Group set up by the GOI to examine the recommendations of the Group with a view to implementing them expeditiously, assessed the appraisal notes prepared by the RBI on the performance of the banks, and a note on replies to the questionnaire issued by the Bank. The broad picture, which emerged was that there was sufficient awareness on the part of banks of the need for continued improvement in customer service. Customer service as an important corporate objective was accepted by them. At the head offices almost all banks have set up Customer Service Cells.

2.162 In functional areas, at least where rules, procedures and organisational support are concerned, tangible improvement is reported to have been achieved in matters coming under the heads 'deposit accounts' and 'loans and advances'. The quality of service in the field of 'foreign exchange' varies from bank to bank. In the area of 'remittances and collection' there is much room for further improvement even in respect of organisational and procedural aspects. The performance in the functional area is revealed by data in the following table.

TABLE 2.21—PROGRESS IN IMPLEMENTATION OF RECOMMENDATIONS RELATING TO CUSTOMER SERVICE

Service Area								Total number of recommendations accepted by GOI	Total number of recommendations implemented by more than 50% of public sector banks
								1	2
1	Deposit Accounts	..	..	..	..	..	..	14	10
2	Remittances and Collections	..	..	..	..	..	..	12	9
3	Loans and Advances	..	..	..	..	..	..	8	8
4	Foreign Exchange Business	..	..	..	..	..	..	5	2
5	Government Business	..	..	..	..	..	..	1	1
6	Discipline and Attitude	..	..	..	..	..	..	7	6
7	General	..	..	..	..	..	..	4	4

2.163 The important aspects of customer service which were examined by the Small Group during the year in consultation with the RBI/IBA/GOI and other institutions and improvements effected are enumerated below.

#### (a) Scheme for Collection of Out-station Cheques

2.164 In order to avoid delays in the collection of out-station cheques and bills, organisational and procedural changes have been effected by some banks. In particular, the Bank of India has set up a regional collection centre to improve up-country collection. The RBI has exhorted other

public sector banks to emulate this example and introduce similar special collection centres for out-station cheques; the progress in this regard is being watched.

(b) *Scheme of Payment of Pension*

2.165 The Bank has emphasised upon all public sector banks (through the IBA) to consider the collection of pension cheques drawn by Central/State Governments as a social obligation and not to levy collection charges other than postal charges.

(c) *Overdrawal in Savings Bank Accounts*

2.166 At the instance of the RBI, the IBA circulated guidelines in May 1980 to member-banks about extending a facility to their customers to overdraw savings bank accounts under certain conditions.

## X. INSPECTION, MERGER, LIQUIDATION AND LICENSING OF BANKS

### *Inspection of Commercial Banks*

2.167 The RBI carries out two types of inspections of banks viz., Financial and Annual Appraisal. While the main emphasis in Financial Inspection is on appraising assets and liabilities and methods of operations of banks, in the Annual Appraisal system of inspection, more stress is laid on an objective assessment of systems and developmental aspects, such as organisational set up, resources mobilisation, credit appraisal and deployment of credit particularly in priority/preferred sectors, profitability, internal control system, etc. The centre-wise inspection system which was introduced in 1970 was discontinued in August 1979, consequent upon the decision taken to monitor effectively the developmental aspects in the Lead Districts by appointment of Lead District Officers.

2.168 During the year July 1979—June 1980, Financial Inspections of 23 scheduled banks, 3 non-scheduled banks and 13 RRBs were taken up. Besides, Annual Appraisals of 17 public sector banks and one private sector bank were carried out. Thus, since the introduction of Annual Appraisal system, all the banks in the public sector and one bank in the private sector have been covered under the first round of inspection. In addition, rapid scrutiny of the affairs of a few banks, test check inspections of statements relating to advances granted to small-scale industrial units submitted by the banks/branches to the Bank's Industrial Finance Department, scrutiny of claims paid, applications received from the DICGC and scrutiny of claims preferred by banks under the Export Credit (Interest Subsidy) Scheme, 1968, etc., were also carried out.

2.169 The inspections have broadly revealed shortcomings in the methods of operation of banks. The deficiencies, *inter alia*, relate to inade-

quate attention paid by management to certain important aspects of working, including business and manpower planning, inadequacies on the organisational set up, ineffective control and supervision over branches, unsatisfactory appraisal of credit proposals and follow-up of advances. In the case of Annual Appraisal Inspection, Government is apprised of the working of banks through notes on the inspections forwarded to them. The rectifications of the deficiencies observed in the inspections are followed up by issue of suitable directions/specific steps to the banks, where necessary, and by calling for periodical progress reports from them.

2.170 The number of banks (including RRBs) and the branches/offices inspected during the last three years is set out below:

TABLE 2-22—INSPECTION OF COMMERCIAL BANKS

	1977-78	1978-79	1979-80
	1	2	3
<b>A. Financial</b>			
(i) Number of banks inspected/taken up for inspection ..	37	51£	39*
(ii) Number of branches/offices inspected/taken up for inspection	978	1,363	799
<b>B. Annual Appraisal</b>			
(i) Number of banks inspected/taken up for inspection ..	1	11	18
(ii) Number of branches/offices inspected/taken up for inspection ..	33	381	424

£ Includes 31 RRBs.

\* Includes 13 RRBs.

(Source : Department of Banking Operations and Development, RBI).

2.171 The decline in the number of banks/branches covered under the system of Financial Inspection during the year under review, as compared to the previous year, was mainly due to increase in the periodicity of inspection from 3 to 5 years of banks in public sector, consequent upon the introduction of the Annual Appraisal system, which gained momentum during the period under review. Also, during the year 1978-79, a larger number of RRBs and their branches were taken up for inspection for the first time.

No overseas branches of Indian banks were inspected during the period.

#### *Amalgamations*

2.172 The GOI had sanctioned schemes of amalgamations under Section 45 of the BR Act, 1949 in respect of 49 banks. In terms of the provisions of the relative schemes, the transferee banks were required to make final valuation of the assets of the transferor banks after a period of 6/12 years, or such earlier period as might be sanctioned by the GOI in consultation with the RBI. The final valuation of the assets of 31 banks, as

provided in the relative scheme, was completed while in the case of 12 banks, the reports were under consideration. Of the remaining six banks, the final valuation in respect of three banks was being pursued.

### *Liquidation*

2.173 During the period under review three banks were dissolved including two banks which were dissolved during the earlier periods but the advices in respect of which were received during the period 1979-80. A certificate under Section 44 (1) of the BR Act, 1949 was issued to two banks to enable them to go into voluntary liquidation, of which one bank has been notified under Section 36A (2) of the BR Act, 1949 and has ceased to be a banking company within the meaning of the Act.

### *Licensing of Commercial Banks*

2.174 During July 1979 to June 1980, licences under Section 22 of the BR Act, 1949, were granted to two foreign banks, viz., Emirates Commercial Bank Ltd., Abu Dhabi and European Asian Bank, Aktiengesellschaft, Hamburg, to commence banking business in India by opening their first branches in Bombay. With this licensing of two banks and with the nationalisation of six private sector banks, the number of licensed commercial banks decreased to 46 (including National Bank of Pakistan, which is under the Custodian of Enemy Property) from 50 at the end of June 1979. The public sector banks, now numbering 28, do not require licences to carry on banking business in India. As on June 30, 1980, the total number of banks functioning without a licence under Section 22 of the BR Act, 1949, stood at seven (excluding a foreign scheduled bank, viz., Habib Bank Ltd., which is under the Custodian of Enemy Property).

## **XI. USE OF HINDI IN PUBLIC SECTOR BANKS**

2.175 The Bank continued its efforts towards the progressive use of Hindi in its own working as well as in the public sector banks. The Official Languages Implementation Committee set up in the Bank held four meetings during the year.

2.176 In view of the number of circulars issued on the progressive use of Hindi to the public sector banks and the various decisions taken at the meetings of the Official Languages Implementation Committees of the GOI and RBI, it was felt that the RBI should prepare a gist of all the instructions issued so far on the subject to serve as a handy reference to the banking industry. Accordingly, a Compendium of Instructions on the use of Hindi in Banks was compiled. It is expected to facilitate better understanding of various statutory and administrative requirements and help in their compliance. With a view to watching the progressive use of Hindi by the public sector banks, quarterly progress reports, annual assessment reports and copies of the proceedings of the Official Languages Implementation Committees were obtained by the RBI and the GOI was kept informed.



# APPENDIX 1

## STRUCTURE OF LENDING RATES (INCLUSIVE OF INTEREST TAX) EFFECTIVE FROM JULY 1, 1980.

Category of Lending	Rate of interest in force prior to July 1, 1980 (% per annum)	Rate of interest effective from July 1, 1980 (% per annum)
(1)	(2)	(3)
<b>I. Minimum Lending Rate</b>		
(i) Minimum lending rate .. .. .	12.50	13.50
(ii) Minimum rate of discount .. .. .		
(a) to be charged on bills of exchange eligible under the Bills Rediscounting Scheme of RBI .. .. .	11.00	11.85
(b) in respect of bills discounted by scheduled com- mercial banks at the instance of the drawee which are eligible for being rediscounted with RBI .. .. .	12.50	13.50
<b>II. Ceiling Rates on Advances</b>		
(i) (a) Interest on loans/advances/cash credits/over- drafts or any other financial accommodation made or provided or renewed or usance bills discounted by banks with demand and time liabilities of Rs. 25 crores or above .. .. .	18.00	19.40
(b) Interest on loans/advances/cash credits/over- drafts or any other financial accommodation made or provided or renewed or usance bills dis- counted by banks with demand and time liabili- ties below Rs. 25 crores. .. .. .	19.00	20.50
(c) Ceiling rates for undernoted specified sectors: ..		
(i) Priority sectors as specified from time to time	15.00 or 16.00 (depending on the size of the banks as indicated at (a) and (b) above, respecti- vely)	16.15 or 17.25 (depending on the size of the banks as indicated at (a) and (b) above, respectively)
(ii) Pre-shipment and post-shipment (export credit)		
(iii) Credit to sick units under agreed nursing pro- grammes .. .. .		
(iv) Credit to Food Corporation of India and to State Governments and their agencies for public procurement and distribution of foodgrains. ..		
(v) Credit to specified public sector agencies for pro- curement/distribution of other commodities ..		
(ii) Term loans by banks with maturity not less than 3 years and		
(a) for capital investment in priority areas .. .. .	12.50	13.50
(b) for other purposes .. .. .	14.00	15.10
<b>III. Minimum Lending Rates on Advances under Selective Credit Control</b>		
(i) Loans/advances/cash credit/overdrafts against commodities subject to Selective Credit Control. .	18.00	19.40
(ii) Sugar mills in respect of all stocks .. .. .	15.50	16.70
(iii) Cotton textile mills in respect of advances for which lower margins of 20 to 25 per cent prescri-		

	(1)	(2)	(3)
bed on stocks of cotton/kapas of 3, 4 or 4½ months' consumption and mills in West Bengal under the National Textile Corporation or its authorised agencies for stocks of cotton/kapas of 4½ months, consumption .. .. .		17.00	18.35
<b>IV. Agriculture</b>			
<b>(A) Direct Lending</b>			
1. Term loans with a maturity of not less than 3 years			
(a) for minor irrigation and land development		Not exceeding 9.50	Not exceeding 10.25
(b) for diversified purposes as defined by ARDC			
(i) small farmers .. .. .		Not exceeding 9.50	Not exceeding 10.25
(ii) other farmers .. .. .		Not exceeding 10.50	Not exceeding 11.35
2. Small farmers			
Advances not exceeding Rs. 2,500/- whether extended as short, medium or long-term .. .. .		Not more than 11.00	Not more than 11.85
<b>(B) Indirect Lending through PACs/FSS/Societies<sup>1</sup></b>			
(i) Short-term			
(a) Loans up to Rs. 2,500/- .. .. .		9.00	9.70
(b) Loans above Rs. 2,500/- .. .. .		9.00	9.70
(ii) Term Loans with maturity not less than 3 years <sup>1</sup>			
(a) for land development/minor irrigation ..		8.00	8.65
(b) diversified purposes			
(i) Small Farmers .. .. .		8.00	8.65
(ii) Other Farmers .. .. .		9.00	9.70
<b>V. Small-Scale Industries</b>			
(i) Term Loans of not less than 3 years to the following units :			
(a) Covered under the Credit Guarantee Scheme/and units promoted by technician-entrepreneurs covered by the Special Guarantee Scheme; .. .. .		11.00	11.85
(b) Small Road Transport Operators and		(9.50 for borrowers other than small road transport operators in specified backward areas)	(10.25 for borrowers other than small road transport operators in specified backward areas)
(c) Small units in the specified backward districts/areas			

1. The rate of interest to be charged to the ultimate borrowers by the societies will be correspondingly revised as under :

Rate in force till June 30, 1980	Revised rate effective from July 1, 1980 not exceeding
9.50% p.a.	10.25% p.a.
10.50% p.a.	11.35% p.a.
11.00% p.a.	11.85% p.a.

	(1)	(2)	(3)
(ii) Advances to SSI units up to Rs.2 lakhs and covered by Credit Guarantee Scheme		(Minimum lending rate of 12.50 not applicable)	(Minimum lending rate of 13.50 not applicable)
(iii) Artisans, Village and Cottage Industries— Composite term loans up to Rs. 25,000/-		11.00 (9.50 in specified backward areas)	11.85 (10.25 in specified backward areas)
(iv) <i>Tiny Sector</i>			
(a) Working Capital Limits up to Rs. 1 lakh		12.50 (13.50 for banks with DTL of less than Rs. 25 crores)	13.50 (14.55 for banks with DTL of less than Rs. 25 crores)
(b) Term Loans for not less than three years		11.00 (9.50 in specified backward areas)	11.85 (10.25 in specified backward areas)
VI. Traders in goods other than fertilisers (having annual turnover not more than Rs. 4 lakhs)		(Minimum lending rate of 12.50 not applicable)	(Minimum lending rate of 13.50 not applicable)
VII. Traders in fertilisers (having annual turnover not more than Rs. 10 lakhs)		-do-	-do-
VIII. Business enterprises— (where cost of equipment does not exceed Rs. 2 lakhs)		-do-	-do-
IX. Transport operators (operating single vehicle)		-do-	-do-
X. Professional and self-employed persons		-do-	-do-
XI. Advances to indigent students for purpose of higher education in India		-do-	-do-
XII. Exports			
(A) <i>Pre-shipment credit</i>			
(i) On specified medium and heavy engineering goods and construction contracts		11.00 (up to 180 days) 13.00 (up to extended period of 90 days)	11.85 (up to 180 days) 14.00 (up to extended period of 90 days)
(ii) On other goods and consultancy services		11.00 (up to 90 days) 13.00 (up to extended period of 45 days)	11.85 (up to 90 days) 14.00 (up to extended period of 45 days)
(iii) Against cash incentives, etc., receivable, covered by Export Production Finance Guarantee of ECGC		11.00 (up to 90 days)	11.85 (up to 90 days)
(B) <i>Post-shipment credit</i>			
(i) Demand bills—for transit period (as specified by FEDAI)		11.00	11.85
(ii) Usance bills—up to 180 days comprising usance period of the export bill, transit period as specified by FEDAI and grace period wherever applicable		11.00	11.85
(iii) Cash incentives, duty draw-back, etc., receivable, covered by Export Production Finance Guarantee of ECGC (up to 90 days)		11.00	11.85
(iv) Undrawn balances (up to 90 days)		11.00	11.85
(v) Against retention money (for supplies portion only) payable within one year from the date of shipment (up to 90 days)		11.00	11.85

	(1)	(2)	(3)
<i>(C) Duty Draw-Back Credit Scheme, 1976</i>			
Against duty draw-back as provisionally certified by the Customs Authorities (up to 90 days) .. .. .		Free of interest	Free of interest
<i>(D) Deferred credit for period beyond one year</i>			
(i) On specified capital and producer goods ..		8.00	8.65
(ii) Against retention money (for supplies portion only) .. .. .		8.00	8.65
<b>XIII. DRI advances</b> .. .. .		4.00	No change
<b>XIV. Food credit</b> .. .. .		11.00	11.85
<b>XV. Housing finance</b> .. .. .			
(a) Direct finance for the housing projects for the benefit of EWS, LIG and MIG <sup>1</sup> (including infrastructure such as educational health centres, shopping complexes being part of the project) ..		12.00	12.95
(b) Direct finance to SC/ST when individual loan does not exceed Rs. 2,500/- or for projects meant exclusively for them .. .. .		4.00	No change

1. The groups are as below :

EWS = Economically Weaker Section (with income up to Rs. 350 per month.)

