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भारत में बैंकिंग की प्रवृत्ति एवं प्रगति संबंधी रिपोर्ट 1991-92 (जुलाई-जून)

REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 1991-92 (JULY - JUNE)

Report on Trend and Progress of Banking in India for the year ended June 30, 1992 submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949.

RESERVE BANK OF INDIA

REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 1991-92 (JULY-JUNE)

GOVERNOR

RESERVE BANK OF INDIA
CENTRAL OFFICE
BOMBAY

LETTER OF TRANSMITTAL

November 28, 1992
Agrahayana 7, 1914 (Saka)

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

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, 1992.

Yours faithfully,

(S. Venkitaramanan)

Governor

CONTENTS

Page No.

CHAPTER I

BANKING DEVELOPMENTS AND POLICY PERSPECTIVES

CHAPTER II

COMMERCIAL BANKING

CHAPTER IV

FINANCIAL INSTITUTIONS

INDEX TO TABLES AND GRAPHS

TABLES

CHAPTER IV : FINANCIAL INSTITUTIONS

GRAPHS

Facing Page

CHAPTER I

BANKING DEVELOPMENTS AND POLICY PERSPECTIVES

The operations of scheduled commercial banks during the financial year 1991-92 and the first quarter of 1992-93 were characterised by a substantial expansion in the rate of accrual of bank deposits. There was no doubt a noticeable restraint in bank credit expansion during 1991-92 in response to severe credit control measures but soon after some easing of credit control measures, the tempo of credit expansion began in the first quarter of 1992-93. There has been a large increase in banks' investments in Government and other approved securities during this period.

1.2 The commercial bank branches in the country at the end of March 1992 numbered 60,528 of which 58.3 per cent were in rural areas. During the year under review, the banking system continued to make progress in terms of widening and deepening of the financial infrastructure, diversification into newer activities, and attaining societal goals. The working results of scheduled commercial banks (excluding RRBs), as revealed by the data furnished for the first time in the revised balance sheet formats, show that during 1991-92 profits (after provisions and contingencies) amounted to Rs.1,200 crore as against Rs.743 crore in 1990-91; the ratio of profits to their working funds worked out to 0.35 per cent in 1991-92 as against 0.26 per cent in the previous year. The position regarding non-performing assets of banks remained disquieting. According to the latest data available, as on March 31, 1992, aggregate domestic non-performing advances (those classsified under Health Codes 4 to 8) of all 'public sector banks' formed 14.46 per cent of their aggregate domestic advances. Recognising the deterioration in the financial health of the banking system as reflected in persistent low productivity, growing non-performing assets and relatively inadequate capital base of banks, the focus has shifted in the recent period in favour of concerted efforts at reforming the system.

1.3 A development of great public concern during the year under review was the detection of irregularities in securities operations of banks and financial institutions. The Committee appointed by the Reserve Bank to investigate into these irregularities (Chairman : Shri R. Janakiraman) has pointed out in its three reports the serious deficiencies in the functioning of banks and financial institutions involved in the irregularities and the Committee has made a series of suggestions for remedial action to introduce proper control systems, strengthen monitoring and remove lacunae in the existing system and procedures so as to avoid recurrence of such irregularities in future. The avowed objective of the Reserve Bank and the Government of India now is to restore confidence, both in India and abroad, in the country's financial system. The financial system would become stronger and much more efficient by undertaking appropriate follow-up measures in the light of the recent episode. A number of steps have been taken by the Reserve Bank and the Government of India to unearth ramifications of the irregularities, recovery of bank dues, punishing the guilty and setting in motion enduring measures of a preventive nature. The entire gamut of issues concerning the irregularities is being examined by a Joint Parliamentary Committee (JPC).

Financial Sector Reform

1.4 It is of utmost importance to ensure that the irregularities in securities operations do not distract attention from structural reform measures in the financial sector which are needed to make the financial system much more competitive, efficient and transparent. In fact, the recent events emphasise, if at all, the importance of hastening the pace of reform. In recent years, substantial reform measures have been initiated in the financial sector. The Committee on the Financial System (Chairman : Shri M. Narasimham) has provided a sharper focus on the need for more rapid reorientation of the financial sector. Follow-up action on a number of recommendations of the Committee has been initiated by the Reserve Bank and the Government of India.

Statutory Liquidity Ratio

1.5 In line with the Government's objective of reducing the fiscal deficit to a level consistent with macro-economic stability, the Narasimham Committee recommended that the statutory liquidity ratio (SLR) be brought down in a phased manner to 25 per cent over a period of five years. Consistent with the anticipated decline in the monetised deficit of the Centre and the reduction in the Centre's borrowing programme, the SLR was reduced to 30 per cent on an *incremental* basis in April 1992 and a further reduction of 0.75 percentage point in the SLR of 38.5 per cent on the base net demand and time liabilities was announced in October 1992. Further reductions in SLR would be planned taking into account the evolving monetary situation.

Interest Rates on Government Securities

1.6 The Narasimham Committee had recommended that the interest rates on Government securities should be market related which would then enable open market operations. The monetary policy announced in April 1992 had a distinct tilt away from reserve requirements and direct controls on credit to developing open market operations as a major tool of monetary policy. As part of a move towards marketrelated rates of interest on Government securities, the coupon rates on dated securities were raised, a new instrument, viz., 364-day Treasury bills on auction basis, was launched in April 1992, which has been a phenomenal success, and dated securities have been issued by the Centre for the first time on auction basis. It is expected that over the next few years open market operations will become a powerful instrument of monetary policy.

Cash Reserve Ratio

1.7 The Narasimham Committee had observed that the Reserve Bank should have the flexibility to operate the instrument of cash reserve ratio (CRR) to serve its monetary policy objectives and that, given the Government's resolve to reduce fiscal deficit, the occasion for its use to control the secondary expansion of credit should be less; the Committee had, therefore, recommended that the Reserve Bank should consider progressively reducing the CRR from its high level. Weighing the liquidity situation and the monetary policy considerations, and the need to reduce pre-emptions of banks' resources, the Reserve Bank discontinued the 10 per cent incremental CRR in April 1992 and a release of one-third of the impounded cash balances under the incremental CRR was announced in October 1992. Further reduction in CRR would be possible once an enduring adjustment in the monetised deficit is attained and open market operations in Government securities with marketrelated rates of interest become an effective instrument of monetary control. The Narasimham Committee had recommended that the interest on eligible cash balances with the Reserve Bank should be raised to a level equivalent to the rate on one year bank deposits. The cash reserve ratio is essentially an instrument of monetary control and the payment of interest on CRR balances attenuates the very purpose of imposing a CRR and as such a high interest rate on these balances requires the prescription of a higher CRR. From the viewpoint of monetary control, it is preferable to have a lower CRR with less or no interest paid rather than to have a high CRR and pay a high rate of interest. Had no interest been paid on the CRR balances, the same effective monetary control could have been attained by a CRR prescription at a level one-half of what has been actually prescribed.

Interest Rate Structure

1.8 In regard to the regulated interest rate structure, the basic thrust of the Narasimham Committee that real interest rates should be positive and that concessive interest rates should not be the vehicle for subvention, has been well accepted and a series of reform measures have been put in place : (a) considerable rationalisation has been effected in banks' lending rates with reduction in the number of concessive slabs and enhancement in some of the rates thereby reducing the element of subsidy; (b) the regulated deposit rate structure has been replaced by a single prescription setting a maximum rate for maturities of 46 days and above; (c) rates of interest on Government securities have been raised; and (d) for certain instruments such as Certificates of Deposit, Money Market Mutual Funds and Non-Resident (Non-Repatriable) Deposit Schemes, the interest rates are to be determined by individual banks. There is, however, a need for further rationalisation of interest rates and in particular it is desirable to evolve a Reserve Bank Reference Rate of Interest which could then be the basis for determining the entire gamut of interest rates. Such a Reference Rate to be effective has to earn its place in the market and can develop as a pivotal rate in the system only over time. While these measures need to be persevered with, there is need for a cautious step-by-step approach rather than a rapid deregulation of all interest rates in the system. The experience in a number of countries has been that too rapid a deregulation of interest rates can be destabilising — something which the Indian banking system can ill-afford at this stage.

Prudential Norms

1.9 Identifying the causes for the deterioration in the financial health of the banking system over time, the Narasimham Committee recommended various remedial measures which include *inter alia,* capital adequacy norms, prudential norms for income recognition, asset classification and provisioning for bad debts, which have all been implemented. Likewise, the Committee had suggested abolition of branch licensing policy in response to which the Reserve Bank has evolved a liberalised policy linking the freedom to set up new branch offices to the revised capital adequacy norms and prudential accounting standards (details are set out in Chapter II of the Report). In April 1992, the Reserve Bank announced detailed guidelines on a phased introduction of norms on capital adequacy, income recognition, asset classification, and provisioning. A clear assessment of the shortfall in provisions would emerge after the banks submit their detailed assessments based on the new norms. Based on tentative estimates made by the Reserve Bank it would appear that the provisioning requirements would be around Rs.10,000 crore. Further, banks would also require additional resources to meet the capital adequacy norms. As such, the total resources required by the banks could be close to Rs.14,000 crore; of this, the banks may be able to provide about Rs.4,000 crore from their own surplus generation over a two-year period and about Rs.10,000 crore would be required by the system as additional resources. Furthermore, the banks would need more resources for strengthening their capital base to take into account the future growth of business and additional provisioning requirement. While these requirements would indicate the need for a large infusion of capital into the banking system the problem needs to be tackled on a broad front. First, there should be a conscious endeavour to increase banks' profitability and in this context the banking system should be relieved of providing subventions to the rest of the economy; also due importance should be given to the solvency of the banking system. Secondly, the banks would need to access the capital market. In this context, it would be necessary to distinguish between banks which can readily access the capital market, banks which can raise capital after an asset clean-up and banks which would not be able to access the capital market even after such a clean-up. In this regard, the overall financing would need to be multi-pronged, viz., access to the domestic capital markets, the multilateral agencies, the Government budget, cross-holdings of equity between public sector units and public sector banks and equity investments by bank employees, could be considered.