LIG = Low Income Group (with income between Rs. 351 and Rs. 600 per month.)

MIG = Middle Income Group (with income between Rs. 601 and Rs. 1,500 per month.)

**APPENDIX 2**  
**DATA RELATING TO BANK CREDIT :**  
**INCLUSIVE/EXCLUSIVE OF PARTICIPATION CERTIFICATES**  
**AN EXPLANATORY NOTE <sup>1</sup>**

*Introduction*

2.177 The PCs Scheme for commercial banks has been in operation for nearly a decade. In the light of interim recommendations of a Working Group set up by the RBI to review the working of the Scheme, the Bank (a) advised scheduled commercial banks on June 21, 1979 (i) to treat effective July 27, 1979, outstanding PCs as deposits, instead of contingent liabilities as PCs were treated earlier, (ii) to include the amount of PCs issued in the figure of total advances, and (b) decided to subject funds raised through PCs to SLR and CRR in phases over the period end-July to end-September 1979.

2.178 As a result of the implementation of the requirement to include the amount of PCs issued in the figure of total advances, data on bank credit given in the weekly press communiques relating to scheduled banks/scheduled commercial banks' position for the week ended July 27, 1979 and thereafter, and those given in the weekly press communiques prior to July 27, 1979 have become non-comparable. Bank credit figures prior to July 27, 1979 were inclusive of PCs issued by banks to other banks, but did not include PCs issued by banks to other financial institutions; while bank credit data for July 27, 1979 and thereafter, are inclusive of all PCs—those issued by banks to other banks as well as those issued by banks to other financial institutions.

2.179 The main purpose of this explanatory note is to make available comparable data on bank credit over a period of two years or so. Two sets of data relating to bank credit as on the last Friday of each month from December 1977 onwards are furnished, one excluding PCs issued by banks to other financial institutions, and the other including all PCs issued—by banks to banks and to other financial institutions.

2.180 By way of providing the necessary background, the note outlines the main features of the PCs Scheme, as it has emerged, the accounting procedure in respect of PCs purchased and PCs sold prior to July 27, 1979 and from July 27, 1979 onwards, and shows how the change in the accounting procedure affected the data on bank credit. Main reasons for the growing resort by banks in recent years to this form of borrowing are also indicated along with the action taken by the Reserve Bank to discourage banks from excessive recourse to PCs.

*I. Main Features of the PCs Scheme*

2.181 Under the PCs Scheme, which was introduced in 1970-71, a commercial bank can sell/transfer to a third party, who could be another bank or specified financial institution, a part or all of a loan<sup>2</sup> made by the bank to a client (the borrower). In case of PCs issued to institutions other than commercial banks, the period of maturity of certificates is not less than 30 days and not more than 180 days, and PCs can be prematurely repaid provided the repayment is not made before the expiry of the minimum period of 30 days; the restriction regarding maturity period is not applicable in respect of certificates issued to other commercial banks. Though the maximum maturity period is 180 days, financial institutions have been able to hold a portion of PCs for a period beyond six months by way of renewal of matured PCs. The maximum rate of interest stipulated has varied over the years; it is 10 per cent at present.

*Accounting procedure*

2.182 To ensure uniformity in banking statistics, the RBI advised scheduled commercial banks on June 21, 1977 that the amount of PCs issued by a bank should be treated as a 'contingent liability' and shown on the liability side of the statutory returns. The amount of such PCs issued should, at the same time, be deducted from the figure of total advances. The amount of PCs purchased by a bank should be included in the returns in the total advances on the assets side. Thus, the amount of PCs issued, i.e., sold by a bank—either to another bank or to other financial institutions—was deducted from the issuing bank's total advances figure, and the amount of PCs purchased by a bank from another bank was included in the purchasing bank's total advances figure. The total advances figure of all banks taken together was thus inclusive of PCs issued by banks to other banks, but was exclusive of PCs issued by banks to other financial institutions.

*II. Growth of PCs*

2.183 In the initial years, the amount of PCs issued and outstanding under the Scheme remained at a very modest level, the amount outstanding on the last Friday of June 1974 being only Rs. 43 crores. As PCs became popular with banks, the amount outstanding showed a steady rise, which became pronounced during 1977, 1978 and the first seven months of 1979. Thereafter, outstanding PCs showed a decline. The Table below gives data for PCs issued to banks and other financial institutions and remaining outstanding at the end of June and December during each of the years 1975-1980.

- 
1. This is an up-dated version of a note published in the November 1979 issue of the Reserve Bank of India Bulletin.
  2. Banks issued PCs against the working capital advances (such as cash credit, secured overdrafts and advances against book debts, etc.) granted to industrial concerns. These advances are earmarked in favour of the holder of the certificates. The earmarking is noted on the certificates.

APPENDIX TABLE NO. 1—OUTSTANDING PARTICIPATION CERTIFICATES—HALF YEARLY 1975-1980  
(Rs. Crores)

Last Friday of	Amount of Outstanding PCs			
	Issued to Banks	Issued to other Financial Institutions	Total	Half Yearly Variations
	1	2	3	4
June 1975 .. .. .	10.2	87.4	97.6	+ 38.4
December 1975 .. .. .	12.9	100.7	113.6	+ 16.0
June 1976 .. .. .	55.4	127.5	182.9	+ 69.3
December 1976 .. .. .	50.2	106.5	156.7	— 26.2
June 1977 .. .. .	13.2	178.3	191.5	+ 34.8
December 1977 .. .. .	37.4	256.5	293.9	+102.4
June 1978 .. .. .	44.0	372.2	416.2	+122.3
December 1978 .. .. .	36.5	418.6	455.1	+ 38.9
June 1979 .. .. .	34.7	571.5	606.2	+151.1
December 1979 .. .. .	2.8	442.2	445.0	—161.2
June 1980* .. .. .	1.3	311.5	312.8	—132.2

\*Provisional.

2.184 It will be seen that outstanding PCs almost doubled from Rs. 98 crores at the end of June 1975 to Rs. 183 crores by end-June 1976, and after a temporary decline to Rs. 157 crores by December 1976, rose to Rs. 192 crores by June 1977. Between June 1977 and June 1978, outstanding PCs more than doubled from Rs. 192 crores to Rs. 416 crores—an increase of Rs. 224 crores over the year. During the succeeding half year, i.e., July-December 1978, the increase in PCs was moderate at Rs. 39 crores, but the first half of 1979 again witnessed a steep increase in PCs—of Rs. 151 crores, outstanding PCs rising to Rs. 606 crores by end-June 1979. Over the two-year period June 1977 to June 1979, the increase in PCs was over 200 per cent from Rs. 192 crores to Rs. 606 crores. Outstanding PCs rose further to Rs. 637 crores by end-July 1979, but thereafter declined and stood at Rs. 313 crores by end-June 1980.

2.185 The data also show that throughout the years 1975 to June 1980, PCs issued to financial institutions (other than banks) constituted the bulk of the PCs issued and outstanding, the proportion of such PCs to total PCs issued and outstanding varying between 68 per cent in December 1976 and 99.6 per cent in June 1980. PCs issued to banks and remaining outstanding increased from Rs. 10.13 crores or 10.11 per cent of the total PCs in June/December 1975 to Rs. 50.55 crores or nearly one-third of the total PCs in June/December 1976, but declined to Rs. 1 crore or 0.4 per cent of the total PCs by June 1980.

2.186 The data in the Table below show the monthly trend in outstanding PCs since the beginning of 1979.

APPENDIX TABLE NO. 2—OUTSTANDING PARTICIPATION CERTIFICATES—MONTHLY 1979 AND 1980  
(Rs. Crores)

Last Friday of	Amount of Outstanding PCs			
	Issued to Banks	Issued to other Financial Institutions	Total	Monthly Variations
	1	2	3	4
1979				
January .. .. .	55.5	455.0	510.5	+ 55.4
February .. .. .	73.9	518.1	592.0	+ 81.5
March .. .. .	88.2	489.9	578.1	— 13.9
April .. .. .	50.8	574.8	625.6	+ 47.5
May .. .. .	51.8	594.0	645.8	+ 20.2
June .. .. .	34.7	571.5	606.2	— 39.6
July .. .. .	57.7	579.0	636.7	+ 30.5
August .. .. .	32.7	564.1	596.8	— 39.9
September .. .. .	15.4	489.2	504.6	— 92.2
October .. .. .	3.3	465.0	468.3	— 36.3
November .. .. .	2.8	429.5	432.3	— 36.0
December .. .. .	2.8	442.2	445.0	+ 12.7
1980*				
January .. .. .	1.3	470.8	472.1	+ 27.1
February .. .. .	16.3	467.6	483.9	+ 11.8
March .. .. .	19.8	464.5	484.3	+ 0.4
April .. .. .	25.6	433.2	458.8	— 25.5
May .. .. .	1.7	365.1	366.8	— 92.0
June .. .. .	1.3	311.5	312.8	— 54.0

\*Data from January 1980 are provisional.

2.187 These data show that the resort by banks to issue of PCs for extending credit, which had reached a peak of Rs. 637 crores by end-July 1979 declined steadily to Rs. 432 crores by end-November 1979, and after a temporary increase to Rs. 484 crores by end-March 1980, declined again to Rs. 313 crores by end-June 1980.

2.188 The PCs Scheme was found advantageous to both banks and other financial institutions. The Scheme enabled banks to meet expeditiously urgent unforeseen demand for funds from their clients. Also, the cost of raising funds through PCs worked out cheaper than raising funds from call money market, as PCs were not subject to SLR and CRR.

2.189 Financial institutions, notably LIC, GIC and UTI have found PCs convenient for immediate day-to-day deployment of funds realised from sales of life insurance/general insurance policies/units, pending the eventual investment of such funds in longer term assets. The non-availability of adequate number of viable investment proposals giving attractive return could also be a factor accounting for the preference shown by financial institutions for investment in PCs. It may also be noted that the PCs Scheme as it operates in India is "with recourse", that is, without risk for the purchaser.

2.190 PC arrangements had been envisaged at the time they were introduced, mainly as a means of evening out liquidity imbalances within the financial system. In this limited sense of providing a temporary avenue of investment for "floating funds"—funds awaiting eventual investment—the PCs Scheme seemed justified. However, subsequently, financial institutions appear to have found the PCs convenient for investing sizeable amounts on a continuing basis, through renewal of maturing PCs. At the same time, since the cost of raising funds through PCs was relatively lower to them, banks also came to have recourse to PCs on a sizeable scale. It is this sizeable recourse by banks to PCs on a continuing basis which posed serious problems for credit planning and control.

2.191 As mentioned earlier, the Reserve Bank had asked the banks in June 1977 to treat PCs as contingent liability and to deduct the amount of PCs issued by them from the figure of their total advances; the amount of PCs purchased by a bank was to be included in the purchasing bank's total advances figure. As a result of this, the credit extended by banks through issue of PCs did not get reflected in the advances figure of banks, and banks were thus able to circumvent the Reserve Bank's instructions issued in November 1978 that the incremental non-food gross credit-deposit ratio since December 1, 1978 should not exceed 40 per cent.

2.192 The Reserve Bank in their letter dated March 15, 1979, to all scheduled commercial banks pointed out that while marginal recourse to PC facility was understandable and might even be essential, any large use of such extra-banking sector's resources was clearly inconsistent with credit planning or credit control. The Bank announced the proposal to set up a Working Group to examine the whole question of PCs.

### *III. Working Group on Participation Certificates and Call Money Market*

2.193 In accordance with the decision announced in mid-March 1979, the Reserve Bank of India set up, in early April 1979, a Working Group to review the banks' recourse to PCs and borrowings in the call money market. The terms of reference were :

- (i) To examine the size and pattern of operation in the call money market and in respect of PCs and clarify their implications for monetary and credit policies;
- (ii) To indicate the basis on which broad magnitude of resources available to banks from sources other than commercial banks and refinancing agencies (such as IDBI and ARDC) may be assessed;
- (iii) To examine the implications of any limitations on supplies of such funds from the non-banking institutions participating in the call money markets and participation certificate arrangements, and suggest alternative avenues for productive use of such funds; and
- (iv) To make recommendations on any other related matter.

### *IV. Follow-up Action by the RBI*

2.194 In the light of the specific recommendations on an interim basis, made by the Group to the Reserve Bank, the Bank decided in June 1979 to subject funds raised through PCs to SLR and CRR with a view to discouraging banks from excessive recourse to PCs. It was, however, necessary to ensure at the same time that action by the Bank in this regard did not lead to a large-scale dislocation in the operations of banks and also did not make it difficult for other financial institutions to shift to other monetary instruments for short-term investment. The Bank, therefore, decided to phase the process of bringing PCs under the SLR/CRR over a period in stages. The Reserve Bank advised scheduled commercial banks on June 21, 1979 that from the last Friday of July 1979, the outstanding PCs issued by banks should cease to be treated as contingent liabilities and would have to be treated as deposits and such outstanding PCs would be subject to 34 per cent SLR and 6 per cent CRR in stages—50 per cent of the outstanding PCs from the last Friday of July 1979, 75 per cent of the outstanding PCs from the last Friday of August 1979 and the entire 100 per cent of the outstanding PCs from the last Friday of September 1979. In addition, scheduled commercial

banks were required to maintain with the Reserve Bank an additional average daily balance, equivalent to not less than 10 per cent of the increase in PCs over the outstanding level as on the last Friday of July 1979. Since, under the scheme as operated, PCs are akin to deposits and are not to be deducted from banks' advances, the Reserve Bank advised banks to report funds flowing from the issue of PCs in the weekly return under Section 42(2) of the RBI Act, 1934 under "Demand and Time Deposits from Banks" and under "Other demand and time liabilities" depending on whether the PCs are issued to banks or other financial institutions. Also, banks were advised that the amount of PCs issued was not to be deducted from the figure of total advances, as they had been required to do in terms of the Reserve Bank's letter dated June 21, 1977. Further, the banks which purchased PCs were advised not to include the amount of such certificates in total advances as they had been required to do earlier in terms of the Reserve Bank's letter issued in June 1977, but were to show it under "Advances to Banks" i.e., due from banks.

2.195 Despite the RBI's decision to subject PCs to SLR/CRR requirements, outstanding PCs registered a further increase in July 1979. The Reserve Bank therefore, in their letter dated August 24, 1979 to scheduled commercial banks, requested them to limit their issue of PCs to the level as on July 27, 1979. Where the level of outstanding PCs was above the level as on July 27, 1979, banks were required to bring it down to the July 1979 level by the last Friday of September 1979; where the levels were below the July 1979 level, they were not to be raised.

2.196 Again, in November 1979, the RBI asked banks to continue to reduce their reliance on PCs during the 1979-80 busy season. They were also asked to avoid accepting special deposits at preferential rates from financial institutions and others as would tantamount to a circumvention of the policy of reducing their reliance on PCs.

2.197 However, between end-November 1979 and end-March 1980, some banks increased their dependence on PCs, while most other banks brought about only a small reduction. The Reserve Bank, therefore, urged banks in March 1980 to bring about a significant and lasting reduction in their recourse to PCs in the next few months.

#### V. Comparable Data on Bank Credit

2.198 Against this background, it is obvious that bank credit data for the period beginning end-July 1979 and thereafter cannot be straightaway compared with the published data regarding bank credit for the earlier periods. To facilitate comparison of the scheduled commercial bank credit data for the period end-July 1979 and thereafter, with the data for earlier period it is necessary to recompile the bank credit data prior to July 1979, after making necessary adjustments for PCs. As the amount of PCs issued by banks is not deducted from their respective advances figures for July 27, 1979 and thereafter, the total advances figure of all scheduled commercial banks from July 27, 1979 is inclusive of all PCs issued by banks to other banks and also by banks to other financial institutions. Prior to July 27, 1979, as explained earlier, the advances figure was inclusive of PCs issued by banks to other banks, but did not include PCs issued by banks to other financial institutions. With a view to providing comparable data on bank credit, two sets of figures of bank credit for the last Friday of each month since December 1977 have been reworked and given in the appended Tables, one excluding PCs issued to financial institutions and the other including all PCs. In analysing the trend in scheduled commercial bank credit, therefore, it is necessary to use only the comparable sets of data—either including PCs or excluding PCs.



APPENDIX TABLE NO. 3 — DATA ON SCHEDULED COMMERCIAL BANKS' CREDIT@ INCLUDING/  
EXCLUDING PCs

					(Rs. crores)					
As on					Food Credit	Non-Food Credit in- cluding PCs issued to banks but excluding PCs issued to financial institutions	PCs issued to other financial institutions	Non-Food Credit in- cluding all PCs (2+3)	Total Credit	
					1	2	3	4	Excluding PCs issued to financial institutions (1+2)	Including all PCs. (1+4)
									5	6
December	30, 1977	..	..	..	2355.7	12494.7	256.5	12751.2	14850.4	13106.9
January	27, 1978	..	..	..	2311.9	12221.0	299.1	12520.1	14532.9	14832.0
February	24, „	..	..	..	2268.4	12258.2	315.6	12573.8	14526.6	14842.2
March	31, „	..	..	..	1983.9	12954.9	306.9	13261.8	14938.8	15245.7
April	28, „	..	..	..	1990.6	12762.8	353.4	13116.2	14753.4	15106.8
May	26, „	..	..	..	2300.7	12825.3	374.2	13199.5	15126.0	15500.2
June	30, „	..	..	..	2524.8	13169.3	372.2	13541.5	15694.1	16066.3
July	28, „	..	..	..	2481.1	12880.8	411.4	13292.2	15361.9	15773.3
August	25, „	..	..	..	2389.7	13035.1	447.3	13482.4	15424.8	15872.1
September	29, „	..	..	..	2264.5	13483.5	411.3	13894.8	15748.0	16159.3
October	27, „	..	..	..	2209.6	13961.4	433.1	14394.5	16171.0	16604.1
November	24, „	..	..	..	2315.2	14104.3	430.0	14534.3	16419.5	16849.5
December	29, „	..	..	..	2384.4	15538.6	418.6	15957.2	17923.0	18341.6
January	26, 1979	..	..	..	2450.9	15500.8	455.0	15955.8	17951.7	18406.7
February	23, „	..	..	..	2348.1	15173.3	518.1	15691.4	17521.4	18039.5
March	30, „	..	..	..	2210.0	15585.1	489.9	16075.0	17795.1	18285.0
April	27, „	..	..	..	2223.8	15556.5	574.8	16131.3	17780.3	18355.1
May	25, „	..	..	..	2584.2	15545.9	594.0	16139.9	18130.1	18724.1
June	29, „	..	..	..	2996.1	16119.5	571.5	16691.0	19115.6	19687.1
July	27, „	..	..	..	2986.0	15939.9	579.0	16518.9	18925.9	19504.9
August	31, „	..	..	..	2897.7	16120.5	564.1	16684.6	19018.2	19582.3
September	28, „	..	..	..	2732.6	16537.5	489.2	17026.7	19270.1	19759.3
October	26, „	..	..	..	2680.8	16801.9	465.0	17266.9	19482.7	19947.7
November	30, „	..	..	..	2721.4	17099.7	429.5	17529.2	19821.1	20250.6
December	28, „	..	..	..	2698.7	17718.1	442.2	18160.3	20416.8	20859.0
January	25, 1980	..	..	..	2650.2	17872.4	470.8	18343.2	20522.6	20993.4
February	29, „	..	..	..	2520.8	18293.9	467.6	18761.5	20814.7	21282.3
March	28, „	..	..	..	2100.4	18981.1	464.5	19445.6	21081.5	21546.0
April	25, „	..	..	..	1990.3	19166.8	433.2	19600.0	21157.1	21590.3
May	30, „	..	..	..	2430.9	19058.8	365.1	19423.9	21489.7	21854.8
June	27, „	..	..	..	2414.1	19327.2	311.5	19638.7	21741.3	22052.8

@Bank credit data for August 1979 to June 1980 are partially revised.

Data on PCs from January 1980 are provisional.

APPENDIX TABLE NO. 4—DATA ON GROSS BANK CREDIT@ (INCLUDING PCS) OF SCHEDULED COMMERCIAL BANKS

As on				(Rs. crores)				
				Total Credit (Including all PCs)	Increase in Total Credit over the month	Bills Redis- counted with RBI	Gross Bank Credit (1+3)	Increase in Gross Bank Credit over the month
				1	2	3	4	5
December	30, 1977	..	..	15106.9	+ 906.9	134.4	15241.3	+ 913.5
January	27, 1978	..	..	18432.0	— 274.9	139.0	14971.0	— 270.3
February	24, „	..	..	14842.2	+ 10.2	145.4	14987.6	+ 16.6
March	31, „	..	..	15245.7	+ 403.5	117.1	15362.8	+ 375.2
April	28, „	..	..	15106.8	— 138.9	69.1	15175.9	— 186.9
May	26, „	..	..	15500.2	+ 393.4	50.0	15550.2	+ 374.3
June	30, „	..	..	16066.3	+ 566.1	101.3	16167.6	+ 617.4
July	28, „	..	..	15773.3	— 293.0	95.3	15868.6	— 299.0
August	25, „	..	..	15872.1	+ 98.8	47.8	15919.9	+ 51.3
September	29, „	..	..	16159.3	+ 287.2	57.6	16216.9	+ 297.0
October	27, „	..	..	16604.1	+ 444.8	51.9	16656.0	+ 439.1
November	24, „	..	..	16849.5	+ 245.4	55.0	16904.5	+ 248.5
December	29, „	..	..	18341.6	+1492.1	91.0	18432.6	+1528.1
January	26, 1979	..	..	18406.7	+ 65.1	93.0	18499.7	+ 67.1
February	23, „	..	..	18039.5	— 367.2	121.9	18161.4	— 338.3
March	30, „	..	..	18285.0	+ 245.5	109.3	18394.3	+ 232.9
April	27, „	..	..	18355.1	+ 70.1	86.6	18441.7	+ 47.4
May	25, „	..	..	18724.1	+ 369.0	77.0	18801.1	+ 359.4
June	29, „	..	..	19687.1	+ 963.0	70.5	19757.6	+ 956.5
July	27, „	..	..	19504.9	— 182.2	65.2	19570.1	— 187.5
August	31, „	..	..	19582.3	+ 77.4	77.8	19660.1	+ 90.0
September	28, „	..	..	19759.3	+ 177.0	91.8	19851.1	+ 191.0
October	26, „	..	..	19947.7	+ 188.4	91.6	20039.3	+ 188.2
November	30, „	..	..	20250.6	+ 302.9	82.3	20332.9	+ 293.6
December	28, „	..	..	20859.0	+ 608.4	99.7	20958.7	+625.8
January	25, 1980	..	..	20993.4	+ 134.4	93.4	21086.8	+ 128.1
February	29, „	..	..	21282.3	+ 288.9	111.6	21393.9	+ 307.1
March	28, „	..	..	21546.0	+ 263.7	108.7	21654.7	+ 260.8
April	25, „	..	..	21590.3	+ 44.3	67.7	21658.0	+ 3.3
May	30, „	..	..	21854.8	+ 264.5	66.4	21921.2	+ 263.2
June	27, „	..	..	22052.8	+ 198.0	74.9	22127.7	+ 206.5

@Bank credit data for August 1979 to June 1980 are partially revised.

Data on PCs from January 1980 are provisional.

## CHAPTER 3

### CO-OPERATIVE BANKING

3.1 In the co-operative sphere emphasis was continued to be placed on the two objectives, viz., even development of institutional arrangements for the purveying of credit in different areas and larger flow of financial resources to the weaker sections. The reorganisation of the primary co-operative structure and the rehabilitation of weak CCBs and SCBs made further progress. The ARDC continued to direct its efforts to reduce regional imbalances in the flow of investment credit.

3.2 Deposits with SCBs, CCBs and PACS during 1978-79 increased by 20.2 per cent, 20.1 per cent and 23.6 per cent, respectively, maintaining the trend observed in the earlier year. The short-term and medium-term agricultural and other loans issued by PACS during 1978-79 amounted to Rs. 1,395 crores as against Rs. 1,273 crores in 1977-78, the relative growth rates being 9.6 per cent and 5.0 per cent, respectively.

3.3 A major development during the year was the acceptance, in principle, by the GOI and the RBI of the need for the establishment of the National Bank for Agriculture and Rural Development (NABARD).

#### I. PROGRESS OF CREDIT CO-OPERATIVES

##### *Overview*

3.4 The co-operative sector sustained the high rates of deposit mobilisation witnessed in the previous year. While deposits of SCBs and CCBs rose from Rs. 1,004 crores and Rs. 1,377 crores, respectively, at the end of June 1978 to Rs. 1,206 crores and Rs. 1,654 crores, at the end of June 1979, those with the PACS increased from Rs. 165 crores to Rs. 204 crores. The growth rates of deposits of SCBs, CCBs and PACS during 1978-79 were 20.2 per cent, 20.1 per cent and 23.6 per cent, respectively, as against 20.0 per cent, 19.0 per cent and 16.2 per cent, respectively, during 1977-78. These rates of growth compare favourably with those of the deposits of commercial banks. As at the end of February 1980, the deposits of SCBs and CCBs were Rs. 1,193 crores and Rs. 1,827 crores, respectively. Membership of PACS, which stood at 448 lakhs at the end of 1976-77, increased to 479 lakhs at the end of 1977-78 and further to 516 lakhs at the end of 1978-79. The short, medium and long-term loans issued by PACS during 1978-79 amounted to Rs. 1,395 crores as against Rs. 1,273 crores in 1977-78 showing a growth rate of 9.6 per cent as against 5.0 per cent witnessed in 1977-78 (Table 3.1). The PACS in four States, viz., Karnataka, Manipur, Maharashtra and Rajasthan disbursed long-term agricultural loans amounting to Rs. 27 lakhs during 1978-79 as against Rs. 17 lakhs issued during 1977-78 by PACS in four States, viz., Jammu and Kashmir, Karnataka, Maharashtra and Rajasthan and the Union Territory of Goa, Daman and Diu.

3.5 The quantum of overdues at the three levels of the co-operative credit structure at the end of 1976-77 to 1978-79 is also indicated in Table 3.1. The percentage of overdues to outstanding credit at the end of 1978-79 worked out to 8.8 per cent in SCBs, 35.9 per cent in CCBs and 45.2 per cent in PACS as against 7.2 per cent, 35.7 per cent and 45.0 per cent, respectively, at the end of 1977-78 and 5.3 per cent, 33.2 per cent and 42.6 per cent, respectively, in 1976-77.

3.6 Data on the trends in co-operative credit and credit facilities provided by the RBI to the co-operatives, along with the rates of interest on refinance, are presented in Tables 3.1 and 3.2, respectively.

#### *Interest Rates on Agricultural Loans*

3.7 As mentioned in the last year's Report, the main recommendation of the Study Group on Interest Rates Structure of Co-operatives that the co-operatives should charge interest on short-term agricultural loans at 11 per cent on loans up to Rs. 2,500 to small farmers and at rates not exceeding 13 per cent to others was communicated to the co-operative banks. The banks were also advised to rationalise their interest rates on medium-term agricultural loans and charge to the ultimate borrowers interest at 10.5 per cent on such loans for minor irrigation and land development and at 11 per cent for diversified purposes; for other agricultural purposes the rate of interest was fixed at 11 per cent for amounts up to Rs. 2,500 and 12.5 per cent for others. The co-operatives in various States have, by and large, rationalised their interest rates on short and medium-term agricultural loans (Tables 3.3 and 3.4).

## II. AGRICULTURAL CREDIT

### *A. Short-term Credit*

#### *(a) Short-term Credit for Seasonal Agricultural Operations*

3.8 The Bank continued to sanction to SCBs short-term credit limits under various Sections of the RBI Act, 1934, for financing seasonal agricultural operations at three per cent below the Bank Rate. The scheme of linking borrowings from the RBI with efforts at deposit mobilisation, under which the concessional rate of interest to the full extent is available to CCBs only if they fulfil the deposit targets stipulated, was continued during the year. Over the year the number of banks covered under the scheme increased by one to 297, *i. e.*, eight SCBs and 289 CCBs as at the end of June 1980. During 1978-79, 20 CCBs could not avail of the full benefit of the concessional rate of interest under this scheme as against 36 CCBs in 1977-78 and 29 CCBs in 1976-77.

3.9 The short-term credit limits sanctioned by the Bank to SCBs during 1979-80 for financing seasonal agricultural operations stood at Rs. 783 crores as against Rs. 799 crores in 1978-79. Apart from con-

TABLE 3.1- PROGRESS OF CO-OPERATIVE CREDIT MOVEMENT IN INDIA

(Rupees in Crores)

Type of Institutions	Co-operative year (July-June)		
	1976-77	1977-78	1978-79 P**
	1.	2.	3.
(a) State Co-operative Banks			
(i) Number (actuals)	26	26+	26+
(ii) Owned Funds	184	214	239
(iii) Deposits	835	1,004	1,206
(iv) Borrowings from RBI	375	470	360
Of which			
for Short-term Agricultural Purposes	229	289	252
(v) Working Capital	1,525	1,822	2,000
(vi) Loans Issued	1,899	2,023	2,237
(vii) Loans Outstanding	1,089	1,338	1,396
(viii) Loans Overdue	58	96	124
(b) Central Co-operative Banks			
(i) Number (actuals)	344	338£	338£
(ii) Owned Funds	423	484	533
(iii) Deposits	1,154	1,377	1,654
(iv) Borrowings from RBI/Apex banks	699	784	801
(v) Working Capital	2,514	2,954	3,301
(vi) Loans Issued	1,988	2,116	2,407
(vii) Loans Outstanding	1,796	2,115	2,309
(viii) Loans Overdue	596	754	828
(c) State/Central Land Development Banks			
(i) Number (actuals)	19	19	19
(ii) Owned Funds	164	213	234
(iii) Debentures Outstanding	1,591	1,691	1,765
(iv) Working Capital	1,918	2,082	2,188
(v) Loans Issued	249	239	241
(vi) Loans Outstanding	1,211	1,305	1,393
(vii) Loans Overdue	94	127	182
(viii) Loans to Individuals by CLDBs/PLDBs			
(a) Issued	278	238	239
(b) Outstandings	1,193	1,276	1,330*
(c) Overdue	115	135	195*
(d) Primary Agricultural Credit Societies			
(i) Number (in thousands)	126	116	102
(ii) Membership (in thousands)	44,832	47,860	51,560
(iii) Owned Funds	499	555	593
(iv) Deposits	142	165	204
(v) Borrowings	1,420	1,616	1,721
(vi) Total Loans Issued	1,211	1,273	1,395
(vii) Total Loans for Agricultural Purposes @	1,152	1,207	1,349
Of which			
Medium-term loans	136	149	162
(viii) Total Loans Outstanding	1,602	1,798	1,982
(ix) Total Loans Overdue	683	809	895

\$ Revised data for 1976-77 and 1977-78 are given wherever available.

£ Excluding data relating to six banks in Assam which were under process of amalgamation and later merged with the Assam Co-operative Apex Bank Ltd.

P Provisional data for 1978-79. + Excludes Arunachal Pradesh State Co-operative Bank.

\* Data for Tamil Nadu not available.

@ Inclusive of long-term loans of Rs. 22 lakhs, Rs. 17 lakhs and Rs. 27 lakhs issued during 1976-77, 1977-78 and 1978-79, respectively.

\*\* Data for PACS for 1977-78, in respect of Assam and Kerala and for 1976-77 in respect of Bihar, Jammu and Kashmir, Meghalaya and Goa, Daman and Diu have been repeated for 1978-79 due to the non-availability of the required data.

(Source : (i) Statistical Statements Relating to Co-operative Movement in India, 1977-78

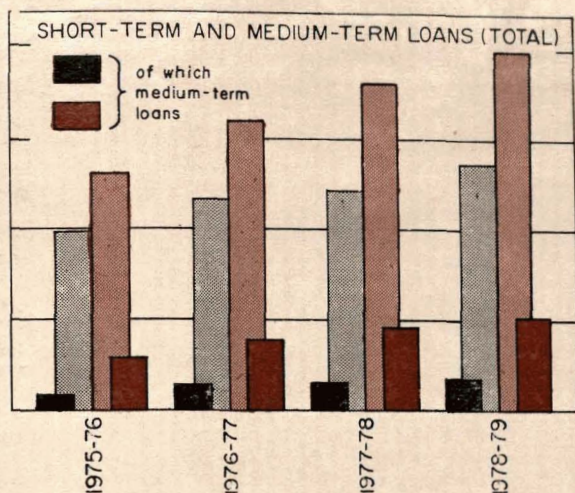
(ii) Agricultural Credit Department, RBI

(iii) Advance Statistics on Co-operative Credit, 1978-79).