Asset Reconstruction Fund

1.10 While the Narasimham Committee recommended the setting up of an Asset Reconstruction Fund (ARF) to take over bad and doubtful debts off the balance sheets of banks and financial institutions, there are certain issues which need attention, and before implementing such a scheme, it would be necessary to be clear about the sources of funding. The impact of such a scheme on the recovery climate would also need to be considered. The Narasimham Committee recommendations on the setting up of Special Recovery Tribunals, when implemented, would enable the speedy enforcement of banks' claims. It is recognised that the introduction of an ARF combined with the prudential requirements will, as a consequence, require large amounts of funds. If these large capital requirements are to be met by the Government or the Reserve Bank, it may imply a large monetisation with obvious deleterious effects on the economy. Thus, the strategy for raising fresh capital by banks needs to be carefully worked out. An ARF poses the problem of moral hazard of lenders being distanced from the recovery process and this may not provide for the most efficient procedure for recovery; furthermore, such a fund could give rise to an erosion of accountability as a climate could get generated with expectations of a repetition of such waivers in the future. A limited ARF could, however, be considered for the smaller weak banks, provided the alternatives of merger are ruled out and the modalities of avoiding further repetition of the bad lending scenario are worked out. These banks could be provided the facility of the bad debts being taken over at face value but this should be strictly conditional on major adjustments being made by the banks in terms of drastic changes in the management of these banks, sacrifices by the staff, control on the growth of assets and above all an increase in productivity and all this would need to be clearly spelt out in a Memorandum of Understanding. Issues remaining to be solved are the management of such ARFs, their ability to recover more efficiently than the parent banks, etc. Once such aspects are resolved, a limited approach to ARFs may be considered. The ARF route should be the option available to only those banks which cannot undertake the adjustments through recourse to other options and which can also be restructured to come under effective management.

Board for Financial Supervision

1.11 The Narasimham Committee had recommended the setting up of a Supervisory Board under the aegis of the Reserve Bank of India. For this purpose, Government is considering the establishment of a high-powered Supervisory Board consisting of 4 to 5 full-time members, with the Governor, Reserve Bank of India, as the Chairman. The Board will have an advisory council with eminent persons from the fields of banking, auditing, law, economics and management. The Board will coordinate the work of supervision of banks, financial institutions and other financial agencie in the country. It will lay down operating guidelines, look after supervision and enforce compliance. Surprise inspections will be a part of the Board's operations. The Vice Chairman will be a Deputy Governor of the RBI, who will work exclusively on supervision, follow-up and compliance.

1.12 There are a number of other recommendations of the Narasimham Committe such as reduction in priority sector lendings, appointment of Special Tribunals for speeding up the process of loan recoveries, and reorganisation of the rural credit structure, all of which need detailed examination as these recommendations have far-reaching implications both in terms of the structure of the financial system and also the financing required to implement them.

Priority Sector Lending

1.13 One of the important recommendations of the Narasimham Committee was that while directed credit programmes have played a useful role in extending the reach of the banking system to cover sectors, which were hitherto neglected, there is a need for a reexamination of the continued relevance of such directed credit programmes at least in respect of those who do not require access to directed credit and, more so, at concessive rates. Accordingly, the Committee recommended that the directed credit programmes be phased out. From the objective of redistributive justice, the Committee opined that the instrumentality of the fiscal system rather than the credit system be used. The Committee recommended that the priority sector may be redefined to comprise small and marginal farmers, tiny sector of industry, small business and transport operators, village and cottage industries, rural artisans and other weaker sections and the credit target for this redefined priority sector should henceforth be fixed at 10 per cent of aggregate credit. For ensuring the flow of credit to sectors excluded from the redefined priority sector, the Committee recommended the introduction of a refinance facility from the Reserve Bank of India. A detailed assessment indicated that the redefined priority sector would account for significantly larger than 10 per cent of total credit and as such acceptance of the Committee's recommendation would put a severe squeeze on the sectors within the redefined priority sector. For instance, if advances for farm mechanisation, advances over Rs.10 lakh to small-scale industries, advances over Rs.5 lakh to small road and water transport operators and advances to professional and self-employed persons are excluded from the priority sector, the ratio of the redefined priority sector advances to net bank credit as at the end of March 1990 would work out to a little less than 30 per cent. In case advances over Rs.2 lakh to agriculture, small- scale industries and transport operators and all advances to professional and self-employed persons are excluded from the priority sector, the ratio of residual advances to net bank credit would work out to 25 per cent. Again, there is little merit in a drastic reduction in the target for the priority sector and then meeting the requirements of these sectors through refinance from the Reserve Bank as this would result in increasing the amount of created money thereby fuelling inflationary pressures. From a pragmatic viewpoint, it is essential to ensure that any changes in the policy on priority sector credit does not result in a disruption in the flow of credit for productive purposes. The stipulations on reserve requirements have implications for the actual credit available for priority sector lending. The incremental reserve requirements have been reduced from 63.5 per cent in 1991-92 to 45 per cent in the first half of 1992-93 and further to an effective requirement of 25 per cent in the second half of 1992-93 (after adjusting for the release of SLR/CRR). Illustratively, on the basis of the effective reserve requirements for the second half of 1992-93 an incremental priority sector allocation of say 30 per cent would imply that 22.5 per cent of banks' incremental deposits would be available for the priority sector as against a 40 per cent allocation in 1991-92 which implied an allocation of 14.6 per cent of incremental deposits in 1991-92 to the priority sector. While there is a case for reviewing the present coverage and targets for priority sector lending, the experience of a number of countries is that some direction of credit is necessary in the development process.

1.14 The report of the Committee set up by the Reserve Bank of India in December 1991 under the Chairmanship of Shri P.R. Nayak, the then Deputy Governor of the

Reserve Bank, to look into the various aspects of credit requirements of the small scale industries (SSI) sector, has since been submitted and the report is under active consideration. The Committee has suggested that small unregistered units with credit limits of not more than Rs.1 lakh should have the first claim on the priority sector credit to SSI and any new priority sector credit dispensation, if adopted, should fully provide for the working capital requirements of all tiny sector units. The Committee has also recommended that the working capital needs of other SSIs at 20 per cent of the output should be provided to fully meet the credit requirements of SSIs. The Committee has further recommended that the norm for inventory and receivables should not come in the way of SSI units getting at least 20 per cent of their turnover as working capital from the banks. The Committee has made a number of other recommendations with a view to overcoming the operational difficulties of SSIs as also on addressing the question of sickness in the small-scale sector.

Agricultural Credit

1.15 The institutional credit to the agricultural sector purveyed by commercial banks, co-operatives and Regional Rural Banks (RRBs), is afflicted by the overdues syndrome that has over a period of time debilitated the process of recycling of funds. The implementation of the Agricultural and Rural Debt Relief Scheme, 1990, has further accentuated the problem of recovery and, with co-operative credit societies not being able to mobilise adequate deposits to meet credit needs, this has implied greater recourse to refinance from NABARD/RBI. This coupled with the fact that the rates of interest stipulated for agricultural advances are not only unremunerative but even do not cover the cost of funds and other expenses incurred by the credit institutions has eroded their profitability. The Service Area Approach, now in operation, focuses attention on decentralised and micro credit planning by the rural and semi-urban branches of commercial banks and RRBs with a supportive effort provided by NABARD which has already opened some district level offices. A small farmers' agri-business consortium is being formed to provide better employment opportunities to farmers by way of diversified agricultural activities and improvement in the efficiency of production through technological upgradation. A sharper thrust on agricultural production that is sought to be achieved by various policy measures and institutional changes would concomitantly necessitate expansion and diversification in the operations of agricultural credit delivery agencies with the ultimate objective of improving the quality of rural lending. A basic prerequisite for a successful financial sector reform is that the rural credit delivery system, which has developed serious problems in the recent period, is revamped and an enduring institutional structure put in place. While the question of imparting viability to the rural credit structure has engaged the attention of various Committees, a viable structure has yet to be evolved. It is imperative to devise a rural credit delivery system which will not require large subvention. In this context, better alignment of interest rates and mix of target and non-target lending would need to be given attention. There are also various other areas where the rural credit delivery system is quite clearly unsatisfactory and it is imperative that early measures are taken to bring about an enduring improvement in the credit delivery system.

Restructuring of Regional Rural Banks (RRBs) - Proposal for Establishment of a National Rural Bank (NRB)

1.16 The non-viability of RRBs has been a matter of concern for quite sometime now. The Agricultural Credit Review Committee (ACRC) which examined the issue had come to the conclusion that RRBs should be merged with their sponsor banks but this recommendation was not implemented as it would alter the basic character of the RRBs. The Narasimham Committee recommended the creation of rural banking subsidiaries of public sector banks to take over the rural branches of banks and had left the option open to the RRBs and their sponsor banks as to whether the RRBs should retain their identity or whether they should be merged on a voluntary basis with the sponsor banks' rural banking subsidiaries. The position of the majority of RRBs has, however, deteriorated to such a level that early remedial measures are necessary. Out of 196 RRBs, only 44 banks were able to manage marginal profits while 152 banks were working at a loss (the accumulated losses amounting to Rs.550 crore) and 134 banks have eroded a part of their deposits. The weakness of RRBs has been further accentuated by the increase in pay and allowances of their employees on par with those of sponsor banks in terms of the award of the National Industrial Tribunal (NIT). On account of NIT award the pay and allowances of employees of RRBs are likely to go up by 60 to 65 per cent. In the light of the foregoing, the Government of India have proposed merger of all RRBs into a National Rural Bank (NRB). A Steering Group of representatives of the Government, major sponsor banks, NABARD and Reserve Bank has recommended as follows :

(a) NRB should comply with capital adequacy norms. The paid-up capital should be Rs. 500 crore and should be held by Government of India (51 per cent), NABARD (25 per cent), financial institutions/public sector banks (15 per cent), and RRBs' employees (9 per cent).

(b) In order that the new bank should start on a clean slate, in addition to the losses of Rs.550 crore, worked out with reference to the March 1992 working results, the additional losses of the RRBs during 1992-93 estimated at Rs.300 crore may also have to be made good by Government of India in addition to the NIT award arrears estimated at Rs.220 crore and bad debts of about Rs.198 crore.

(c) To enable NRB to increase their corporate lending it was recommended that the SLR requirement may be reduced from 25 per cent to 20 per cent.

(d) Regarding the organisational structure it was felt that the Head Office of the NRB should be either in Pune or Hyderabad and it should function through 15 zonal offices. The Head Offices of existing RRBs will be Regional Offices of NRB with necessary adjustments regarding number of branches under control of each Regional Office. The Group also recommended that the existing staff of sponsor banks should continue with NRB on a deputation basis.

No decisions have been taken on the final setup of the proposed NRB. Apart from the problems posed by the very large size and the logistics of the proposed institution, it would be necessary to focus attention on the burden on the Government for funding including that for past losses, the drawing of a balance between viability of operations and reasonable cost of credit, the question of recovery, prescription of prudential norms and appropriate rates of interest on deposits and lending by institutions.

Role of Private Sector Banks

1.17 The Narasimham Committee had envisaged a larger role for private sector banks. While, at present, there is no legal ban on entry of new private sector banks in practice no new private banks have been licensed. The time is now apposite to consider allowing a few new private sector banks so as to generate an element of competition. In this context, a number of issues need to be considered. In the case of new private sector banks it would be desirable to set a sufficiently high minimum start-up capital so as to ensure that the banks have inherent strength and the capital risk assets ratio and prudential norms must be observed from the inception. The question of level-playing fields in areas such as rural branches and priority sector credit needs to be addressed. Issues relating to limits on concentration of share holding by individuals/ groups and limits on voting power also need to be considered. The issue has also arisen as to whether financial companies should be allowed to set up banks and in such cases the question of cross-share holdings and cross-directorships needs to be given attention. Important aspects that need to be considered include the question of controlling groups lending money through the banks to projects owned or managed by them. Commingling of industrial groups and banks can lead to concentration of economic power, which it was one of the objects of nationalisation of banking, to avoid. The various issues involved in the subject of opening up private banks are being examined in depth.

1.18 Varied measures of reforms already undertaken and those under way as described above should create in the financial system a conducive environment for competition, better operational efficiency and higher profitability and thus considerably strengthen organisational and managerial abilities and financial viability of the system which would also help to withstand any of the vicissitudes which may arise in the normal course of business.

CHAPTER II

COMMERCIAL BANKING

1. OVERVIEW

The operations of scheduled commercial banks during the financial year 1991-92 were characterised by a significant acceleration in deposit growth and substantial deceleration in expansion of bank credit. In the first quarter (April-June) of the current financial year 1992-93, there was acceleration in growth of both deposits and bank credit.

2.2 The Reserve Bank has decided to give greater freedom to banks to rationalise their existing branch network by relocating branches, opening of specialised branches, spinning-off business at other locations, setting up of controlling offices/administrative units and establishing extension counters, etc. Under the liberalised branch licensing policy, those banks which attain the revised capital adequacy norms and prudential accounting standards have been given freedom to set up new branch offices/upgrade the extension counters into full-fledged new branches without the prior approval of the Reserve Bank.

2.3 Under the Service Area Approach, that is, the new strategy for rural lending which became operational from April 1, 1989, credit plans are prepared and implemented every year by bank branches.

2.4 Low profitability, growing non-performing assets and relatively low capital base continue to cause anxiety regarding the health or the banking industry. This is so despite the fact that data based on revised balance sheet formats of banks show an improvement in the banks' profitability with the ratio of profits to working funds rising from 0.26 per cent in 1990-91 to 0.35 per cent in 1991-92. Domestic non-performing advances of public sector banks have been reported at 14.46 per cent of their total domestic outstanding advances at the end of March 1992.

2.5 A development of great public concern during the year under review was the detection of irregularities in securities operations of banks and financial institutions, as also in the banks' portfolio management schemes. The Committee appointed by the Reserve Bank to investigate into these irregularities under the Chairmanship of Deputy Governor, Shri R. Janakiraman, has submitted three reports in which it has indicated serious deficiencies in the functioning of banks and financial institutions involved in the irregularities. The Committee has made recommendations for taking a series of steps so that remedial action can be taken to introduce proper control system, strengthen monitoring and remove lacunae in the existing system and procedures so as to prevent recurrence of similar lapses in future. The Reserve Bank and the Government of India have taken a number of steps with a view to unearthing ramifications of the irregularities, recovering banks' dues, punishing the guilty, and setting in motion enduring measures of a preventive nature. A Joint Parliamentary Committee (JPC) is probing into the entire gamut of issues concerning the irregularities in the securities transactions.

2.6 The credit policy measures taken during the year under review were formulated against the backdrop of a difficult balance of payments position and high inflationary pressures. Monetary policy was geared mainly to support the cohesive package of measures of macro-economic stabilisation and structural reforms initiated by the Government. The recommendations of the Narasimham Committee also had a bearing on the formulation of monetary and credit policy. While pursuing a tight monetary policy in the interest of attaining monetary stability, care was taken to ensure that productive activity was not affected by inadequacy of credit.

2.7 During the year under review, follow-up action on a number of recommendations of the Narasimham Committee was initiated by the Government of India and the Reserve Bank. Apart from reducing the Statutory Liquidity Ratio (SLR) on incremental net demand and time liabilities and rescinding the incremental Cash Reserve Ratio (CRR), a series of reform measures were also taken in regard to the regulated interest rate structure of banks for advances and deposits. The Committee had recommended various other remedial measures to tackle the deterioration in the financial health of the banking system, such as capital adequacy norms, prudential norms for income recognition and provisioning for bad debts. In April 1992, the Reserve Bank introduced a risk-assets ratio system for banks (including foreign banks) in India as a capital adequacy measure. Banks have been instructed to implement the Committee's recommendations in respect of a proper system of recognition of income, classification of assets and provisioning for bad debts on a prudential basis with certain modifications and in a phased manner over a three-year period commencing from the accounting year beginning April 1, 1992. The measures taken to introduce flexibility and liberalisation in branch licensing policy have already been referred to earlier.

2. GENERAL BANKING TRENDS

Trends in Deposits

2.8 During the financial year 1991-92, there was a significant acceleration in deposit growth of scheduled commercial banks (including RRBs). Aggregate deposits increased markedly by Rs.38,216 crore (19.8 per cent) as compared with Rs.25,583 crore (15.3 per cent) in 1990-91 (Table II.1). This marked increase was the result of, apart from the sizeable foreign exchange accruals and restoration of banks' competitiveness in attracting deposits through periodical enhancement in bank deposit rates, special factors such as imposition of large amounts of additional cash margins imposed against imports, margin money deposits kept by canalising agencies, and float money associated with the buoyancy in the capital market. The acceleration in deposit growth continued

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

(Rs. crore)

Items	Outstanding as on					Variations during the financial year		Variations during April - June	
	March 23 1990	March 22 1991	March 20 1992	June 28 1991	June 26 1992 *	1990-91	1991-92	1992-93*	1991-92
1	2	3	4	5	6	7	8	9	10
1. Total Demand and Time Liabilities (excluding borrowings from RBI/IDBI/NABARD)	1,85,845	2,12,086	2,51,795	2,18,677	2,66,586	26,241	39,709	14,791	6,592
2. Aggregate Deposits (a+b)	1,66,959	1,92,542	2,30,758	1,99,108	2,41,196	25,583	38,216	10,438	6,566
						(15.3)	(19.8)	(4.5)	(3.4)
a) Demand Deposits	28,856	33,193	45,088	34,431	45,212	4,337	11,895	124	1,238
						(15.0)	(35.8)	(0.3)	(3.7)
b) Time Deposits	1,38,103	1,59,349	1,85,670	1,64,677	1,95,984	21,246	26,321	10,314	5,328
						(15.4)	(16.5)	(5.6)	(3.3)
3. Borrowings from RBI	2,399	3,468	577	6,104	1,616	1,069	-2,891	1,039	2,636
						(44.6)	(-83.4)	(180.1)	(76.0)
4. Bank Credit (a+b)	1,01,453	1,16,301	1,25,592	1,17,261	1,33,758	14,848	9,291	8,166	960
						(14.6)	(8.0)	(6.5)	(0.8)
a) Food Credit	2,006	4,506	4,670	5,317	5,101	2,500	164	431	811
						(124.6)	(3.6)	(9.2)	(18.0)
b) Non-food Credit	99,447	1,11,795	1,20,922	1,11,944	1,28,657	12,348	9,127	7,735	149
						(12.4)	(8.2)	(6.4)	(0.1)
5. Investments (a+b)	64,369	75,065	90,196	78,253	94,221	10,696	15,131	4,025	3,188
						(16.6)	(20.2)	(4.5)	(4.2)
a) Government Securities	42,292	49,998	62,727	53,386	66,747	7,706	12,729	4,020	3,388
						(18.2)	(25.5)	(6.4)	(6.8)
b) Other Approved Securities	22,077	25,067	27,469	24,867	27,474	2,990	2,402	5	-200
						(13.5)	(9.6)	(0.0)	(-0.8)
6. Cash in hand	1,648	1,804	2,008	2,129	2,324	156	204	316	325
						(9.5)	(11.3)	(15.7)	(18.0)
7. Balances with RBI	23,463	23,861	34,179	30,790	31,952	398	10,318	-2,227	6,929
						(1.7)	(43.2)	(-6.5)	(29.0)
8. Credit-Deposit Ratio (%)	60.8	60.4	54.4	58.9	55.5				
9. Non-food Credit-Deposit Ratio (%)	59.6	58.1	52.4	56.2	53.3				

* Provisional.

Notes : 1. Figures in brackets are percentage variations.