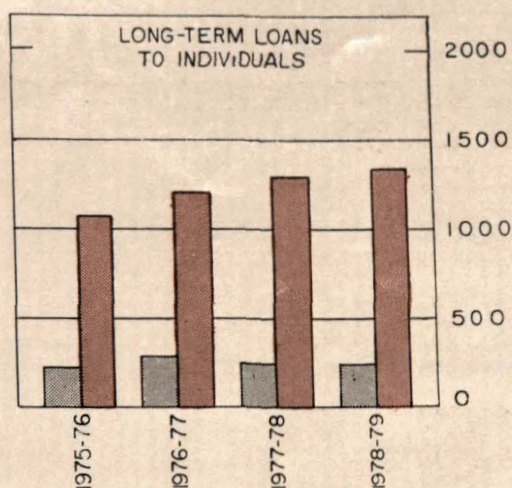


6

### CO-OPERATIVE LOANS FOR AGRICULTURAL PURPOSES (CRORES OF RUPEES)

ISSUED  OUTSTANDING 

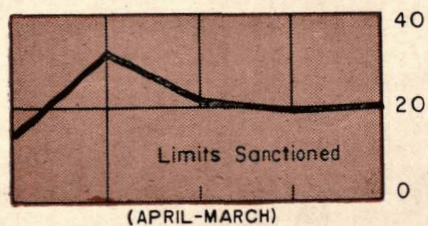
(JULY - JUNE)



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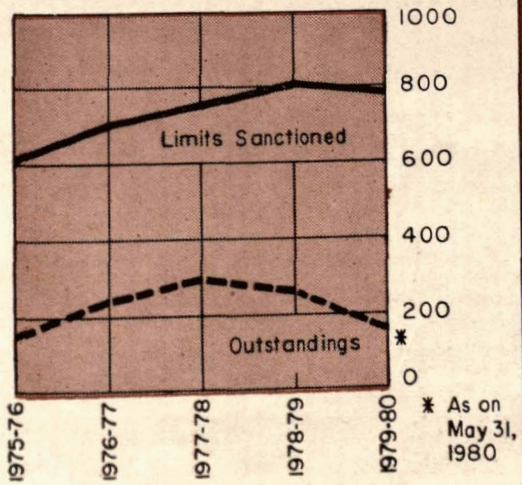
### R.B.I. CREDIT FOR AGRICULTURAL PURPOSES (CRORES OF RUPEES)

Loans to State Governments  
for contribution to share capital of  
co-operative credit institutions



(APRIL-MARCH)

Short-term loans to State Co-operative Banks  
for seasonal agricultural operations





(JULY-JUNE)


\* As on May 31, 1980


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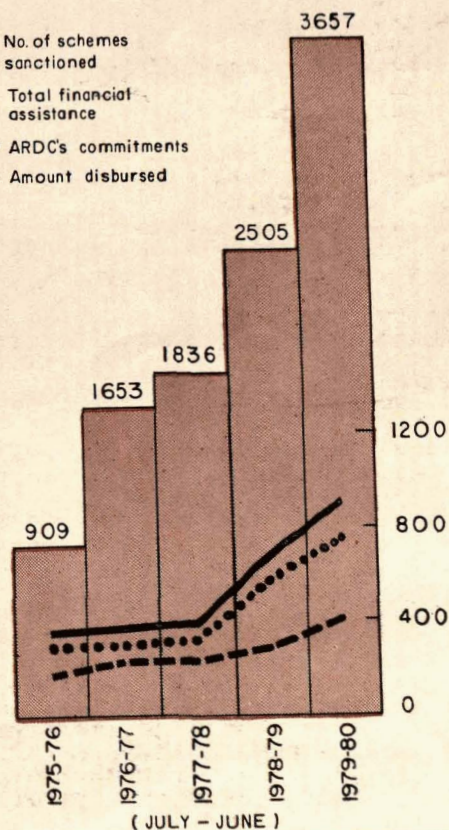
### OPERATIONS OF AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION (CRORES OF RUPEES)

 No. of schemes sanctioned

 Total financial assistance

 ARDC's commitments

 Amount disbursed



(JULY - JUNE)



TABLE 3.2—RESERVE BANK CREDIT TO CO-OPERATIVES, STATE GOVERNMENTS AND ARDC DURING 1978-79 AND 1979-80

(Rupees in Crores)

Section of the RBI Act, 1934	Term-wise/Purpose-wise Finance	Period for which limits are sanctioned	1978-79				1979-80			
			Limits sanctioned	Dra-wals	Repay-ments	Out-stand-ings	Limits sanctioned	Dra-wals	Re-pay-ments	Out-stand-ings
			1.	2.	3.	4.	5.	6.	7.	8.
	<b>I. Short-term</b>		961	1,380	1,428	277	945	859@	943@	193@
17(2)(b) read with 17(4)(c)/Section 17(4)(c)	(i) Seasonal agricultural operations (at 3% below Bank Rate from March 1978)*	July-June	799 <sup>R</sup>	1,228 <sup>R</sup>	1,265 <sup>R</sup>	252 <sup>R</sup>	783	795@	892@	155@
—do—	(ii) Marketing of crops other than cotton and kapas (at Bank Rate from June 1978)	—do—	19 <sup>R</sup>	3 <sup>R</sup>	4 <sup>R</sup>	—	—	—	—	—
17(4)(c)	(iii) Marketing of cotton and kapas including monopoly procurement of cotton (at Bank Rate from June 1978)	—do—	50 <sup>R</sup>	— <sup>R</sup>	— <sup>R</sup>	—	57	—	—	—
—do—	(iv) Purchase and distribution of fertilisers (at 1% above Bank Rate from June 1978)	January-December \$	6	8	10	1	7	3	2	2
17(2)(bb) read with 17(4)(c)	(v) Production and marketing of handloom products (at 2½% below Bank Rate from March 1978)	April-March	51	126	134	16	58	42	31	27
—do—	(vi) Financing of other cottage and small-scale industries (at 2½% below Bank Rate from March 1978) +	—do—	17 <sup>R</sup>	13 <sup>R</sup>	9	8	25	18	18	8
17(4)(c)	(vii) Purchase and sale of yarn (at Bank Rate)	—do—	3	1	2	—	5	1	—	1
—do—	(viii) Against pledge of sugar (at 3% above Bank Rate)	July-June	6	1	4	—	—	—	—	—
17(4E)	(ix) Loans to ARDC (at Bank Rate)	—do—	10	—	—	—	10	—	—	—
	<b>II. Medium-term</b>		70	48	90	119	149	87@	64@	142@
17(4AA) read with 46A(2)(b)	(i) Agricultural purposes (at 3% below Bank Rate from January 1, 1979)	January-December \$	28	16	10 <sup>R</sup>	28	32	21	13	36
17(4AA) read with 46B(2)	(ii) Conversion of short-term loans into medium-term loans in scarcity affected areas including rephasing and re-scheduling (at 3% below Bank Rate from January 1979)	July-June	41 <sup>R</sup>	32	80	91	117	66@	51@	106@
17(4AA) as determined under Section 46A(2)(B)	(iii) Purchase of shares in co-operative sugar factories/processing societies (at Bank Rate)	January-December \$	1	—	—	—	—	—	—	—
	<b>III. Long-term</b>		94	94	38	384	105	100@	45@	439@
17(4AA) as determined under Section 46A(2)(a)	(i) Loans to State Governments for contribution to share capital of co-operative credit institutions (at 6% per annum)	April-March	19	19	10	120 <sup>R</sup>	20	15	11	124
17(4AA) read with Section 46A(2)(e)	(ii) Loans to ARDC (at 6% per annum)	July-June	75	75	28	264	85	85@	34@	315@
<b>TOTAL CREDIT (I+II+III)</b>			<b>1,125</b>	<b>1,522</b>	<b>1,556</b>	<b>780</b>	<b>1,199</b>	<b>1,046@</b>	<b>1,052@</b>	<b>774@</b>

\* Subject to recovery of an additional interest of 1½ per cent as per linking scheme. R—Revised. — Nil or Negligible.

\$ The data are for 1978 and 1979.

@ Position as on May 31, 1980.

+ Including small amounts relating to advances to artisans and weavers at 3 per cent below the Bank Rate.

(Source: Agricultural Credit Department, RBI)



TABLE 3.3—RATES OF INTEREST CURRENTLY CHARGED AT VARIOUS LEVELS OF THE CO-OPERATIVE STRUCTURE (SHORT-TERM)

(Per cent per annum)

States/Union Territories					Apex Banks	Central Co-operative Banks	Primary Agricultural Credit Societies	Effective from
					1.	2.	3.	4.
Andhra Pradesh	..	..	..	..	7.00	9.25	11.25	1.1.1979
Assam	..	..	..	..	10.50 (10.50)	—	13.00 (12.50)	— do—
Bihar	..	..	..	..	6.75	8.75	11.25	— do—
Gujarat	..	..	..	..	6.50 ( 6.00)	8.50 to 11.00 (7.00 to 11.00)	10.00 to 13.50 (8.50 to 13.50)	31.3.1979
Haryana	..	..	..	..	6.40	8.50	11.00	1.3.1979
Himachal Pradesh	..	..	..	..	7.60	10.00	12.50	— do—
Jammu & Kashmir	..	..	..	..	6.50 (6.75)@	8.50	11.00	1.7.1979
Karnataka	..	..	..	..	6.75 (6.50)	9.00 (8.75)	11.50 (11.00)	1.3.1978
Kerala	..	..	..	..	6.75	8.50	11.00	30.6.1979
Madhya Pradesh	..	..	..	..	7.00 (6.50)	9.50 (8.00)	12.50 (10.00)	1.4.1979
Maharashtra	..	..	..	..	6.25	8.00	11.00	30.6.1979
Orissa	..	..	..	..	6.75	8.75	11.00	1.4.1979
Punjab	..	..	..	..	6.30	8.00	10.50	1.6.1978
Rajasthan	..	..	..	..	7.75 (6.50)	9.75 (8.50)	12.00 (10.50)	1.3.1979
Tamil Nadu	..	..	..	..	6.66	8.75	12.00 (10.50)	1.7.1979
Uttar Pradesh	..	..	..	..	7.10 (6.25)	9.50 (8.50)	12.00 (11.00)	1.3.1979
West Bengal	..	..	..	..	6.75	9.00	11.25 to 11.50	1.3.1978
Manipur	..	..	..	..	10.00	—	13.00	1.9.1979
Meghalaya	..	..	..	..	11.00 (9.00)	—	13.00 (13.50)@ (11.00)	— do—
Nagaland	..	..	..	..	11.00	—	13.00	— do—
Tripura	..	..	..	..	9.00	—	11.00	— do—
<b>Union Territories</b>								
Andaman & Nicobar	..	..	..	..	8.50 (9.25)@	—	10.50 to 11.00 (11.50)@	1.3.1979
Chandigarh	..	..	..	..	11.00	—	12.00 to 13.00 (12.50)@	— do—
Delhi	..	..	..	..	9.50 (9.00)	—	11.50 (11.00)	1.9.1978
Goa, Daman & Diu	..	..	..	..	7.00	—	9.00	1.3.1978
Pondicherry	..	..	..	..	8.50 (8.00)	—	11.00 (10.00)	1.4.1978

Note : 1. Arunachal Pradesh has yet to start loaning operation.

2. ( ) @ Figures in brackets indicate earlier rates.

3. ( ) Rates relating to advances to small farmers.

4. ( ) There are no CCBs in these areas.

(Source : Agricultural Credit Department, RBI)

TABLE 3.4—RATES OF INTEREST CURRENTLY CHARGED AT VARIOUS LEVELS OF THE CO-OPERATIVE STRUCTURE (MEDIUM-TERM LOANS)

States/Union Territories	(Per cent per annum)			
	Apex Banks	Central Co-operative Banks	Primary Agricultural Credit Societies	Effective from
	1	2	3	4
Andhra Pradesh ..	6.75 to 7.50	9.25 to 9.50	10.50 to 12.50 (11.00)	1-1-1979
Assam .. ..	10.50 (10.50)	—	13.00 (12.50)	1-9-1979
Bihar .. ..	6.50 to 6.75 (7.00)	8.25 to 8.50 (9.50)	10.50 to 12.50 (11.00)	1-1-1979
Gujarat .. ..	6.50 (6.00)	8.50 to 12.25 (8.25 to 12.25)	10.00 to 14.25 (9.00 to 14.25)	31-3-1979
Haryana .. ..	7.00	8.50	10.50	1-1-1980
Himachal Pradesh ..	8.10	10.50	13.00	1-3-1979
Jammu & Kashmir ..	6.50	8.50	11.00	1-7-1979
Karnataka .. ..	6.50 to 6.75	8.25 to 9.25 (8.50)	10.50 to 12.50 (11.00)	1-1-1979
Kerala .. ..	6.50 to 6.75	8.00 to 8.50	10.50 to 11.00	1-3-1979
Madhya Pradesh ..	6.50	9.00	12.00	1-4-1979
Maharashtra .. ..	6.75	8.50	11.50	30-6-1979
Orissa .. ..	6.50 to 6.75	8.50 to 8.75	10.50 to 11.00	1-4-1979
Punjab .. ..	6.30	8.50	10.50	1-6-1978
Rajasthan .. ..	6.50 to 7.75	8.50 to 9.75	10.50 to 12.00 (10.50)	1-5-1979
Tamil Nadu .. ..	7.00 to 7.25	9.00 to 9.50	10.50 to 12.50 (10.50)	1-1-1979
Uttar Pradesh .. ..	7.10 (6.25)	9.50 (8.50)	12.00 (11.00)	1-3-1979
West Bengal .. ..	6.75	8.00 to 9.50	10.00 to 12.50	1-4-1979
Manipur .. ..	12.00	@	15.00	1-9-1979
Meghalaya .. ..	8.50 to 9.50 (8.50)	@	9.50 to 10.50 (9.50)	1-9-1979
Nagaland .. ..	11.00	@	13.00	1-3-1979
Tripura .. ..	8.50 to 10.50 (9.00)	@	10.50 to 12.50 (11.00)	1-9-1979
<b>Union Territories</b>				
Andaman & Nicobar ..	8.50	@	12.00 to 14.00	1-3-1979
Chandigarh .. ..	11.00	@	12.00 to 13.00	1-3-1979
Delhi .. ..	10.00	@	12.00	1-9-1979
Goa, Daman & Diu ..	9.00	@	11.00	1-3-1979
Pondicherry .. ..	8.50	@	10.50	1-1-1979

Note : Figures in brackets indicate rates charged to small farmers.

@ There are no CCBs in these areas.

(Source : Agricultural Credit Department, RBI)

tinuing the seasonality discipline, as modified on the basis of the recommendations of the Study Group on Interest Rates Structure of Co-operatives, marginal relaxations were introduced in the existing recovery stipulations applicable to CCBs. Further, SCBs were also allowed to finance from their own resources such of the CCBs which could not be refinanced by the RBI.<sup>1</sup>

*(b) Financing of Weaker Sections*

3.10 The Bank continued to encourage the flow of funds to small farmers through its refinance facility. As indicated in the last year's Report, the CCBs were not allowed to draw in excess of 70 per cent of the limits sanctioned to them by the RBI, unless the proportion of advances to small farmers was maintained at a specified percentage (usually 20 per cent) of the total short-term advances to the affiliated primary societies. During 1978-79, 284 CCBs out of a total of 344 complied with the stipulation relating to the minimum proportion of credit to small farmers as against 292 banks in the earlier year. Out of the remaining 60 banks (in 1978-79) as many as 46 banks, which had failed to comply with the stipulation, were, however, allowed to draw in excess of 70 per cent of the limits only to the extent of the actual quantum of loans issued by them to small farmers during the year.

*(c) Short-term Credit Limits for Marketing and Selective Credit Control*

3.11 Advances against the security of sensitive commodities continued to be governed by the various Selective Credit Control measures stipulated by the Bank from time to time. As against the credit limits of Rs. 69 crores sanctioned during 1978-79 for the marketing of crops, limits sanctioned during 1979-80 aggregated Rs. 57 crores. Out of 27 SCBs only 16 banks applied for marketing credit limits. This is mainly attributed to the operational inefficiencies obtaining in the marketing societies in several States and the absence of proper linking of credit with marketing.

3.12 The tightening of the Selective Credit Control measures in 1979-80 with reference to commercial banks, discussed in Chapter 2, was extended with suitable changes to the co-operative banks also. This was reflected both in raising margins and in raising lending rates. The commodities involved were sugar, pulses, gur and khandsari. Thus, in view of the rise in prices of sugar, gur, khandsari and pulses, margins for advances against these commodities made by SCBs, CCBs and PUCBs were revised. In the case of sugar, a minimum margin of 75 per cent of the value of the relative stocks in respect of credit provided by SCBs and CCBs to parties other than those manufacturing sugar was prescribed in July 1979 as against the existing margin of 65 per cent. In regard to advances

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<sup>1</sup> In view of the revised needs of crop finance following the rise in fertiliser prices in June 1980, the RBI expressed willingness to sanction additional short-term credit limits to SCBs during 1980-81, whenever necessary.

made by PUCBs, the minimum margin was raised to 75 per cent from the existing margin of 40 per cent. The same margin was also prescribed for parties manufacturing sugar covering stocks of sugar which had been released for sale by the Government, had left the factory/mill premises and on which excise duty had been paid. The minimum margin on advances in respect of stocks of factories not released by Government was 25 per cent. In March 1980, the minimum margin on advances granted by SCBs/CCBs against the security of gur and khandsari was raised from 35 per cent to 50 per cent for co-operatives engaged in the manufacture of these commodities and from 45 per cent to 60 per cent in respect of other parties. As regards advances against pulses, the minimum margin was raised in July 1979 from 35 per cent to 45 per cent of the value of the relative stocks in respect of credit provided to processing units and from 50 per cent to 60 per cent of the value of stocks in the case of parties other than processing units in the case of SCBs and CCBs. In regard to PUCBs the minimum margin was raised in September 1979 from 40 per cent to 45 per cent of the value of the relative stocks in respect of credit provided to processing units and from 40 per cent to 60 per cent of the value of stocks in the case of parties other than processing units.

3.13 In September 1979 the RBI increased the minimum lending rate on advances against selected commodities. State and Central Co-operative Banks were required to charge a minimum interest rate of 16 per cent per annum, as against 13 per cent per annum earlier, on loans/advances/cash credits/overdrafts against the commodities subjected to Selective Credit Control measures. PUCBs were required to charge a minimum interest rate of 18 per cent per annum as against 15 per cent per annum prescribed earlier. In the case of co-operative sugar mills, the minimum lending rate on credit provided by SCBs/CCBs was raised from 12.5 per cent to 15.5 per cent in respect of all stocks, while in the case of co-operative societies, other than those manufacturing sugar but borrowing against stocks of sugar, the minimum lending rate was raised from 15 per cent to 18 per cent per annum. For co-operative spinning mills, the minimum rate of interest was raised from 14 per cent to 17 per cent.

3.14 As an additional measure to curtail further credit expansion, SCBs, CCBs and PUCBs were advised to restrict their advances to traders and manufacturers, whether individual parties or co-operative societies, utilising and trading in sensitive and other scarce commodities where speculative tendencies were clearly in evidence and not to sanction any new or additional credit limits to such parties. SCBs, CCBs and PUCBs were required to raise the rate of interest by two to three percentage points on certain types of advances to the trading sector and non-priority sectors (excluding advances to preferred categories) subject to a ceiling of 18 per cent in the case of SCBs, 18.5 per cent in the case of CCBs and 19 per cent in the case of urban banks. In the case of term loans provided by SCBs maturing in not less than three years, the ceiling rates were 12.5 per cent for capital investment

in priority areas and 14 per cent for other purposes. In September 1979, all the PCBs in Gujarat, Karnataka and Maharashtra were brought under the control of the RBI directives as against the earlier practice of controlling their advances against the commodities subjected to Selective Credit Control measures, other than cotton and kapas, by issue of circular instructions. The advances of PCBs against the security of cotton and kapas are being governed by the RBI directives since 1973. In April 1980, PUCBs in Gujarat and Karnataka were directed that they should continue to maintain the aggregate level of credit against cotton and kapas below a maximum of Rs. 25 lakhs and charge interest at not less than 18 per cent per annum and maintain the minimum margin of 50 per cent for advances against the security of relative stocks.

*(d) Distribution of Fertilisers*

3.15 The Bank continued to sanction short-term credit limits to SCBs on behalf of marketing societies/federations for financing the distribution of fertilisers on a selective basis, wherever commercial banks were not in a position to provide such accommodation. The credit limits, sanctioned for this purpose during the calendar year 1979, aggregated Rs. 7 crores to three SCBs as against Rs. 6 crores sanctioned to three banks during the previous year. The existing credit policy was continued by the Bank for the sanctioning of limits during 1980 also.

*B. Medium-term Credit*

3.16 Under the reimbursement scheme for medium-term loans in vogue till July 1979, SCBs/CCBs were required to maintain a certain 'basic level' (*i. e.*, the level of medium-term loans made out of their internal resources as on June 30, 1962) and the banks were eligible for reimbursement from the RBI up to 80 per cent of the medium-term loans issued by them for financing approved agricultural purposes, over and above the basic level. In order to allow greater flexibility to the banks in operating on the credit limits sanctioned by the RBI, these requirements were dispensed with on the basis of a recommendation of the Agricultural Credit Board. Thus, banks became eligible for full reimbursement under medium-term credit limits from the RBI, subject, however, to the availability of adequate non-overdue cover at the level of CCBs. In order to facilitate reimbursement in respect of loans disbursed at the fag end of the year, it was decided that the medium-term loans disbursed to PACS in the month of December will be reimbursed from out of the RBI limit sanctioned on behalf of CCBs for similar purposes during the following calendar year.

3.17 In view of the increasing requirements of investment credit in the traditional fields as also the rising demand for medium-term loans for land improvement/development in flood/cyclone-affected areas and in order to meet the expanding needs for animal husbandry/poultry

schemes under IRDP Schemes, the demand for medium-term loans for approved agricultural purposes was expected to rise further during the year 1980. For the calendar year 1980, therefore, an increased allocation of Rs. 45 crores was made from the National Agricultural Credit (Long-term Operations) [NAC (LTO) ] Fund for medium-term loans as against Rs. 30 crores in 1979. Out of the provision of Rs. 45 crores, credit limits of Rs. 24 crores were sanctioned during the half-year ended June 1980 as against Rs. 32 crores and Rs. 28 crores during calendar years 1979 and 1978, respectively.

3.18 As the allocations of medium-term credit limits are intimated to various States sufficiently in advance, the State Governments were requested to advise SCBs to formulate their medium-term lending programmes keeping in view the resources available to them from the RBI and also arrange to obtain refinancing facilities from the ARDC, wherever possible, through special schemes under IRD/SFDA Programmes to supplement their resources.

#### *Medium-term Conversion Loans*

3.19 In the context of large-scale conversions of short-term loans into medium-term loans necessitated during the year due to drought and damage to *kharif* crops, some State Governments found it difficult to meet 15 per cent of the conversions.<sup>1</sup> It was, therefore, decided, as a special case, to relax the State Governments' share for the year as follows :

<i>Slab</i>	<i>State Government's Share</i>
	(Per cent)
First 10 % (Conversion to the extent of 10 % of short-term production loans) .. ..	10
Next 20 % (Conversion between 10% and 30% of short-term production loans) .. ..	5
Conversion in excess of 30 % (Conversion above 30% of short-term production loans) .. ..	3

Medium-term conversion limits aggregating Rs. 117 crores were sanctioned to 10 SCBs during the year 1979-80 as against Rs. 41 crores in 1978-79. The facility in regard to the availing of extension by SCBs for repayment of short-term borrowings for seasonal agricultural operations up to three months from due date, pending conversions into medium-term loans, initially granted for five years and extended by three more years up to June 30, 1979, was further extended by one year up to June 30, 1980.

1. On the recommendation of the Agricultural Credit Board, it had been decided earlier that State Governments would have to finance their share of 15 per cent of conversions sanctioned in respect of short-term production loans issued for 1978-79 *rabi* season and thereafter (See *Report on Trend and Progress of Banking in India, 1978-79*).

### *C. Long-term Credit: Loans from NAC (LTO) Fund*

#### *Loans for Share Capital Contribution*

3.20 With a view to making good the deficit in the accretion to the share capital of PACS consequent to the reduction in the ratio of share-holdings to borrowings from 10 per cent to 5 per cent in the case of small farmers, it was decided to provide, from the year 1979-80, loans to State Governments from the NAC (LTO) Fund for additional share capital contribution to PACS on the basis of the volume of their loans to this category of borrowers. During 1979-80, loans amounting to Rs. 20 crores were sanctioned from NAC (LTO) Fund to 16 State Governments for contributing to the share capital of 8,104 co-operative credit institutions as compared to Rs. 19 crores to 18 State Governments for 7,341 institutions in 1978-79.

#### *Loans to ARDC*

3.21 The Bank sanctioned a ten-year loan of Rs. 85 crores to the ARDC for the year 1979-80 out of the NAC (LTO) Fund as against Rs. 75 crores sanctioned during 1978-79.

#### *Regulation of Advances*

3.22 PLDBs/branches of SLDBs with overdues exceeding 55 per cent of the "demand" (*i. e.* amounts demanded for repayment) were not eligible to issue fresh loans. With a view to assisting small farmers in the areas covered by special programmes such as SFDA, DPAP, CADP, etc., banks were permitted to extend finance to the full extent, provided a time-bound plan to the satisfaction of the RBI/ARDC for the rehabilitation of the concerned PLDB/branch of SLDB was drawn up and implemented. Comprehensive guidelines were also issued in December 1979 to SLDBs in regard to matters like the rehabilitation of such PLDBs/branches of SLDBs, envisaging analysis of overdues, steps for bringing them down and financial support from State Governments in cases where the rehabilitation plan had a bearing on the over-all financial viability of a SLDB in discharging certain financial commitments such as postponement of redemption of the matured debentures.

3.23 Pursuant to the recommendations of the Sub-Working Group on Long-term Credit appointed by the GOI, the Agricultural Credit Board decided<sup>1</sup> that when small farmers and weaker sections are defaulters for small amounts, they may be provided investment credit by adjusting the defaulted amount in the new loan up to a certain limit, provided the SLDB is satisfied that the default is non-wilful and the amount of default together with fresh investment credit is within the repaying capacity of the borrowers.

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1. At its meeting held on December 14, 1979.

3.24 It was decided in December 1979 to replace the rescheduling practice by a simple procedure of postponement of the recovery period of loans in areas affected by natural calamities where the *annawari* declared by the State Governments was six annas or less. This was subject to the condition that the total period of loans should not exceed the useful life of the assets created out of the loan. The banks were, however, advised to extend the facility to genuine borrowers only and exclude (i) borrowers who had either not effected the development or not acquired agricultural assets out of the loan or had disposed of the assets acquired with the help of the loan, (ii) income tax payers and (iii) those borrowers having a perennial source of irrigation. The loan extension facilities available to owners of tractors, who were not subject to income tax, were also liberalised and made available even to such borrowers as were affected by natural calamities for one year as against the existing condition of two or more years limiting, however, the total period of loan to nine years. The formal approval of the RBI/ARDC was also necessary for availing of the above facility. The LDBs were advised to examine each case carefully and give extension in genuine cases only.

#### *Resources of LDBs*

3.25 The following Table presents the loaning programme of LDBs during 1978-79, 1979-80 and 1980-81.

TABLE 3.5—LAND DEVELOPMENT BANKS (DEBENTURE PROGRAMME)

(Rupees in Crores)			
	1978-79	1979-80	1980-81
	1	2	3
1. Total Resources .. .. .	419	434	439
Of which to be raised through (a) A R D C Special debentures	271	298	314
(b) Ordinary debentures and internal sources .. .. .	148	136	125
2. Of 1 (b) to be raised through			
(a) Internal sources .. .. .	23	11	10
(b) Ordinary debentures .. .. .	125	125	115
3. Actual Floatations out of 2(b) .. .. .	93	92	

(Source : Agricultural Credit Department, RBI)

3.26 It may be mentioned that in 1979-80 as well as in 1978-79, SLDBs were able to put through about 74 per cent of the ordinary debenture programme. The ordinary debenture programme is expected to receive support from the following agencies during 1980-81.



TABLE 3.6—CONTRIBUTIONS TO ORDINARY DEBENTURE PROGRAMME OF SLDBs

	(Rupees in Crores)	
	1979-80	1980-81
	1	2
(i) Central and State Governments .. .. .	16	12
(ii) Life Insurance Corporation of India .. .. .	38	45
(iii) Commercial Banks (through IBA) .. .. .	10	10
(iv) State Bank of India Group .. .. .	7	10
(v) Mutual support and self-help .. .. .	54	38
	125	115

(Source : Agricultural Credit Department, RBI)

*Floatation of Rural Debentures*

3.27 The rate of interest on Rural Debentures continued to be 12 per cent. No SLDB, however, floated rural debentures under the Scheme during 1979-80.

## III. NON-AGRICULTURAL CREDIT

*Finance for Weavers' Societies*

3.28 There was no major change in the RBI policy of financing Weavers' Societies during the year under review. While continuing the rate of interest on refinance (two and a half per cent below the Bank Rate), for production and marketing of handloom including polyester cloth, a rise in the scale of finance was announced in September 1979, so as to facilitate the flow of larger credit to the handloom sector as shown below.

*Scale of Finance per Loom*

Type	Handloom
	Rs.
Cotton .. .. .	2,000 (1,500)
Woollen .. .. .	2,500 (2,000)
Silk .. .. .	2,500 (2,000)

(Figures in brackets indicate the position existing before revision)

3.29 The above scales of finance would be applicable for all societies but would require prior sanction from the RBI for the first two years

in the case of new weavers' societies and dormant societies to be activated; the production requirements of such societies after two years will be assessed at 33½ per cent of their anticipated production.

3.30 As against the limit of Rs. 51 crores sanctioned by the RBI during the financial year 1978-79 for production and marketing of handloom products, a higher limit of Rs. 58 crores was sanctioned during 1979-80.

#### *Financing of Other Cottage and Small-Scale Industries*

3.31 During the financial year 1979-80, short-term credit limits aggregating Rs. 25 crores were sanctioned under Section 17 (2) (bb), read with Section 17(4) (c), of the RBI Act, 1934, to seven SCBs on behalf of 38 CCBs and 42 primary co-operative banks for financing industrial societies/industrial units covered under the approved 22 broad groups of cottage and small-scale industries, as against the limit of Rs. 17 crores sanctioned in 1978-79. Of these, credit limits aggregating Rs. 4 crores were sanctioned to the Kerala State Co-operative Bank Ltd., on behalf of CCBs for financing primary coir co-operative societies, coir marketing societies and coir mat and matting societies as against the limits of Rs. 3 crores sanctioned during 1978-79.

3.32 In pursuance of the recommendation of the Committee on Urban Co-operative Banks, the IDBI agreed in principle to extend its refinance facilities to urban banks also on a selective basis.

#### *Financing of Co-operative Sugar Factories*

3.33 Under Section 17(4)(c), the RBI also sanctions refinance limits to SCBs in respect of advances to co-operative sugar factories against the pledge of sugar at three per cent *above* the Bank Rate and under Section 17 (4AA) for purchase of shares in co-operative sugar factories. During the period under review, however, no such limits were sanctioned although Rs. 6 crores and Rs. 1 crore, respectively, had been sanctioned during July 1978-June 1979 and January-December 1978.

#### *Advances against Gold and Silver*

3.34 Instructions were issued in July 1978 to Registrars of Co-operative Societies to ensure that advances against gold bullion were recovered before September 30, 1978 and those against gold ornaments were not used for speculative purposes. During 1979-80 these measures were extended to silver and silver ornaments also. The stipulated maximum amount of loan per borrower remained unchanged at Rs. 2,000 but banks were asked to take into account the higher level of jewellery prices while granting advances to weaker sections.