2. Constituent items may not add up to the totals due to rounding off.

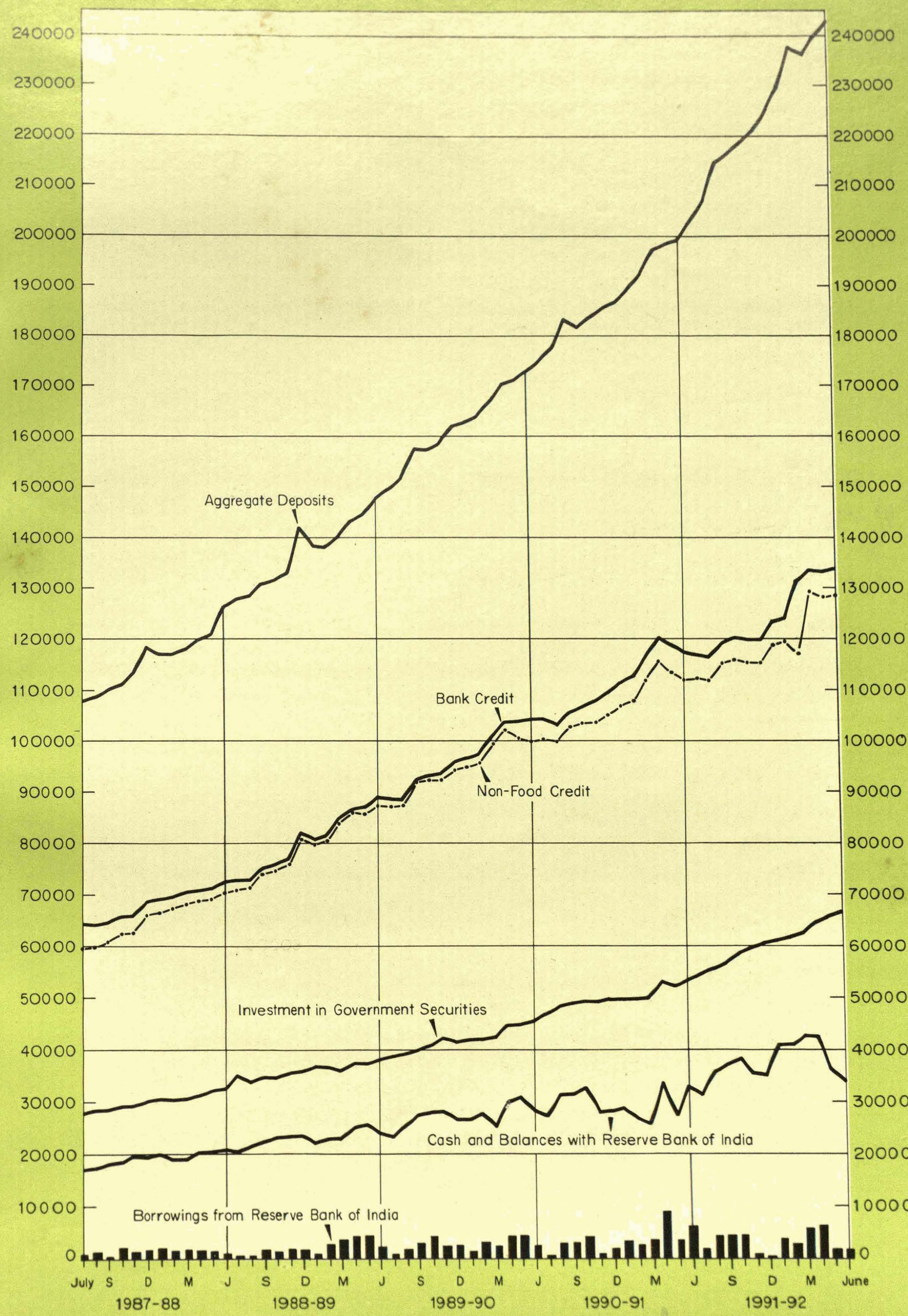
3. No sign is indicated for positive variations.

1

SCHEDULED COMMERCIAL BANKS - SELECTED ITEMS

(AS ON LAST FRIDAY)

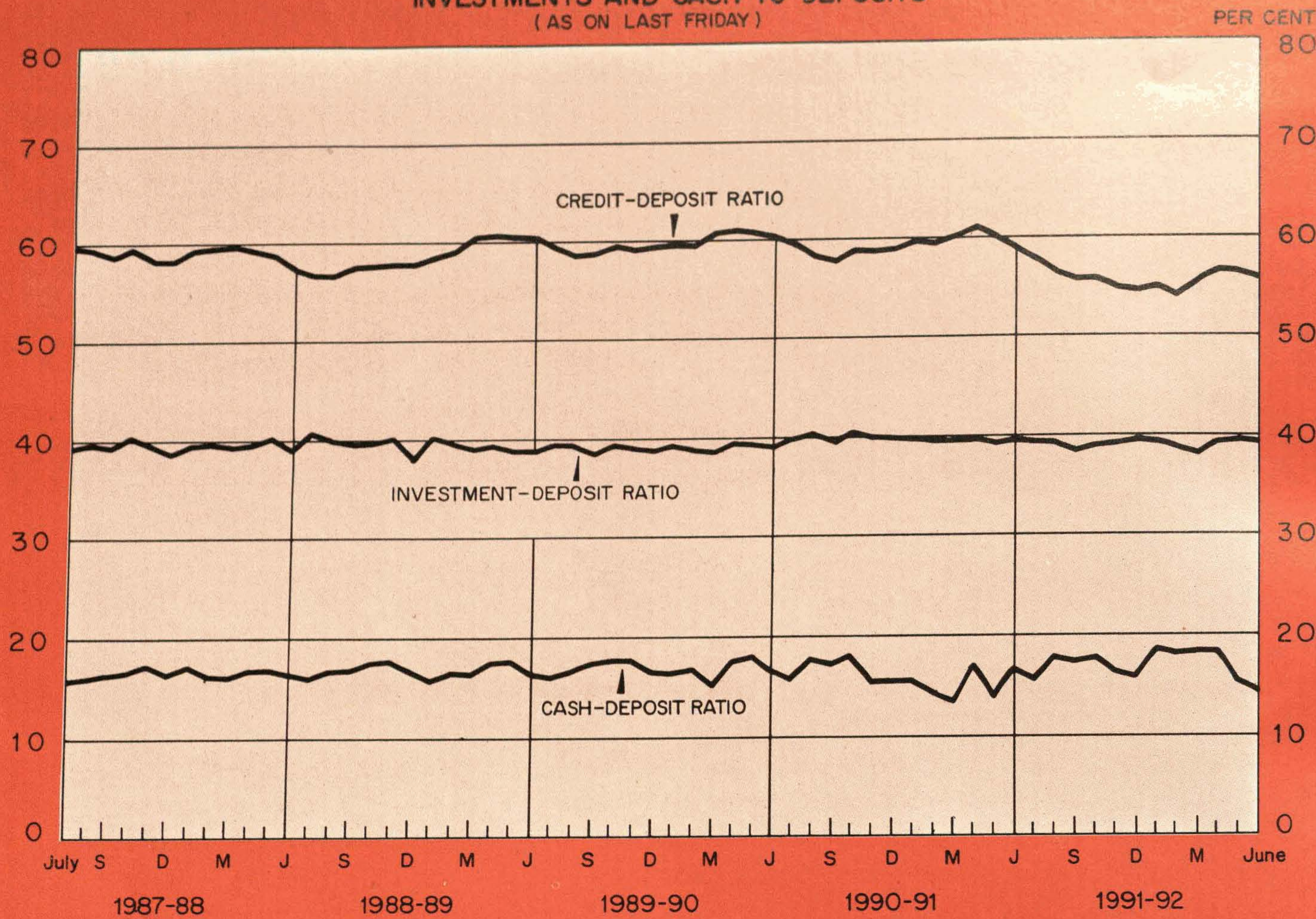
CRORES OF RUPEES



2

SCHEDULED COMMERCIAL BANKS: RATIOS OF CREDIT, INVESTMENTS AND CASH TO DEPOSITS

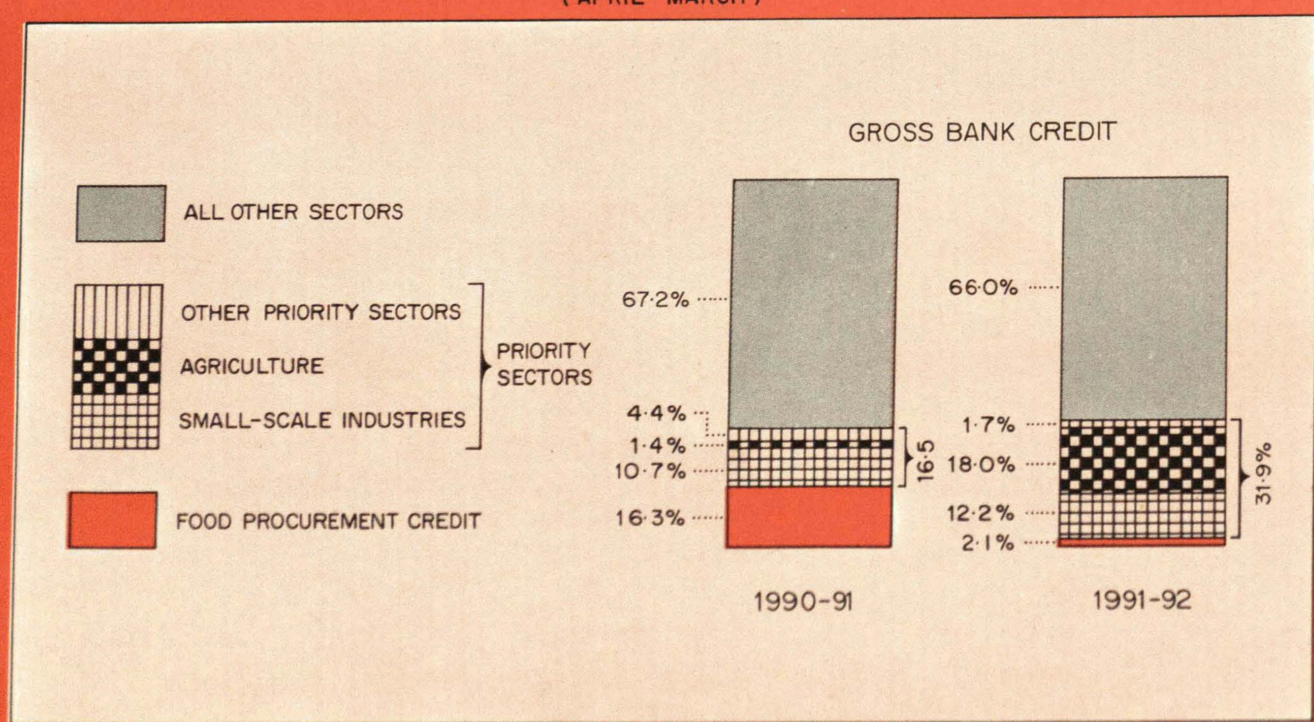
(AS ON LAST FRIDAY)