#### IV. STRENGTHENING OF CO-OPERATIVE STRUCTURE

##### *Reorganisation of PACS*

3.35 The implementation of the programme of reorganisation of PACS on a viable basis was more or less complete in Andhra Pradesh, Assam, Haryana, Karnataka, Kerala, Madhya Pradesh, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal and it was in progress in Gujarat. In Jammu and Kashmir and Maharashtra the programme was yet to be taken up. Efforts in this direction were being made in other States.

3.36 According to provisional data available, as at the end of June 1979, the number of primary societies stood at 1,02,134 as against 1,16,125 on June 30, 1978 and 1,25,799 on June 30, 1977. The number of societies is expected to decline to 90,000 when the reorganisation programme is completed in all the States.

##### *Rehabilitation of CCBs/SCBs*

3.37 In view of the considerable improvement recorded by a number of CCBs under the rehabilitation programme, it was no longer necessary to retain under the programme such banks (i) whose bad and doubtful debts, overdues over three years and accumulated losses had been scaled down to less than 50 per cent of their owned funds and (ii) which had shown an average annual growth rate of 10 per cent in mobilising deposits and outstanding loans and advances in the past three years. Accordingly, 72 CCBs were removed from the list of weak banks, while five banks were brought under the programme of rehabilitation as on June 30, 1978. Further, seven CCBs in Assam were deleted from the list of weak banks. Thus, the number of weak banks under rehabilitation came down from 180 as on June 30, 1977 to 106 as on June 30, 1978.

##### *Rehabilitation of SLDBs*

3.38 The overdues position of LDBs in States like Bihar, Gujarat, Karnataka, Maharashtra and Tamil Nadu, which were the main beneficiaries under the World Bank projects, had created difficulties in obtaining the World Bank funds through the ARDC and necessitated urgent steps to ameliorate the situation. With a view to ensuring the uninterrupted flow of investment credit, these and other matters were discussed by the Bank with Chief Ministers of the States and in order to facilitate the preparation of rehabilitation programmes, broad guidelines evolved by the ARDC/RBI were communicated to them. The guidelines included, among others, the strengthening of organisational structure, improving of financial viability, rescheduling and extension of loan period in the case of natural calamities, augmenting of technical assistance from the State Governments, etc.

### *Integration of Co-operative Credit Institutions*

3.39 The proposals, as mentioned in the *Report on Trend and Progress of Banking in India 1978-79*, for the integration of the short-term and long-term co-operative credit structures formulated by the Governments of Madhya Pradesh, Punjab and Rajasthan were considered by the Agricultural Credit Board.<sup>1</sup> Although the predominant view in the Board was not in favour of the proposals of Madhya Pradesh and Rajasthan Governments, it did not object to their implementation provided the various conditions stipulated by the RBI for strengthening the credit structure were fulfilled.

## V. OTHER DEVELOPMENTS

### *Credit Authorisation Scheme*

3.40 Under the CAS for co-operative banks, during 1979-80 seven SCBs and eight CCBs approached the RBI for prior authorisation in respect of 35 proposals for block capital finance on behalf of 30 manufacturing/processing units. Authorisation was granted to three SCBs and four CCBs for an aggregate amount of Rs. 22 crores in respect of 18 units as against Rs. 11 crores on behalf of 26 units in 1978-79. In addition, 11 SCBs and 35 CCBs submitted 294 proposals for sanction of working capital limits (*i.e.* Pledge, Hypothecation and Clean Cash Credit Limits as also Inland Bills Purchased Limits, including working capital term-loans) on behalf of 174 societies/units. Authorisations were granted to 10 SCBs and 29 CCBs for an aggregate amount of Rs. 444 crores on behalf of 147 societies/units during 1979-80 as against Rs. 605 crores authorised during 1978-79 in respect of 148 societies/units.

### *Financing of Societies by Commercial Banks*

3.41 As on December 31, 1979, the scheme of financing of PACS by commercial banks introduced in June 1970 was in operation in 127 districts in 13 States where 683 branches of 24 commercial banks had taken over 2,869 societies for financing.<sup>2</sup> The average number of societies per branch continued to be low at four as against the general norm of 10 societies per branch envisaged for operational viability and optimum use of the field staff at the branch level. From the introduction of the scheme till end-December 1979, 5.86 lakh new members were admitted to the societies taken over by the commercial banks.

1. In the case of Rajasthan and Punjab the proposals related to the abolition of the district-level institutions, *viz.*, CCBs in short-term wing and the PLDBs in the long-term wing and envisaged a two-tier structure with reorganised PACS at the primary level and State Co-operative Development Bank (SCDB) at the apex level with branches of SCDB at the district level. As regards Madhya Pradesh the scheme envisaged merely integration of the two wings at different levels of the three-tier structure.

2. The number of societies had shown a net decline of 251 from 3,036 on December 31, 1977 to 2,785 on December 31, 1978 due to amalgamation and reorganisation.

During the year 1979, the commercial banks provided short-term agricultural loans aggregating Rs. 16 crores as against Rs. 18 crores in 1978. Besides, the banks disbursed medium-term loans aggregating Rs. 2.4 crores to 565 societies as against Rs. 2.6 crores to 556 societies in 1978. Although there was a slight decline in the overdues of PACS financed by commercial banks from 65 per cent to 63 per cent of the total demand, the recovery performance of commercial banks in respect of loans granted to PACS continued to be far from satisfactory. The scheme is likely to be introduced in Meghalaya, Rajasthan and Tamil Nadu.

#### *Penal Rate of Interest*

3.42 As mentioned in the Report for 1978-79 some concessions were given by the RBI in the penal rate to be charged to defaulting SCBs in the repayment of borrowings from the RBI for advances to cottage and small-scale industries. During the year under review, further concessions were announced by the RBI in respect of all short-term and medium-term borrowings by SCBs which were hitherto required to pay on demand a penal interest at 2 per cent per annum over and above the normal rate on the outstanding balance of loan in the event of default in repaying the loan on due date not only for the period during which the default subsisted but for the entire period of loan. From the year 1979-80 interest would be charged at a penal rate of 1 per cent per annum over and above the effective rate on the outstanding balance of loan and only for the period during which the default occurred.

#### *Advances to Individuals*

##### *PUCBs*

3.43 Pursuant to the recommendations of the Committee on UCBs the maximum limits on advances to individuals were relaxed by the RBI. Accordingly, PUCBs with demand and time liabilities exceeding Rs. 2 crores were allowed to advance up to Rs. 15 lakhs as individual loans as against Rs. 10 lakhs permitted earlier. However, advances to any single party were not to exceed five per cent of demand and time liabilities of the bank.

##### *SCBs/CCBs*

3.44 At the request of SCBs/CCBs the scope of individual advances was widened within specified limits so as to cover the financing of individuals under the ARDC schemes also which envisage such provision. Banks were also allowed to advance up to Rs. 5,000 as loans for the purchase of durable consumer articles under the guidelines issued by the RBI.

*Credit Guarantee Scheme for Small-Scale Industries*

3.45 The requirement of insurance against fire and other risks for security in respect of advances, whether for working capital or equipment, to the extent of Rs. 10,000 per unit granted to small-scale industries covered under the Credit Guarantee Scheme was waived, except, in cases where insurance of vehicles, machinery or other equipment was compulsory under the provisions of any law. As on March 31, 1980, 10 SCBs, 89 CCBs and 76 PUCBs were under the Credit Guarantee Scheme for Small-Scale Industries as against 10 SCBs, 86 CCBs and 72 PUCBs a year earlier.

*Premium for Crop Insurance Scheme*

3.46 The RBI decided in September 1979 to allow the co-operative banks to treat the insurance premium payable by borrowers under the Crop Insurance Scheme as a component of crop loan issued to members of PACS, provided the amount of such premium did not exceed five per cent of the sum insured and that any premium in excess of five per cent was subsidised or borne by the concerned State Government. The co-operative banks were also advised that in areas where the General Insurance Corporation (GIC) had introduced pilot crop insurance schemes, relief to borrowers of PACS affected by natural calamities by way of conversion of the short-term dues into medium-term conversion loans should be restricted to the balance amount of loans not covered by the indemnity from the GIC. This was done to avoid the overlapping of relief arrangements for borrowers of co-operative societies.

*Condonation of Small Defaults by Small Farmers*

3.47 With a view to ensuring that small/marginal farmers and weaker sections are not wholly deprived of co-operative credit on account of their defaults involving small amounts the Bank decided, on the recommendation of the Agricultural Credit Board, that a small farmer (cultivating up to one hectare of irrigated or two hectares of dry land), whose defaults involving a small amount not exceeding 10 per cent of his eligibility for short-term production loans was on account of circumstances beyond his control, could be provided with fresh finance by the concerned PACS. This facility is to be provided by the PACS from their own resources and no refinance for the purpose would be available from the higher financing agencies.

*Banking Regulation and Inspection*

3.48 During the year, the criteria for licensing of existing co-operative banks under Section 22(2) of the Banking Regulation Act, 1949 (as applicable to Co-operative Societies) to carry on banking business were evolved and on that basis 38 primary co-operative banks in the country were issued licences to carry on banking business. Seventy seven new PUCBs were granted licences to commence banking business during the

period July 1979 to June 1980. The existing exemptions given to scheduled SCBs regarding maintenance of daily balance, liquidity ratio, etc., were extended up to June 30, 1982.

3.49 As on June 30, 1980, the total number of licenced co-operative banks stood at 230 comprising seven SCBs, 18 CCBs, 205 primary co-operative banks.

3.50 The number of offices of co-operative banks which stood at 8,894 as on December 31, 1978 rose to 9,422 as on March 31, 1980. This consisted of 399 offices of SCBs, 7,087 offices of CCBs, 1,738 offices of PUCBs and 198 offices of primary (salary earners' type) co-operative banks. During the year 1979-80, 114 licences were issued to SCBs and PCBs for opening of new offices as against 98 licences issued during 1978-79. As on June 30, 1980, there were 1,579 co-operative banks coming under the purview of B.R. Act, 1949 comprising 29 SCBs, 347 CCBs and 1,203 PCBs<sup>1</sup> as compared with 29 SCBs, 347 CCBs and 1,192 PCBs as on June 30, 1979.

3.51 The Bank continued to undertake inspections of co-operative banks and to bring to their notice the important defects observed in their operations during the inspections. The number of banks inspected during the year was 14 SCBs, 131 CCBs, 400 PCBs and 14 other institutions.

#### *Permission for Foreign Exchange Business*

3.52 With the licensing of one more bank to deal in foreign exchange from July 24, 1979 the number of urban co-operative banks authorised to deal in foreign exchange stood at two at the end of June 1980.

## VI. STUDY TEAMS

### *Study Teams on Agricultural Credit in Jammu and Kashmir/Himachal Pradesh/Orissa*

3.53 The Reports of the Study Teams on Co-operative Credit Institutions in Jammu and Kashmir and Himachal Pradesh were completed. A Study Team for reviewing the short-term credit structure in Orissa was set up during the year.

3.54 Pending detailed examination of the recommendation of the Study Team on Jammu and Kashmir by the RBI, the State Government was advised in November 1979 to implement some of the important and non-controversial recommendations.

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1. Consisting of 1,087 urban and 116 salary earners'/employees' credit societies.

*Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development.*

3.55 In November 1979 the Committee submitted an Interim Report on National Level Arrangement for Institutional Credit for Agriculture and Rural Development. The Committee noted that the problems of agricultural credit had not only grown in complexity and size but also merged in the larger tasks of rural development. After reviewing the working of the existing national level institutions dealing with these subjects the Committee came to the conclusion that there was a need for a new organizational device for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development. For this purpose, the Committee envisaged a new Bank, viz., the National Bank for Agriculture and Rural Development (NABARD), to operate as an apex institution within the complex of the Reserve Bank. This proposal to set up NABARD has been accepted by the GOI and the RBI in principle. The details are being worked out.

VII. AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION (ARDC)

3.56 As the apex bank for development finance for agriculture and allied activities the ARDC has continued its thrust to provide increasingly large resources to the rural sector with an emphasis on helping the weaker sections, reducing regional imbalances and diversification of activities.

3.57 Since its inception in July 1963 till the end of June 1980, the ARDC sanctioned 12,225 schemes with an aggregate commitment of Rs. 3,077 crores of which Rs. 1,738 crores or 56 per cent was disbursed. The number of schemes sanctioned by the Corporation during the year 1979-80 (July-June) was 3,657, involving commitment of funds for Rs. 757 crores as compared with 2,505 schemes and Rs. 573 crores in the corresponding period of the previous year. The number of schemes sanctioned for diversified purposes, i.e., other than minor irrigation, at 2,299 with a commitment of Rs. 376 crores reflected an improvement in their share of total business of the Corporation. This accounted for 63 per cent of schemes sanctioned and 50 per cent of the aggregate commitment during the year, the corresponding proportions during the previous year being 59 per cent and 40 per cent, respectively.

3.58 Agency-wise, the share of commercial banks in total refinance disbursed was 58 per cent and that of SLDBs/SCBs was 42 per cent.

3.59 With a view to reducing inter-regional and intra-regional disparities, the less developed and/or under-banked States of Assam, Bihar, Himachal Pradesh, Jammu and Kashmir, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal and States in North-Eastern India were classified by the ARDC in a separate category and special



attention was paid to these areas for stepping up investment. As a result, these areas were able to obtain two-fifths of the Corporation's total disbursements (40 per cent) in 1979-80 as against about one fifth (19 per cent) in 1972-73 (Table 3.7). During the year 1979-80 (July-June), the ARDC disbursed refinance aggregating Rs. 412 crores, with Andhra Pradesh availing the largest share (Rs. 62 crores) among all the States, followed by Uttar Pradesh (Rs. 57 crores), Punjab (Rs. 50 crores), Haryana (Rs. 39 crores), Maharashtra (Rs. 37 crores) and Madhya Pradesh (Rs. 36 crores).

TABLE 3.7—DISBURSEMENTS BY ARDC TO LESS-DEVELOPED AND/OR UNDER-BANKED STATES

		(Rs. lakhs)							
States		1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
		1.	2.	3.	4.	5.	6.	7.	8.
1. Uttar Pradesh..	..	11,43	14,98	18,49	25,98	37,20	43,17	48,77	56,60
2. Madhya Pradesh ..	..	3,19	6,45	12,34	19,32	26,10	16,70	16,66	36,47
3. Bihar ..	..	1,54	5,85	9,32	13,18	16,96	18,64	22,53	24,68
4. Orissa ..	..	11	8	82	3,38	5,65	8,16	8,75	13,15
5. West Bengal ..	..	4	22	69	1,59	5,90	9,96	10,45	9,82
6. Assam & Other North-Eastern States..	..	—	33	4	13	83	3,09	2,79	3,07
7. Rajasthan ..	..	1,36	2,83	3,50	5,36	7,87	13,12	16,16	18,15
8. Jammu & Kashmir ..	..	—	—	—	17	6	15	14	12
9. Himachal Pradesh ..	..	—	4	4	16	2	23	50	1,85
10. Total Disbursements (1 to 9)		17,67 (18.8)	30,78 (31.5)	45,24 (42.5)	69,27 (40.5)	100,59 (45.6)	113,22 (48.3)	126,75 (44.5)	163,91 (39.8)
11. Total Disbursements (All India)	..	94,14	97,84	106,40	171,15	220,82	234,30	284,87	412,23

Figures in brackets indicate percentages of item 10 to item 11.  
(Source : Agricultural Refinance and Development Corporation.)

3.60 Region-wise, the shares of the Northern Region, and the Western Region increased from 19 per cent and 14 per cent in 1978-79 (July-June) to 26.6 per cent and 15.3 per cent, respectively, in 1979-80 (July-June), while that of the Southern Region declined from 28.2 per cent to 23.1 per cent. Although Assam and other North-Eastern States were included in a separate category of backward States requiring special attention by the ARDC their share also declined. The share of Eastern Region and North-Eastern Region thus declined from 15.7 per cent to 12.3 per cent during the year. The share of the Central Region, also declined marginally from 23 per cent in 1978-79 to 22.6 per cent in 1979-80.