3

SECTORAL DEPLOYMENT OF GROSS BANK CREDIT VARIATIONS DURING 1990-91 AND 1991-92

(APRIL-MARCH)



in the first quarter of 1992-93 also when aggregate deposits increased by Rs.10,438 crore (4.5 per cent) as compared with Rs.6,566 crore (3.4 per cent) in the first quarter of 1991-92.

Growth in Demand and Time Deposits

2.9 Component-wise, during the financial year 1991-92, demand deposits increased substantially by Rs.11,895 crore (35.8 per cent) as compared to Rs.4,337 crore (15.0 per cent) in 1990-91. This sharp rise is attributed to the factors mentioned earlier such as sizeable foreign exchange accruals, imposition of additional cash margins against imports, deposits of margin money by canalising agencies and float money associated with the buoyancy in the capital market. Time deposits increased by Rs.26,321 crore (16.5 per cent) as compared with Rs.21,246 crore (15.4 per cent) in the previous year.

Trends in Bank Credit

2.10 During the financial year 1991-92, the pace of bank credit expansion at Rs.9,291 crore (8.0 per cent) was substantially smaller as compared to Rs.14,848 crore (14.6 per cent) in 1990-91. Food credit expansion was modest at Rs.164 crore as against a marked increase of Rs.2,500 crore in the previous year, reflecting the decline in foodgrains procurement during the year and higher offtake leading to a steep fall in stocks of foodgrains. Expansion in non-food credit at Rs.9,127 crore (8.2 per cent) was also markedly lower as compared to that of Rs.12,348 crore (12.4 per cent) in 1990-91 owing to restrictive credit policy measures, general slowdown of the economy, and rising cost of credit.

2.11 During the first quarter of 1992-93, however, there was a striking increase of Rs.8,166 crore (6.5 per cent) in bank credit as compared to Rs.960 crore (0.8 per cent) in the first quarter of 1991-92, bulk of which was on account of non-food credit which rose by Rs.7,735 crore. The large expansion in non-food bank credit during the first half of the current financial year is attributable to inventory build up in sectors facing a demand recession, increased drawals by public sector undertakings, larger increase in export credit, lower recourse to bills rediscounting by banks and credit reflecting payments related to the irregularities in the securities market.

Investments and Cash Balances

2.12 With the acceleration in deposit growth and deceleration in expansion of bank credit, scheduled commercial banks substantially augmented their portfolio of investments in Government and other approved securities by Rs.15,131 crore (20.2 per cent) during 1991-92 as compared with Rs.10,696 crore (16.6 per cent) in 1990-91. During the first quarter of 1992-93 with the rising demand for bank credit and reduction in the statutory liquidity ratio from 38.5 per cent to 30 per cent for incremental net demand and time liabilities, there was a slowing down in accretion to banks' investments. Banks' cash balances with the Reserve Bank registered a quantum jump of Rs.10,318 crore during 1991-92 as compared to only Rs.398 crore in the previous year, mainly owing to the stipulation regarding maintenance of the incremental cash reserve ratio of 10 per cent of the increase in net demand and time liabilities over the level as on May 3, 1991 (in addition to the cash reserve ratio of 15 per cent of net demand and time liabilities). During the first quarter of 1992-93, banks' balances with the Reserve Bank recorded a marked fall of Rs.2,227 crore as compared to an increase of Rs.6,929 crore in the first quarter of 1991-92. While the exemption from maintenance of the 10 per cent incremental cash reserve ratio on incremental net demand and time liabilities accounted for a part of the lower increase in banks' balances with the Reserve Bank, a major part of the variation is a reflection of erratic movements in the end of fortnight figures which renders hazardous any analysis on the basis of end of period data.

3. DEVELOPMENTS IN CREDIT POLICY

2.13 While the major concern of credit policy during the year continued to be control of inflation, encouragement of exports and improvement of the balance of payments position, the thrust of monetary and credit policy was towards development of market related instruments of monetary control. The recommendations of the Narasimham Committee also had a bearing on the formulation of monetary and credit policy. The main features of the credit policy for the first and second half of the fiscal year 1991-92 were reviewed in last year's report.

2.14 As a first step in implementing the recommendations of the Narasimham Committee, there was a phased reduction in the statutory liquidity ratio (SLR). Up to the level of the outstanding net demand and time liabilities (excluding non-resident liabilities) as on April 3, 1992 SLR would remain frozen at 38.5 per cent and for any increase in net demand and time liabilities above the April 3, 1992 level, the SLR was prescribed at 30 per cent. This reduction was in line with the proposed reduction in the fiscal deficit, which would reduce the Central Government's need to borrow from commercial banks and would release funds for banks to expand credit to agriculture and industry.

2.15 With effect from March 2, 1992 the lending rate on credit limits of over Rs.2 lakh was reduced by one percentage point to 19.0 per cent (minimum) from 20.0 per cent (minimum). Banks were advised to reduce the rates for all borrowers under this category by a minimum of one percentage point over the rates being charged to such borrowers. The effective interest rate on discounting of bills of exchange for this category of borrowers would be 18.0 per cent (minimum) and the actual rate charged would be one percentage point below the corresponding lending rate charged to borrowers in this category. The lending rate for commodities coming within the purview of selective credit controls was also reduced from 20.0 per cent (minimum) to 19.0 per cent (minimum). With rapid improvement in the foreign exchange reserves position, the various restrictions imposed on financing of imports were withdrawn in stages.

2.16 With a view to providing further incentives and giving wider options to non-residents, including overseas corporate bodies, a new Non-Resident (Non-Repatriable) Rupee Deposit Scheme was announced on February 29, 1992; this scheme came into effect from June 15, 1992. Deposits under this scheme are free from any reserve requirements and interest rate regulations.

2.17 The credit policy for the first half of 1992-93 announced on April 21, 1992 was framed taking into account the need to revive industrial and agricultural production, encourage exports and keeping in mind the primacy of the objective of control of inflation. Monetary policy had to take note of Government's declared objective of reduction of gross fiscal deficit from 6.5 per cent of GDP in 1991-92 to 5 per cent of GDP in 1992-93. Government had also taken positive steps to bring down the rate of inflation. The objective of policy was to bring it down to 8 per cent. To realise the full anti-inflationary impact of the reduction in budget deficit, it was necessary to bring about a sharp reduction in the pace of money expansion (M3) from 18.6 per cent in 1991-92 to less than 11 per cent in 1992-93. Growth of money supply has a number of contributing factors, the most powerful among them being the increase of credit by the Reserve Bank and the banks to Government. It was, therefore, proposed to reorganise the gilt-edged market in such a way that Government will decrease its dependence on credit from the Reserve Bank and the banks; this would be an important element of monetary and credit policy for 1992-93.

2.18 The main features of the credit policy measures announced in April 1992 were: discontinuation of the 10 per cent incremental cash reserve ratio for increase in net demand and time liabilities over the level as on April 17, 1992; reduction in the interest paid on banks' cash balances held with the Reserve Bank; withdrawal of the incremental net non-food credit (excluding export credit) - deposit ratio; reduction of the lending rates categories from six to four according to the size of the limit; prescription of a single deposit rate of 'not exceeding 13.0 per cent per annum' for maturity of 46 days and above; reduction in the rate on refinance for dollar denominated export credit from 7.5 per cent to 5.5 per cent; and increase in the rate of interest on export credit (rupee) refinance from 9.5 per cent per annum to 11.0 per cent per annum. In the context of the easing of pressure on banks' resources and to facilitate recovery of industrial output, the restrictions imposed in October 1991 on bank loans for purchase of consumer durables and other non-priority sector personal loans were withdrawn. The restrictions relating to real estate loans and loans against security of shares and debentures/bonds were, however, continued. Loans to individuals against shares and debentures/bonds were made subject to a minimum margin of 75 per cent. The limits for issues of Certificates of Deposit (CDs) were enhanced from 5 per cent to 7 per cent of the fortnightly average outstanding aggregate deposits in 1989-90 with the increase in CD limit above 5 per cent being exempt from CRR requirements. The guidelines relating to issue of Commercial Paper (CP) were further relaxed, and the salient features of the Money Market Mutual Funds (MMMFs) were set out. Furthermore, the decision to implement certain important recommendations of the Narasimham Committee relating to capital adequacy norms, prudential norms for income recognition and provisioning for bad debts and branch licensing were announced.

2.19 The credit policy for the second half of 1992-93 announced on October 8, 1992 was framed taking into consideration the fact that although there was a moderation in the expansion of net RBI credit to Central Government, the overall monetary expansion continued to be a matter of concern; even as the inflationary pressures were contained and the rate of inflation was brought down to a single digit level, in view of the overhand of the liquidity, the likely resurgence of inflationary pressures would have to be closely watched. While devising a monetary policy package which would support the revival of agricultural and industrial production without diluting the anti-inflationary stance of monetary policy, attention was also given to certain basic ingredients of the financial sector reform such as the reduced reliance on reserve requirements and the development of the Government securities market.

2.20 The salient features of the credit policy measures announced in October 1992 are: reduction in the SLR up to the level of outstanding net demand and time liabillities (excluding FCNR and NRE deposits) as on April 3, 1992 from 38.50 per cent to 37.75 per cent in three phases of 0.25 percentage point effective January 9, February 6 and March 6, 1993, respectively; release of one-third of the additional cash balances maintained under the 10.0 per cent incremental CRR by each bank up to the level of April 17, 1992 in three equal instalments in the fortnights beginning October 17, 1992, November 14, 1992 and December 12, 1992 (together amounting to Rs. 1,283 crore); modification in the two- tier formula for payment of interest to banks on eligible cash balances held with the Reserve Bank so as to discontinue payment of interest at the rate of 3 per cent per annum in respect of the second tier; certain modifications in export credit refinance and refinance against post-shipment export credit denominated in U.S. dollars; reduction with effect from October 9, 1992 in the lending rate on credit limits of over Rs. 2 lakh by one percentage point from 19.0 per cent (minimum) to 18.0 per cent (minimum); reduction with effect from October 9, 1992 in the interest rates on export credit (rupee) by one percentage point across-the-board; reduction effective October 9, 1992 in the deposit rates for maturity of 46 days to 3 years and above by one percentage point to 'not exceeding 12.0 per cent per annum'; increase in the interest rate on savings accounts under NRE scheme by one percentage point from 5.0 per cent to 6.0 per cent and a single prescription of 'not exceeding 13.0 per cent per annum' for term deposit rates for NRE accounts for maturity of 46 days to three years and above, both with effect from October 9, 1992; exemption of foreign currency (ordinary) non- repatriable deposits (FCON) from the maintenance of CRR and SLR; increase from the fortnight beginning from October 17, 1992 in the limits for issue of CDs by scheduled commercial banks (excluding RRBs) from 7 per cent to 10 per cent of the fortnightly average outstanding aggregate deposits in 1989-90 (CDs above the 5 per cent limit are exempt from CRR); introduction of a Government securities refinance facility from the fortnight beginning October 31, 1992 with a view to providing liquidity to commercial banks for their excess holdings of Government and other approved dated securities; announcement of a scheme for repos auction for Central Government dated securities from the Reserve Bank's portfolio to improve short-term monetary management of excess liquidity in the system and to even out interest rates in the call/notice money market; and discontinuance of non-competitive bids in auctions by DFHI.

Discounting/Rediscounting of Bill by banks

2.21 In view of the Reserve Bank's recent inspections/scrutiny of the bills portfolio of banks which revealed a number of disquieting features reflecting violation both in letter and spirit the broader objective of the bills discounting/rediscounting facility, fresh instructions were issued in July 1992 to banks to ensure that large borrowers were not financed outside consortium arrangements, discounting of accommodation bills was scrupulously avoided and portfolio management funds were not used in discounting bills. Banks were also advised that they should be circumspect in discounting bills drawn by front finance companies set up by large industrial houses on other group companies, and that they should not rediscount the bills discounted by non-bank financial companies and that they should ensure that the overall credit limit provided to finance companies including bills discounting did not exceed three times the net worth of such companies.

Export Credit Refinance

2.22 Total export credit refinance limits sanctioned by the Reserve Bank to scheduled commercial banks increased from Rs.5,222 crore in the fortnight ended June 28, 1991 to Rs.7,163 crore in the fortnight ended June 26, 1992 and then to Rs.7,709 crore in the fortnight ended August 21, 1992 (Table II.2). Utilisation of these limits ranged between 6.2 per cent and 100.0 per cent during the said period. As a measure of rationalisation of export credit refinance policy, a new two-tier formula for export credit refinance was introduced effective July 27, 1991 under which banks were provided export credit refinance to the extent of 50 per cent of the increase in export credit over the monthly average level in 1988-89 up to the monthly average level in 1989-90 plus 100 per cent of the increase in export credit over the monthly average level in 1989-90. Considering the paramount need to promote exports and also to provide greater incentives to banks to finance exports, the export credit refinance policy was further liberalised during the year. Accordingly, the refinance formula was liberalised in stages during the period September to December 1991; effective December 28, 1991, banks were provided export credit refinance to the extent of 60 per cent of the increase in export credit over the monthly average level in 1988- 89 up to the monthly average level in 1989-90 plus 125 per cent of the increase in export credit over the monthly average level in 1989-90. The interest rate on export credit denominated in rupee was raised from 7.5 per cent to 12.5 per cent effective August 6, 1991 and further to 15.0 per cent effective October 9, 1991. The liberalisation of the export credit refinance formula together with the increase in export credit interest rates acted as major incentives to banks to increase the flow of credit to the export sector. As a result, the export credit extended by scheduled commercial banks increased significantly from Rs. 9,955

Table II.2 : RBI Accommodation to Scheduled Commercial Banks
(excluding special refinance against shipping loans, duty drawback, etc.)

(Rs.crore)

As on the last Reporting Friday of	Export Credit Refinance		Standby Refinance		Discretionary Refinance		182-Day Treasury Bill Refinance		Total Refinance		Dollar Denominated Post-Shipment Credit Refinance	
	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding	Limit	Outstanding
1	2	3	4	5	6	7	8	9	10	11	12	13
1991												
March	4,129.08	2,812.25	-	-	3,225.97	533.97	210.93	-	7,565.98	3,346.22		
April	4,575.76	4,448.34	-	-	4,987.00	4,655.00	348.03	10.00	9,910.79	9,113.34		
May	5,111.06	3,167.57	-	-	3,065.76	120.00	291.38	37.50	8,468.20	3,325.07		
June	5,222.10	4,467.98	-	-	2,432.02	1,546.33	555.10	-	8,209.22	6,014.31		
September	4,262.28	3,250.50	-	-	1,745.46	-	1,010.03	-	7,017.77	3,250.50		
December	4,747.33	292.13	-	-	-	-	-	-	4,747.33	292.13		
1992												
March	5,594.31	494.87	-	-	-	-	-	-	5,594.31	494.87	30.10	0.57
April	5,746.88	3,694.07	-	-	-	-	-	-	5,746.88	3,694.07	51.01	20.00
May	6,841.93	1,619.86	-	-	-	-	-	-	6,841.93	1,619.86	106.74	22.42
June	7,163.34	1,531.83	-	-	-	-	-	-	7,163.34	1,531.83	224.02	64.78
July	7,655.61	1,562.36	-	-	-	-	-	-	7,655.61	1,562.36	519.39	157.04
August	7,708.98	1,632.68	-	-	-	-	-	-	7,708.98	1,632.68	1,269.66	473.88

crore as on July 26, 1991 to Rs.12,020 crore as on June 26, 1992 and then further to Rs.12,366 crore as on August 21, 1992. The proportion of export credit refinance limits of banks to their total outstanding export credit increased from 41.2 per cent as on August 9, 1991 (i.e. immediately after the change of base year) to 59.6 per cent as on June 26, 1992 and to 62.3 per cent as on August 21, 1992. The rate of interest on this refinance facility was raised from 9.5 per cent to 11.0 per cent per annum effective April 22, 1992. During the period June 28, 1991 to June 26, 1992, the fortnightly average utilisation of export credit refinance was Rs.4,001 crore as compared with Rs.3,083 crore in the corresponding period of the previous year. The peak level of utilisation during the said period at Rs.7,122 crore (99.8 per cent) was reached on May 30, 1992 and the trough level at Rs.292 crore (6.2 per cent) on December 27, 1991. However, subsequently the maximum utilisation of export credit refinance amounted to Rs.7,432 crore as on July 13, 1992 which was 97.1 per cent of the refinance limits.

Refinance against Post-shipment Export Credit Denominated in US Dollars

2.23 A scheme of 'Post-shipment Export Credit Denominated in Foreign Currency' (PSCFC) was introduced effective January 1, 1992. A new scheme of refinance against PSCFC was also introduced effective January 4, 1992, under which banks are provided refinance equivalent to 133 1/3 per cent of the post-shipment export credit denominated in US dollars provided by them to exporters. Initially, scheduled commercial banks were extending post-shipment export credit denominated in US dollars at an interest rate of 8.5 per cent. Banks were in turn provided refinance under the scheme at an interest rate of 9.5 per cent. In order to make the scheme more attractive, it was further liberalised in March and April 1992. Effective April 22, 1992, scheduled commercial banks are extending post-shipment export credit denominated in U.S. dollars at an interest rate of 6.5 per cent and the refinance under the scheme is provided at an interest rate of 5.5 per cent per annum. Such dollar denominated post-shipment export credit extended by banks increased from Rs.23 crore as on April 3, 1992 to Rs.168 crore as on June 26, 1992 and then to Rs.952 crore as on August 21, 1992. As a result, banks' export credit refinance limits against PSCFC also increased from Rs.31 crore as on April 3, 1992 to Rs.224 crore as on June 26, 1992 and then further to Rs.1,270 crore as on August 21, 1992.

Overall Position of Refinance

2.24 Total refinance limits provided to scheduled commercial banks under various facilities (excluding refinance against shipping loans, duty drawback, etc.) stood at Rs.8,209 crore as on June 28, 1991, of which export credit refinance limits amounted to Rs.5,222 crore or 63.6 per cent. Refinance facilities under food credit refinance, standby refinance, discretionary refinance and 182-days Treasury bill refinance were withdrawn effective October 9, 1991. As on October 8, 1991, total refinance limits provided to banks under all the refinance facilities (excluding refinance against shipping loans, duty drawback, etc.) stood at Rs.5,560 crore, of which export credit refinance limits amounted to Rs.4,189 crore or 75.3 per cent. As on June 26, 1992, export credit refinance limits to scheduled commercial banks amounted to Rs.7,163 crore which further increased to Rs.7,709 crore as on August 21, 1992.