3.61 The IDA assistance continued to be utilised for financing special schemes in the less developed/under-banked areas. During the year, an Inland Fisheries Project with assistance of \$ 20 million was sanctioned by the IDA for setting up fish hatcheries and improvement in fish ponds

in the States of Uttar Pradesh, Madhya Pradesh, Bihar, Orissa and West Bengal. A cashewnut project recently approved by the IDA covers Orissa State apart from Kerala, Karnataka and Andhra Pradesh. The Corporation also arranged for an in-depth study of horticultural potential in Orissa State. The International Fund for Agricultural Development (IFAD) also sanctioned during the year Command Area Development Project in Rajasthan involving a credit of \$ 55 million. With the implementation of the above projects the flow of institutional credit in the less developed States is likely to improve further in the near future.

3.62 The Corporation's another main objective, namely, to cover larger number of small farmers under its schemes, received a further thrust during the year. Under the First and Second ARDC Credit Projects, the Corporation channelised 50 per cent of its disbursements to small farmer beneficiaries. During 1979-80, ARDC attained 58 per cent coverage of small farmers under various programmes. Small farmers accounted for 58 per cent of the total amount of loans issued by member-banks. The share of this group was 61 per cent and 47 per cent of loans issued for minor irrigation and diversified purposes other than purposes like farm mechanisation, storage and market yard complexes, respectively. The Corporation would make concerted efforts to expand its financial assistance to weaker sections to fulfil its objective of channelising at least 60 per cent of disbursements to small farmers during the Third ARDC Credit Project. With a view to liberalising assistance to weaker sections, the facility of 90 per cent ARDC refinance available for SFDA schemes was extended by the Corporation to cover schemes formulated for weaker sections under special programmes like Desert Area Development, Hill Area Development, Command Area Development, Integrated Rural Development, etc.

3.63 The more important policy decisions of the ARDC taken during the year 1979-80 are given below.

3.64 Apart from extending the facility of 90 per cent refinance to special programmes as mentioned above, the ARDC agreed to extend refinance facility (a) for the construction of mechanical compost plants in metropolitan towns or large cities jointly by Municipal Corporation and Agro-Industries Corporation or similar agencies with the approval of the concerned State Government and (b) for the construction of rural godowns.

3.65 With a view to helping the LDBs financially and operationally the Corporation, in consultation with the RBI, decided to allow SLDBs to a limited extent to finance corporate bodies set up mainly to benefit the farmers such as Minor Irrigation Corporation, Lift Irrigation Corporation, etc., subject to certain terms and conditions.

3.66 The ARDC also decided to provide interim finance at a rate of interest of 10 per cent per annum to SLDBs to facilitate the satisfactory management of their resources position which will serve as bridge finance

to tide over the time-lag between the date of disbursement of loans to ultimate borrowers and the date of issue of special development debentures. Under the scheme, a credit limit will be sanctioned to each SLDB for each co-operative year and a beginning has already been made in this regard.

3.67 A reference was made in the section on long-term credit policy to the liberalisation of recovery discipline in the case of advances to small farmers and to the postponement of recovery of loan instalment, where borrowers were affected by natural calamities. Suitable steps were taken by the ARDC also for implementation of these policies.

## CHAPTER 4

### OTHER FINANCIAL INSTITUTIONS

4.1 The assistance extended by the RBI to term-lending institutions in the industrial sphere and the activities of other financial institutions, viz., Industrial Development Bank of India (IDBI), State Financial Corporations (SFCs), Deposit Insurance and Credit Guarantee Corporation (DICGC) and Unit Trust of India (UTI) are dealt with in this chapter. It may be pointed out that financial assistance to the industrial sector was stepped up significantly, particularly to the small-scale sector, during the year.

#### I. RBI ASSISTANCE TO TERM-LENDING INSTITUTIONS

4.2 The RBI sanctioned a loan of Rs. 220 crores to the IDBI out of the National Industrial Credit (Long-term Operations) Fund during the year 1979-80 (July-June) as against Rs. 200 crores sanctioned during the previous year. The outstanding amount of the IDBI's borrowings from the Fund stood at Rs. 1,084 crores as on June 30, 1980. Further, the IDBI was also sanctioned a short-term borrowing limit of Rs. 150 crores during the year 1979-80 (July-June) against the security of eligible bills rediscounted by it. There were no outstandings against these limits as on June 30, 1980. The RBI renewed the borrowing limit of Rs. 3 crores sanctioned to the IFCI, for a further period of one year. Under Section 17 (4BB) of the RBI Act, 1934, the Central Government notified the ICICI as a financial institution eligible to borrow from the Bank. During July 1979-June 1980, eight SFCs were sanctioned by the RBI fresh borrowing limits aggregating Rs. 17 crores against their *ad hoc* bonds (with a maturity period of 18 months). The Bank also extended the date of expiry of borrowing limits amounting to Rs. 6 crores in respect of four SFCs. The total borrowing limits in force, as on June 30, 1980, amounted to Rs. 7 crores in respect of four SFCs. Besides, 14 SFCs (*i.e.*, excluding Assam, Delhi, Himachal Pradesh and Punjab Financial Corporations) were allowed to raise funds by issue of bonds to the extent of Rs. 40 crores (notified) during the year 1979-80 (April-March) as against Rs. 46 crores (notified) allowed to 17 SFCs in the previous year.

#### II. INDUSTRIAL DEVELOPMENT BANK OF INDIA

##### *Operations*

4.3 The total financial assistance sanctioned (excluding guarantees) by the IDBI during the nine-month period July 1979-March 1980 amounted to Rs. 931 crores covering 39,763 applications, recording an increase of 41 per cent in amount and 98.7 per cent in number of applications over Rs. 660 crores sanctioned to 20,014 applicants during July 1978-March 1979. Similarly, disbursements also increased from Rs. 482 crores to Rs. 583 crores—a growth rate of 21 per cent. These significant increases are largely on account of a spurt in refinance assistance which went up by 70 per cent (Table 4.1).

TABLE 4.1—ASSISTANCE SANCTIONED BY THE IDBI AND UTILISED BY THE ASSISTED CONCERNS DURING 1978-79 AND 1979-80 (JULY-MARCH) AND SINCE INCEPTION

(Rupees in Crores)

Type of Assistance	Sanctions (Effective)						Disbursements		
	1978-79 (July-March)		1979-80 (July-March)		Cumulative since inception up to end-March 1980		1978-79 (July- March)	1979-80 (July- March)	Cumu- lative dis- burse- ments since inception up to end- March 1980
	No. of appli- cations	Amount	No. of appli- cations	Amount	No. of appli- cations	Amount	Amount	Amount	
	1	2	3	4	5	6	7	8	9
1. Direct Industrial Assistance ..	209	244.15	184	303.17	1,579	1,694.32	199.07	149.84	986.44
(a) Direct loans to industrial concerns (other than for exports) ..	172	231.12	155	269.59	1,127	1,515.42	193.40	143.45	914.25
(i) Normal .. .. .	79	160.49	62	190.44	760	1,238.81	170.94	95.39	815.12
(ii) Soft loan assistance ..	63	66.24	54	72.63	237	258.00	19.54	42.53	86.97
(iii) Technical Development Fund .. .. .	30	4.39	39	6.52	130	18.61	2.92	5.53	12.16
(b) Underwriting of and direct subscriptions to shares and debentures of industrial concerns	37	13.03	29	33.58	452	178.90	5.67	6.39	72.19
2. Refinance of industrial loans ..	18,992	265.18	38,702	451.03	1,15,627	1,769.61	172.82	292.40	1,184.48
3. Rediscounting of Bills .. ..	9753	94.76	815	115.98	3,911	1,036.47	70.61	87.36	809.17
4. Subscriptions to shares and bonds of financial institutions ..	16	20.54	15	23.04	31	177.43	23.54	29.87	181.23
5. Seed Capital through SIDCs ..	25	0.96	20	0.82	78	2.91	0.46	0.55	1.27
Total Project Assistance (1 to 5)	19,995	625.59	39,736	894.04	1,21,226	4,680.74	466.50	560.02	3,162.59
6. Export Finance .. .. .	19	34.19	27	36.52	279	352.71	15.42	23.38	198.51
(a) Direct loans for exports ..	15	12.37	1	0.39	105	132.37	10.49	10.32	105.72
(b) Refinance of export credit ..	3	0.22	10	2.47	134	70.45	2.76	1.65	55.87
(c) Overseas buyer's credit ..	—	—	—	—	9	24.59	0.45	3.05	14.11
(d) Foreign lines of credit ..	1	21.60	2	26.00	16	115.00	1.72	8.36	22.81
(e) Overseas investment finance ..	—	—	10	6.24	11	8.88	—	—	—
(f) Pre-shipment Credit ..	—	—	4	1.42	4	1.42	—	—	—
Total of 1 to 6 .. .. .	20,014	659.78	39,763	930.56	1,21,505	5,033.45	481.92	583.40	3,361.10
7. Guarantees for loans and deferred payments .. .. .	—	—	—	—	15	26.72	—	—	—
8. Export guarantees .. .. .	33	13.77	73	51.85	247	213.35	—	—	—

Notes : 1. The number of applications in respect of Rediscounting of Bills (item 3) relates to the number of purchaser-users and in the case of subscriptions to shares and bonds of financial institutions (item 4) to the number of financial institutions.

2. In the case of Rediscounting of Bills, amount sanctioned represents face value of bills rediscounted and amount disbursed indicates the net disbursements after deduction of rediscount charges from the face value.

(Source: Industrial Development Bank of India)

The Scheme-wise details of operations are given below.

#### *Project Finance Scheme*

4.4 While sanctions under Project Finance Scheme during July 1979-March 1980 at Rs. 224 crores comprising (i) direct normal loans of Rs. 190 crores and (ii) underwriting of and direct subscriptions to shares and debentures of industrial concerns of Rs. 34 crores recorded a rise of 29 per cent over the sanctions of Rs. 174 crores during the corresponding period of the previous year, disbursements declined by 42.4 per cent from Rs. 177 crores to Rs. 102 crores during the same period. The decline in disbursements was on account of normal direct loans; the disbursements during 1979-80 (July-March) at Rs. 95 crores were lower than that of Rs. 171 crores during the corresponding period of 1978-79.

4.5 The increase in sanctions was largely on account of additional assistance sanctioned to previously assisted projects for meeting cost overruns. Setting up of fresh capacities had a share of 46 per cent of the sanctions, while 54 per cent was sanctioned for meeting the overrun in project costs (Table 4.2). As much as Rs. 101 crores was sanctioned to a single company, viz., Gujarat Narmada Valley Fertilisers Co. Ltd., to meet the overrun in project cost.

TABLE 4.2—PURPOSE-WISE CLASSIFICATION OF IDBI ASSISTANCE SANCTIONED DURING 1979-80 (JULY-MARCH)

Schemes	(Rupees in Crores)									
	Purpose									
	New Projects		Expansion/Diversification		Modernisation/Rehabilitation		Supplementary Assistance*		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
	1	2	3	4	5	6	7	8	9	10
1. Project Finance Scheme@	32	70.5	14	30.3	3	1.9	24	121.3	73	224.0
2. Rediscounting of bills	..	30	0.3	—	785	115.7	—	—	815	116.0
Total .. ..	62	70.8	14	30.3	788	117.6	24	121.3	888	340.0

\* That is, assistance for (i) meeting overruns in project - costs arising from delays in implementation, rise in cost of machinery and building materials, shortfall in estimated cash resources, etc. (ii) relieving strain on cash resources of companies which had earlier utilised working capital funds for acquisition of fixed assets, (iii) financial re-organisation, etc.

@ Comprising direct loan and underwriting.

Note : Number in respect of item 1 represent number of projects and in respect of item 2 number of purchaser-users.

(Source : Industrial Development Bank of India)

4.6 Sector-wise, joint sector and public sector obtained 62 per cent and 9 per cent of the sanctions, respectively. Industry-wise, three-fourths of the sanctions went to those coming under the high priority category (viz., fertilisers, cement, textiles, paper, sugar and power generation); fertiliser alone accounted for 48 per cent of the total.

4.7 The total sanctioned assistance of Rs. 224 crores is for 73 projects with an investment of Rs. 672 crores and these projects, when completed, would provide employment to 45,000 persons. Of the total sanctions, assistance to the extent of Rs. 166 crores was provided to projects in specified backward districts.

#### *Soft Loan Scheme*

4.8 Sanctions by the IDBI under the Soft Loan Scheme during July 1979 - March 1980 at Rs. 73 crores registered an increase of 10 per cent over the sanctions of Rs. 66 crores during July 1978 - March 1979. Textile industry was the major beneficiary claiming Rs. 51 crores. During the period, disbursements rose substantially to Rs. 43 crores or by 115 per cent from Rs. 20 crores during the same period in 1978-79.

#### *Technical Development Fund (TDF) Scheme*

4.9 Sanctions under TDF Scheme during the period under review aggregated Rs. 7 crores to 39 units as against Rs. 4 crores to 30 units during July 1978-March 1979. The disbursements under the Scheme amounted to Rs. 6 crores and were higher as compared with Rs. 3 crores during the same period in the earlier year.

#### *Refinance of Industrial Loans*

4.10 Sanctions and disbursements under the refinance scheme during July 1979 - March 1980 witnessed large increases. Sanctions at Rs. 451 crores were higher by 70 per cent and disbursements at Rs. 292 crores increased by 69 per cent over the corresponding period of the previous year. The spurt in sanctions was mainly due to the accelerated operations under the Automatic Refinance Scheme, sanctions under which reached Rs. 244 crores registering an increase of 85.5 per cent. Consequently, the sanctions to small sector (including small road transport operators) during the period under review aggregated Rs. 320 crores on 37,889 applications, forming about 71 per cent of the total amount sanctioned and 98 per cent of the total number of applications under the scheme. Under the Special Refinance Facility introduced in November 1978 to provide assistance for expeditious rehabilitation of industrial units in the village and cottage, tiny and small-scale and the smaller of the medium industrial sectors, which had suffered damage in the unprecedented floods during the year 1978, an amount of Rs. 7 crores was sanctioned to 4,434 applicants till the end of March 1980.

#### *Bills Rediscounting Scheme*

4.11 Sanctions under the Bills Rediscounting Scheme during July 1979 - March 1980 amounted to Rs. 116 crores benefiting 815 purchaser-users of machinery, registering an increase of 22 per cent over Rs. 95 crores (to 753 purchaser-users) sanctioned during the corresponding period of the previous year. The purchaser-users in the small-

scale sector received assistance of Rs. 3 crores and SEBs and State Road Transport Corporations were together sanctioned Rs. 12 crores.

*Subscriptions to Shares and Bonds of Financial Institutions*

4.12 During July 1979 - March 1980, the IDBI subscribed Rs. 30 crores comprising Rs. 14 crores to share capital of SFCs, Rs. 15 crores to the ICICI for their participation under the Soft Loan Scheme and Rs. 1 crore to the IFCI's right issue of shares. Total amount subscribed by the IDBI to the share capital and bond issues of financial institutions since inception up to the end of March 1980 was Rs. 181 crores.

*Seed Capital Scheme*

4.13 Since November 1976, the IDBI has been operating two seed capital schemes in order to assist new entrepreneurs who have other abilities but lack finance to put in the required promoters' contribution. The first scheme is operated by SFCs, which provide seed capital assistance to projects in small-scale sector from their special class of share capital contributed by the IDBI and concerned State Government on a 50 : 50 basis. Under the second scheme, the IDBI provides seed capital assistance through SIDCs to the entrepreneurs in medium-scale sector with project cost up to Rs. 1 crore; the assistance is limited to 10 per cent of the project cost or Rs. 10 lakhs, whichever is lower. Besides, the IDBI also directly sanctions seed capital in selected projects to the entrepreneurs.

4.14 Under the first scheme, by the end of March 1980, the SFCs (with the exception of one) raised special capital to the tune of Rs. 6 crores. The total assistance sanctioned by SFCs under the scheme amounted to Rs. 3 crores to 895 units and disbursements aggregated Rs. 1 crore.

4.15 Under the second scheme operated through SIDCs, the assistance sanctioned and disbursed during the period under review amounted to Rs. 82 lakhs (to 20 units) and Rs. 55 lakhs, respectively. Since the inception of the Scheme till March 1980, SIDCs sanctioned seed capital of Rs. 3 crores to 78 units, the assistance disbursed being Rs. 1 crore.

*Export Finance Assistance*

4.16 Export finance sanctions (excluding guarantees) at Rs. 37 crores during July 1979-March 1980 were marginally higher as compared to Rs. 34 crores during the corresponding period of the previous year. This included sanctions of Rs. 26 crores under foreign lines of credit for export of machinery and equipment to Indonesia and engineering goods to Mozambique. Under the Overseas Investment Finance Scheme, assistance of Rs. 6 crores was sanctioned for participation in joint ventures by Indian promoters in Malaysia, Indonesia, Nigeria, Nepal, Yugoslavia and Saudi Arabia. Aggregate export assistance disbursed



during the period at Rs. 23 crores was significantly higher as compared with Rs. 15 crores during the corresponding period of the previous year.

#### *Assistance to Backward Areas*

4.17 During July 1979-March 1980, the IDBI's sanctions and disbursements of financial assistance to industrial units in the specified backward areas aggregated Rs. 390 crores and Rs. 180 crores, respectively (Table 4.3). This assistance constituted 44.8 and 34 per cent, respectively of the total assistance sanctioned and disbursed by the IDBI during this period.

TABLE 4.3—ASSISTANCE<sup>1</sup> SANCTIONED AND DISBURSED BY THE IDBI TO UNITS IN THE SPECIFIED BACKWARD DISTRICTS

					(Rupees in Crores)					
Year (July-June)					Assistance sanctioned			Assistance disbursed		
					Total	Backward districts	Percentage to total	Total	Backward districts	Percentage to total
					1	2	3	4	5	6
1964-70	..	..	..	..	276.3	44.7	16.2	250.2	36.1	14.4
1970-71	..	..	..	..	84.9	21.0	24.7	54.2	9.4	17.3
1971-72	..	..	..	..	135.0	44.9	33.2	73.7	15.1	20.5
1972-73	..	..	..	..	121.6	40.9	33.6	97.6	23.5	24.1
1973-74	..	..	..	..	164.9	58.6	35.6	143.0	49.4	34.6
1974-75	..	..	..	..	267.7	93.7	35.0	186.8	68.8	36.8
1975-76	..	..	..	..	385.7	171.9	44.5	249.6	98.7	39.5
1976-77	..	..	..	..	620.0	333.9	53.9	351.5	145.4	41.4
1977-78	..	..	..	..	620.4	297.4	47.9	426.4	220.2	51.6
1978-79	..	..	..	..	953.7	371.1	38.9	617.5	313.6	50.8
1979-80 (July-March)	..	..	..	..	870.2	390.2	44.8	529.6	180.1	34.0
Total	..	..	..	..	4,500.4	1,868.3	41.5	2,980.1	1,160.4	38.9

<sup>1</sup> Comprising direct loans, soft loans, TDF, underwriting/direct subscriptions, refinance and bills rediscounting.

(Source : Industrial Development Bank of India)

#### *Line of Credit for Imports*

4.18 Of the four lines of credit that the IDBI obtained from the IDA/World Bank, the IDA credit of US \$ 25 million was closed on March 31, 1980. The utilisation out of this line of credit stood at US \$17 million (Rs. 14 crores) at the end of March 1980. The sanctions up to the end of March 1980 under the other three lines of credit, viz., (i) US \$ 40 million (equivalent to Rs. 34 crores) World Bank credit for on-lending

to SFCs, (ii) US \$ 25 million (equivalent to Rs. 21 crores) World Bank credit for State Public/Joint Sector Projects and (iii) US \$ 34 million (equivalent to Rs. 28 crores) IDA fertiliser credit, aggregated Rs. 71 crores up to the end of March 1980.

### III. OPERATIONS OF STATE FINANCIAL CORPORATIONS

4.19 The operations of SFCs showed further improvement during 1979-80 (April-March). Total financial assistance sanctioned by 18 SFCs (including the Tamil Nadu Industrial Investment Corporation Ltd.) amounted to Rs. 302 crores, recording an increase of 55.9 per cent over Rs. 194 crores sanctioned in the preceding year. Similarly, disbursements at Rs. 187 crores were higher by 38.6 per cent as compared to Rs. 135 crores disbursed during 1978-79. The total loans outstanding as at the end of March 1980 stood at Rs. 782 crores as compared with Rs. 643 crores at the end of March 1979 (Table 4.4).

TABLE 4.4—OPERATIONS OF STATE FINANCIAL CORPORATIONS

										(Rupees in Crores)	
										1978-79 (April-March)	1979-80@ (April-March)
										1	2
Loans Sanctioned (effective)	..	..	..	..	..	..	..	..	..	194.0	302.4
Loans Disbursed	..	..	..	..	..	..	..	..	..	134.8	186.8
Loans Outstanding (as at the end of March)	..	..	..	..	..	..	..	..	..	643.0	781.5

@Provisional.

(Source : Industrial Development Bank of India.)

### IV. PROGRESS OF CREDIT GUARANTEE SCHEME

4.20 In order to enlarge the flow of institutional lending to small industries by enabling them to share the risks involved with some other agency, the GOI formulated a Credit Guarantee Scheme in July 1960 for the guarantee of advances granted by banks and other credit institutions to small-scale industries. The RBI has been entrusted with the administration of the Scheme as the agent of the Central Government under Section 17 (11A) of the RBI Act, 1934 and has been designated as the "Guarantee Organisation" for the purpose.

4.21 The number of credit institutions eligible for facilities under the Credit Guarantee Scheme increased from 748 as at the end of March 1979 to 763 at the end of March 1980. The number of institutions participating in the Scheme increased by 22 to 313 during the period. The amount of outstanding guarantees which stood at Rs. 2,440 crores

at the end of March 1978, rose to Rs. 2,874 crores, at the end of March 1979, and further to Rs. 3,289 crores, at the end of March 1980, reflecting a steady increase in the flow of institutional credit to the small-scale industrial sector. This is clear from the data given in Table 4.5.

TABLE 4.5—PROGRESS OF CREDIT GUARANTEE SCHEME FOR SMALL-SCALE INDUSTRIES

(Rupees in Crores)

As at the end of	Guarantees Outstanding	Advances under default		Claims paid on account of invocation of guarantee		Guarantee Organisation's share of recoveries in respect of claims
		No. of units	Amount	No. of units	Amount	
	1	2	3	4	5	6
June 1976 .. .. .	1,949.8	12,439	60.0	1,201	1.7	0.3
June 1977 .. .. .	2,195.1	16,275	91.4	2,239	2.5	0.4
June 1978 .. .. .	2,526.4	19,887	125.8	2,711	3.3	0.6
March 1979 .. .. .	2,874.0	22,443	150.0	3,955	4.9	0.8
March 1980 .. .. .	3,289.1	24,974	171.9	6,129	8.1	1.2

(Source : Industrial Finance Department, RBI)

4.22 An industry-wise analysis of the amount of guarantees outstanding, as at the end of June 1978, shows that the food manufacturing industry (except beverages) accounted for the largest share (11.6 per cent) followed by textiles (11.3 per cent), metal products (10.5 per cent), chemical products (8.3 per cent), manufacture of machinery (except electrical machinery) (6.7 per cent), electrical machinery and equipment (6.4 per cent) and basic metal (5.2 per cent).

4.23 A disturbing feature in the operation of the Scheme is the growing number of defaulting units and the amount involved in such loans. The number of defaulting units increased by 2,531 to 24,974 and the amount involved went up by Rs. 22 crores to Rs. 172 crores during the year ended March 31, 1980. The main factors responsible for the default are non-adherence to financial discipline by the concerned units and lack of, or inadequate, demand for their products. The average amount per defaulting unit rose from Rs. 66,800 to Rs. 68,830. The percentage of the amount involved in defaults to total outstanding guarantees, however, remained unchanged at 5.2 per cent.

4.24 The claims paid during April 1979 to March 1980 amounted to Rs. 326 lakhs in respect of 2,174 units. Out of the aggregate amount of Rs. 815 lakhs paid as claims to 6,129 units since the inception of the Scheme in 1960, a sum of Rs. 122 lakhs has been recovered. Thus the net amount of claims paid till the end of March 1980 stood at Rs. 693 lakhs.

4.25 To facilitate the expeditious settlement of claims and with a view to obviating avoidable correspondence which result in delay in settlement of claims for small amounts which form a substantial portion of claims received by the Guarantee Organisation, it has been decided to streamline and liberalise the procedure for scrutiny and settlement of claims up to Rs. 25,000/- per unit per institution without subjecting the application to a detailed scrutiny but by obtaining suitable declarations/certificates from the institutions on the claim applications.

4.26 Further, with a view to providing timely assistance to sick units at the incipient stage, the present practice of requiring credit institutions to refer the proposals for nursing of accounts of small-scale sick units covered under the Scheme to the Guarantee Organisation for approval has been relaxed.

4.27 In terms of the recommendations made by the Working Group set up by the Banking Division of the Ministry of Finance on "Small-Scale Industries with special reference to District Industries Centres", the Guarantee Organisation has decided to enhance the guarantee cover to 90 per cent in respect of loans granted up to Rs. 25,000/- to artisans and village and cottage industries subject to certain conditions. This has been done with a view to protecting the credit institutions from the higher risks in granting 100 per cent advances (*i.e.*, without insisting on margins) in respect of such advances.

4.28 The rate of guarantee fee, which was earlier charged at 1/10th of one per cent per annum irrespective of quantum of advance, has been raised by the GOI to 1/4th of one per cent per annum in respect of advances up to Rs. 25,000/- and 1/2 of one per cent per annum in respect of advances in excess thereof, per unit, per institution with effect from April 1, 1979. During the period April 1979 to March 1980, a sum of Rs. 15 crores was received as guarantee fee as against Rs. 3 crores received during the preceding year.

4.29 The Working Group set up to examine the draft outline of the proposed integration of the Credit Guarantee Scheme for Small-Scale Industries with the DICGC had submitted its report to the GOI and the Government has approved the proposed integration.

#### V. DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

4.30 The DICGC which operates the deposit insurance and the credit guarantee schemes designed to provide protection to depositors and guarantee cover to eligible credit institutions, respectively, extended the benefit of the schemes covering some more eligible institutions during the year.

*Deposit Insurance Function*

4.31 The total number of insured banks increased from 1,112, as at the end of June 1979, to 1,392, as at the end of December 1979, consisting of 78 commercial banks, 59 RRBs and 1,255 co-operative banks. With effect from January 1, 1979 and September 1, 1979, the Deposit Insurance Scheme was extended to Uttar Pradesh and Gujarat, respectively to cover 71 and 275 co-operative banks, respectively.<sup>1</sup> In the other States already covered under the scheme, while 19 more co-operative banks were registered, four co-operative banks were de-registered.

4.32 The limit of insurance cover at Rs. 20,000 per depositor in respect of all deposits held in an insured bank in the same right and capacity, and the rate of insurance premium at four paise per Rs. 100 per annum remained unchanged.<sup>2</sup>

4.33. The total amount of claims paid or provided for since the inception of the scheme till December 31, 1979 aggregated Rs. 113 lakhs and Rs. 97 lakhs, in respect of 14 commercial banks and nine co-operative banks, respectively. While the repayments from commercial banks amounted to Rs. 74 lakhs, no repayment was received from any of the co-operative banks.

*Credit Guarantee Function*

4.34 The DICGC operates three different guarantee schemes to cover the advances by approved financial institutions to certain specified categories of borrowers belonging to weaker sections of community. The objective of the schemes is to increase the flow of institutional credit to small borrowers by providing guarantee for the advances granted to them. Under the three schemes, viz., (i) Small Loans Guarantee Scheme with the participation of 75 commercial banks and 53 RRBs, (ii) Financial Corporations Guarantee Scheme with the participation of 18 SFCs and (iii) Service Co-operative Societies Guarantee Scheme with the participation of 61 commercial banks, 27 RRBs and 30 co-operative banks, the total advances guaranteed amounted to Rs. 2,165 crores, as at the end of June 1979. Of these, the Small Loans Guarantee Scheme alone accounted for Rs. 2,155 crores, forming 99.5 per cent of the total advances guaranteed. Sector-wise, 62.2 per cent of the total guaranteed advances was for farmers and agriculturists, 14.7 per cent for transport operators and 11.9 per cent for retail traders.

4.35 The pronounced increase in the number and the amount of claims, noticed since 1977, continued during 1979. A total number of 36,535 claims for Rs. 11,30 lakhs were received during 1979 as against 29,925 claims for Rs. 8,76 lakhs in 1978. The number of claims disposed of

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1. The scheme has been extended to co-operative banks in the State of Tamil Nadu with effect from July 1, 1980.

2. The limit of insurance cover has been raised to Rs. 30,000 with effect from July 1, 1980.

also rose significantly. During 1979, the DICGC disposed of 25,739 claims for Rs. 6.95 lakhs as against 14,623 claims for Rs. 3.34 lakhs in 1978. Since the inception of the scheme in 1971, 88,098 claims for Rs. 26.76 lakhs were received. Of these, 52,772 claims for Rs. 13.59 lakhs were disposed of by the end of December 1979.

4.36 During 1979, the DICGC's share of recoveries in respect of claims paid amounted to Rs. 55 lakhs, raising the Corporation's share in total recoveries since inception to Rs. 1.00 lakhs.

## VI. UNIT TRUST OF INDIA

4.37 After recording an impressive growth during 1977-79, sales of units suffered a set-back during 1979-80. The sales of units under the Unit Scheme 1964 and Unit Scheme 1971 (Unit Linked Insurance Plan) of the UTI aggregated Rs. 58 crores during 1979-80 (July-June) as against Rs. 102 crores during 1978-79, registering a fall of 42.8 per cent in contrast to an increase of 38.6 per cent in the earlier year (Table 4.6). Moreover, the repurchases of units during 1979-80 being higher at Rs. 14 crores as compared with Rs. 9 crores in the previous year, the net sales under all the schemes during the year amounted to Rs. 44 crores as against Rs. 92 crores in 1978-79. However, contrary to the general declining trend, sales under Unit Linked Insurance Plan (ULIP) 1971, improved. The Trust received 38,285 applications for a target amount (i.e., the amount to be contributed over the ten-year period of the Plan) of Rs. 39 crores as against 34,576 applications for a target amount of Rs. 34 crores in the previous year.

TABLE 4.6—SCHEME-WISE SALES AND REPURCHASES

Schemes	Sales		Repurchases		Outstanding as on June 30, 1980
	1978-79	1979-80	1978-79	1979-80	
	1	2	3	4	5
Unit Scheme 1964 .. .. .	96.08	48.92	9.13	13.75	365.48
Unit Scheme 1971 .. .. .	5.45	9.13	0.11	0.20	19.36
Unit Scheme 1976 .. .. .	@	@	0.22	0.45	6.28
Total .. .. .	101.53	58.05	9.46	14.40	391.12

@ Sales Suspended

(Source : Unit Trust of India)

4.38 The set-back in the sales in 1979-80 is mainly attributable to the withdrawal in the Union Budget for 1979-80 of tax-exemption of capital gains on re-investment of sale proceeds in units under Section 54E of the Income Tax Act. Besides, the upward revision in the interest rates on bank deposits and on small savings schemes in September/October 1979, might have also adversely affected the sales of units.

4.39 The Trust intensified its sales promotion activities during the year with a view to arresting the declining trend in the sales of units.

4.40 As on June 30, 1980, units sold and outstanding with the public amounted to Rs. 391 crores, of which an amount of Rs. 365 crores was under Unit Scheme 1964 (unit holding accounts being about 10 lakhs). Sales under Unit Scheme 1976 (Capital Units) continued to remain suspended.

4.41 The Trust stepped up the rate of dividend to 10 per cent from nine per cent for the previous year for the unit holders under the Unit Scheme 1964 and to 8.5 per cent from eight per cent for the unit holders under the Unit Scheme 1971 (ULIP). The rate of dividend under the Unit Scheme 1976 was maintained at three per cent. The units (Capital Units) of the Unit Scheme 1976 recorded a capital appreciation of 88.6 per cent during the four-and-a-half years of operation of the Scheme.

4.42 As on June 30, 1980, investible funds of the Trust amounted to Rs. 468 crores. Of this, equity shares accounted for Rs. 128 crores (27.2 per cent), debentures for Rs. 112 crores (24 per cent) and preference shares for Rs. 16 crores (3.4 per cent). The remaining amount of Rs. 212 crores (45.4 per cent) was invested mainly in call deposits with banks, advance deposits against investment commitments and fixed deposits with companies.