Sectoral Deployment of Credit

2.25 Data on sectoral deployment of credit for 1991-92 (July - May) are presented in Table II.3. During the period under review, expansion in gross bank credit at Rs.13,367 crore (11.1 per cent) was smaller than that (Rs.16,082 crore or 15.2 per cent) in the corresponding period of 1990-91. Bank credit for food procurement increased by Rs.34 crore only as compared to an increase of Rs.1,689 crore in 1990-91. Expansion in non-food gross bank credit during 1991-92 was also smaller at Rs.13,333 crore as compared with a rise of Rs.14,393 crore in 1990-91; this was mainly the result of deceleration in growth of credit to all major sectors other than agriculture, namely, small-scale industry, medium and large industries, wholesale trade (other than food procurement) and other trade.

2.26 Industry-wise break-up of gross bank credit is presented in Table II.4. Bank credit to industry (large, medium and small) increased by Rs.7,206 crore (11.5 per cent) in 1991-92 as compared with a rise of Rs.9,135 crore (16.8 per cent) in 1990-91.

4. DIVERSIFICATION IN BANKING

2.27 During the year 1991-92 (July-June), commercial banks continued to diversify their activities in related areas like merchant banking, equipment leasing, venture capital, mutual funds, factoring, and housing finance, etc. through their subsidiaries or on their own. As at the end of June 1992, there were nine equipment leasing-cum-merchant banking subsidiaries set up by banks, with the prior approval of the Reserve Bank; these included eight subsidiaries of public sector banks, viz., State Bank of India, Canara Bank, Punjab National Bank, Central Bank of India, Bank of India, Indian Bank, Andhra Bank, Allahabad Bank and one of a private sector bank, viz., Vysya Bank Ltd., in association with another private sector bank, viz., Karur Vysya Bank Ltd.

2.28 During the year, the bank mutual funds floated 10 new schemes - three by SBI Mutual Fund, two each by PNB Mutual Fund, BOI Mutual Fund, Canbank Mutual Fund and one by Indbank Mutual Fund.

2.29 As at the end of June 1992, five public sector banks and one private sector bank had set up subsidiaries exclusively for providing housing finance.

Guidelines on Portfolio Management Service by Banks and Subsidiaries

2.30 As banks were adopting various devices for accepting funds from their clients for management, offering guaranteed rates of return on such funds, etc., with a

Table II.3 : Sectoral Deployment of Gross Bank Credit by Major Sectors @

(Rs.crore)

Sector	Outstanding As on				Variations during July - May	
	June 29, 1990	June 28, 1991	May 31, 1991	May 29, 1992	1990-91	1991-92
1	2	3	4	5	6	7
(I) Gross Bank Credit(1+2)	**1,05,497**	**1,19,937**	**1,21,579**	**1,33,304**	**16,082**	**13,367**
1. Public Food Procurement Credit	3,917	5,316	5,606	5,350	1,689	34
2. Non-Food Gross Bank Credit	1,01,580	1,14,621	1,15,973	1,27,954	14,393 (100.0)	13,333 (100.0)
(A) Priority Sectors	**41,030** [42.1]	**43,525** [39.3]	**43,663** [39.0]	**46,374** [37.0]	**2,633** (18.3)	**2,849** (21.4)
(1) Agriculture	16,939 [17.4]	17,195 [15.5]	17,177 [15.4]	18,668 [14.9]	238 (1.7)	1,473 (11.0)
(2) Small Scale Industries	15,672	17,338	17,485	18,482	1,813 (12.6)	1,144 (8.6)
(3) Other Priority Sectors	8,419	8,992	9,001	9,224	582 (4.0)	232 (1.7)
(B) Industry (Medium & Large)	**38,752**	**45,169**	**46,074**	**51,231**	**7,322** **(50.9)**	**6,062** **(45.5)**
(C) Wholesale Trade (Other than food procurement)	**5,029**	**6,063**	**6,023**	**6,650**	**994** **(6.9)**	**587** **(4.4)**
I. Cotton Corporation of India	139	6	13	131	- 126 (-0.9)	125 (0.9)
II. Food Corporation of India (for fertiliser distribution)	239	192	191	27	- 48 (-0.3)	- 165 (-1.2)
III. Jute Corporation of India	29	36	38	69	9 (0.1)	33 (0.2)
IV. Other Trade	4,622	5,829	5,781	6,423	1,159 (8.1)	594 (4.5)
(D) Other Sectors	**16,769**	**19,864**	**20,213**	**23,699**	**3,444** **(23.9)**	**3,835** **(28.8)**
(II) Priority Sector Advances as percentage of Net Bank Credit	**42.1**	**39.3**	**39.0**	**37.0**		
(III) Export Credit [included under item I (2)]	**8,496**	**9,853**	**9,751**	**11,434**	**1,255**	**1,581**
(IV) Net Bank Credit (including inter-bank participations)	**97,521**	**1,10,815**	**1,11,897**	**1,25,311**	**14,376**	**14,496**

@ Provisional

Note: 1. Data relate to 50 scheduled commercial banks (49 from March 1990 and 48 from August 1990 due to mergers), which account for about 95 per cent of bank credit of all scheduled commercial banks. Gross Bank Credit data include bills rediscounted with RBI,IDBI,EXIM Bank, other approved financial institutions and inter-bank participations.

2. Net bank credit data are exclusive of bills rediscounted with RBI,IDBI,EXIM Bank and other approved financial institutions.
3. Figures in brackets are proportions to incremental non-food gross bank credit.
4. Figures in square brackets are proportions to net bank credit (including inter-bank participations) given in item IV.
5. No sign is indicated for positive variations.

Table II.4 : Industry-wise Deployment of Gross Bank Credit @

(Rs. crore)

Industry	Outstanding as on				Variations during July-May	
	June 29, 1990	June 28, 1991	May 31, 1991	May 29, 1992	1990-91	1991-92
1	2	3	4	5	6	7
Industry (Total of Small, Medium and Large Scale)	**54,424**	**62,507**	**63,559**	**69,713**	**9,135**	**7,206**
1. Coal	150	281	230	291	80	10
2. Iron and Steel	2,882	3,200	3,350	4,248	468	1,048
3. Other Metals and Metal Products	1,914	2,231	2,245	2,480	331	249
4. All Engineering	12,479	14,179	14,173	15,328	1,694	1,149
Of which : Electronics	1465	1856	1839	1994	374	138
5. Electricity	1,147	1,081	1,074	1,349	-73	268
6. Cotton Textiles	3,715	4,127	4,211	4,400	496	273
7. Jute Textiles	319	342	340	330	21	-12
8. Other Textiles	3,250	3,859	3,957	4,189	707	330
9. Sugar	735	753	752	1,061	17	308
10. Tea	554	614	644	701	90	87
11. Food Processing	1,067	1,202	1,244	1,330	177	128
12. Vegetable Oils (including Vanaspati)	738	890	887	1,020	149	130
13. Tobacco and Tobacco Products	368	520	479	659	111	139
14. Paper and Paper Products	1,405	1,462	1,470	1,588	65	126
15. Rubber and Rubber Products	958	925	950	1,069	-8	144
16. Chemicals, Dyes, Paints, etc.	6,714	7,854	7,948	8,718	1,234	864
Of which:						
i) Fertiliser	1012	1221	1222	1429	210	208
ii) Petro-chemicals	599	675	701	707	102	32
iii) Drugs and Pharmaceuticals	1058	1043	1049	1260	-9	217
17. Cement	822	944	941	1,009	119	65
18. Leather and Leather Products	921	1,049	1,019	1,076	98	27
19. Gems and Jewellery	1,227	1,251	1,256	1,365	29	114
20. Construction	1,125	1,380	1,398	1,409	273	29
21. Petroleum	64	112	47	183	-17	71
22. SAFAUNS*	101	76	83	63	-18	-13
23. Residual	11,769	14,175	14,861	15,847	3,092	1,672

@ Provisional.

* Ships acquired from abroad under new scheme.

Note : No sign is indicated for positive variations.

view to avoiding compliance with the guidelines under the Portfolio Management Scheme (PMS), the Reserve Bank has reiterated in its circular dated July 30, 1992 addressed to the Chairmen/Chief Executives of all commercial banks that the stipulations contained in its circular of January 1991 and emphasised that violations of those stipulations would be viewed seriously and would invite deterrent action against banks, including raising of reserve requirements, withdrawal of refinance from the Reserve Bank, and denial of access to money markets, apart from prohibiting the banks from undertaking such activity. These stipulations will also apply to these subsidiaries of banks except where they are contrary to specific Reserve Bank or SEBI guidelines governing their operations.

5. INTRODUCTION OF NEW MONEY MARKET INSTRUMENTS

2.31 During the year under review, measures were taken for development of new money market instruments such as longer maturity Treasury bills as also to activise the Government securities market. A scheme of Money Market Mutual Funds was also introduced.

Money Market Mutual Funds

2.32 With a view to bringing money market instruments within the reach of individuals, a scheme of Money Market Mutual Funds (MMMFs) was announced in April 1992. MMMFs can be set up by scheduled commercial banks and public financial institutions as defined in Section 4A of the Companies Act, 1956 or through their existing mutual funds/subsidiaries engaged in funds management. The shares/units of MMMFs would be issued only to individuals.

Longer Maturity Treasury Bills

2.33 To further develop the Treasury bill market as a monetary instrument and to provide financial instruments to cater to the needs of different investors, the Government of India decided in April 1992 to float Treasury bills of varying maturities up to 364 days on an auction basis. During the period up to September 2, 1992, ten fortnightly auctions were held for 364-day Treasury bills and Rs.7,299.13 crore were collected within such a short span of five months. The cut-off yield on these bills in the first 5 auctions was 11.42 per cent; the money market conditions allowed the rate to be set at lower levels in the consequent 5 auctions, namely, at 11.36 per cent, 11.27 per cent,11.20 per cent, 11.17 per cent and 11.17 per cent, respectively.

Dated Government Securities

2.34 As a first step in the direction of developing a secondary market in Government securities, the Discount and Finance House of India (DFHI) set up a special division and started dealing in Government securities on a limited scale on April 2, 1992. With a view to providing liquidity to DFHI for enabling it to effectively operate in the Government securities market, necessary refinance is provided by the Reserve Bank.

2.35 The Government of India have also decided to sell dated securities on an auction basis thus effecting a major departure from the practice followed hitherto of floatation of dated securities with fixed coupon rates. The measure also aims at developing dated securities as a monetary instrument with flexible yields to suit investors' expectations and meeting Government credit needs directly from the market. Thus, dated securities of 5-year maturity for an aggregate amount of Rs.1,000 crore were offered on June 3, 1992 and those of 10-year security for an equivalent amount on August 3, 1992, both on an auction basis. At the auction of 5-year security, 21 bids for Rs.713 crore at a cut-off yield of 12.0 per cent were accepted and the balance amount of Rs.287 crore was subscribed to by the Reserve Bank. Similarly, at the auction of 10-year security, bills for Rs.647 crore at a cut-off yield of 12.75 per cent were accepted and the balance amount of Rs.353 crore was subscribed to by the Reserve Bank.

Certificates of Deposit

2.36 Effective May 2, 1992, the limits for issue of Certificates of Deposit (CDs) by scheduled commercial banks (excluding regional rural banks) were enhanced from 5 per cent to 7 per cent of the fortnightly average outstanding aggregate deposits in 1989-90. Consequently, the aggregate limits for the banking system for issue of CDs increased from Rs.7,537 crore to Rs.10,531 crore. CDs issued by banks in excess of the earlier limit of 5 per cent will not be subject to the CRR.

2.37 Three financial institutions, viz., Industrial Development Bank of India, Industrial Credit and Investment Corporation of India and Industrial Finance Corporation of India were permitted to issue CDs with a maturity period of more than one year and up to three years with an initial aggregate limit of Rs.1,000 crore. The outstanding amount of CDs issued by these institutions was Rs.538.54 crore as on June 26, 1992. Considering the resources constraints and also the need to provide flexibility to financial institutions to raise resources, the limits for issue of CDs of these three institutions were further enhanced to Rs.1,350 crore in May 1992. Effective July 29, 1992, the Industrial Reconstruction Bank of India has also been permitted to issue CDs up to a limit of Rs.100 crore. The outstanding amount of CDs issued by these institutions as on August 21, 1992 was Rs. 717.27 crore.

Commercial Paper

2.38 Some significant relaxations were made in the guidelines relating to issue of Commercial Paper (CP), such as the reduction in the working capital (fund-based) limit of a company for issue of CP to not less than Rs.5 crore instead of Rs.10 crore and the minimum credit rating requirement from the Credit Rating Information Services of India Ltd., (CRISIL) and Investment Information and Credit Rating Agency of

India Ltd. (ICRA) kept at P2 and A2 instead of P1 and A1 earlier, respectively. Besides, the ceiling on the aggregate amount to be raised by a company by issue of CP has been revised from 30 per cent to 75 per cent of its working capital (fund-based) limit, and the stipulation that shares of the company should be listed on one or more stock exchange/s has been withdrawn.

6. CREDIT TARGETS AND ACHIEVEMENTS

2.39 All public sector and private sector banks are required to extend credit to the priority sectors and sub-sectors thereof a certain minimum proportion of their lendings. Branches of foreign banks operating in India have also been assigned some minimal targets in this respect.

Priority Sector Advances by Public Sector Banks

2.40 Priority sector advances of public sector banks increased from Rs.42,093 crore as at the end of June 1991 to Rs.44,995 crore as at the end of June 1992 (Table II.5). Although in absolute terms lending by public sector banks to the priority sector increased, the share of priority sector advances in net bank credit declined over this period from 40.9 to 39.3 per cent which was marginally below the target of 40 per cent. Within the priority sectors, the share of advances to agriculture - which had declined from 18.0 per cent as at the end of June 1990 to 16.4 per cent as at the end of June 1991 reflecting the impact of the Agricultural and Rural Debt Relief Scheme, 1990, - declined further to 16.1 per cent as at the end of June 1992. The share of small-scale industries in priority sector advances declined from 16.1 per cent as at the end of June 1991 to 15.5 per cent as at the end of June 1992 while the share of other priority sectors declined from 8.4 per cent to 7.7 per cent over the same period. The target for direct finance to agriculture was set at 18 per cent of net bank credit to be attained by March 1990. As mentioned in the last year's report, against this target banks had reached a proportion of 16.7 per cent as at the end of June 1990; this proportion declined to 15.3 per cent as at the end of June 1991 following the loan waiver scheme referred to earlier and further to 14.9 per cent as at the end of June 1992. The share of scheduled castes and scheduled tribes in priority sector advances stood at 8.5 per cent as at the end of June 1992.

Recovery of Direct Agricultural Advances - Public Sector Banks

2.41 The recovery of public sector banks in respect of their direct agricultural advances as a percentage to demand, which had declined from 57.3 per cent in 1988-89 to 48.8 per cent in 1989-90, improved to 59.4 per cent in 1990-91 (July - June) (Table II.6).

Priority Sector Advances - Private Sector Indian Banks

2.42 Private sector Indian commercial banks are also required to achieve various targets and sub-targets for priority advances and lendings under the Differential Rate of Interest (DRI) Scheme. As on the last Friday of September 1991, priority sector advances of

Table II.5 : Advances to the Priority Sectors by Public Sector Banks
(As on the last Friday)

Sector	No. of Accounts (in lakh)				Amount Outstanding (Rs. crore)			
	June 1969	June 1990@	June 1991@	June 1992	June 1969	June 1990@	June 1991@	June 1992
1	2	3	4	5	6	7	8	9
I. Agriculture	1.7	222.8	205.4	211.9	162 (5.4)	16,434 (18.0)	16,864 (16.4)	18,464 (16.1)
i) Direct	1.6	215.5	199.7	206.5	40 (1.3)	15,283 (16.7)	15,782 (15.3)	17,020 (14.9)
ii) Indirect	0.05	7.3	5.7	5.5	122 (4.0)	1,151 (1.3)	1,082 (1.1)	1,444 (1.3)
II. Small-scale industries	0.5	27.9	28.9	29.5	257 (8.5)	14,127 (15.5)	16,590 (16.1)	17,689 (15.5)
III. Other priority sector advances*	0.4	114.2	114.9	114.6	22 (0.7)	8,089 (8.8)	8,639 (8.4)	8,842 (7.7)
IV. Total priority sector advances	2.6	365.0	349.2	356.0	441 (14.6)	38,649 (42.3)	42,093 (40.9)	44,995 (39.3)
V. Net Bank Credit	-	-	-	-	3,016 (100.0)	91,302 (100.0)	1,02,959 (100.0)	1,14,502 (100.0)
VI. Percentage of Priority sector advances to net bank credit	-	-	-	-	14.6	42.3	40.9	39.3
VII. Percentage of direct agricultural advances to net bank credit	-	-	-	-		16.7	15.3	14.9

* Include small transport operators, self-employed presons, rural artisans, etc.

@ Data are provisional.

Note : Figures in brackets represent percentage to net bank credit.

Table II.6 : Recovery of Direct Agricultural Advances

(Rs. crore)

Year ended June	Demand	Recoveries	Overdues	Percentage of recovery to demand
1	2	3	4	5
1989	5,858	3,355	2,503	57.3
1990	6,915	3,371	3,544	48.8
1991*	8,297	4,925	3,372	59.4

* Data are provisional.

private sector banks stood at Rs.1,722 crore constituting 34.7 per cent of their net bank credit. The sector-wise break-up of priority sector advances of private sector Indian commercial banks is indicated in Table II.7.

Table II.7 : Advances to the Priority Sectors by Indian Private Sector Commercial Banks

As on the last Friday of September 1991

Sector	Amount (Rs.crore)	Percentage to	
		Total priority sector advances	Net bank credit
1	2	3	4
I. Agriculture	462	26.8	9.3
Direct advances	423	24.6	8.5
Indirect advances	39	2.3	0.8
II. Small scale industries	766	44.5	15.4
III. Other priority sectors	494	28.7	10.0
Total	**1,722**	**100.0**	**34.7**

Foreign Banks

2.43 The proportion of priority sector advances of foreign banks operating in India to their net bank credit declined from 9.5 per cent as at the end of March 1991 to 7.8 per cent at the end of September 1991. The proportion is much below the target of 15 per cent set for attainment by these banks by the end of March 1992.

Advances to weaker sections

2.44 The weaker sections within the priority sector comprise (i) small and marginal farmers with land holdings upto 5 acres, landless labourers, tenant farmers and share croppers, (ii) artisans, village and cottage industries enjoying credit limits up to Rs.25,000, (iii) IRDP, DRI, SEPUP beneficiaries, and (iv) beneficiaries belonging to scheduled castes/ scheduled tribes. As at the end of June 1992, advances of public sector banks to weaker sections aggregated Rs.10,948 crore (provisional) constituting 9.6 per cent of their net bank credit as against the target of 10 per cent.

Credit to Scheduled Castes/Scheduled Tribes

2.45 Outstanding advances of public sector banks to scheduled castes/scheduled tribes increased from Rs.3,288 crore (3.1 per cent of net bank credit) covering 91.30 lakh borrowal accounts in March 1991 to Rs.3,629 crore (3.2 per cent of net bank credit) covering 90.47 lakh borrowal accounts in March 1992.

Credit to Minority Communities

2.46 As at the end of December 1991, priority sector advances of public sector banks to the minority communities in 41 identified districts stood at Rs.813 crore in 12.64 lakh borrowal accounts as against Rs.762 crore in 12.28 lakh borrowal accounts as at the end of December 1990.

Report of the Committee on Financing Small Scale Industry

2.47 The Committee set up by the Reserve Bank in December 1991 to look into the various aspects of credit requirements of the small-scale industries sector (Chairman: Shri P.R. Nayak, the then Deputy Governor of the Bank) submitted its Report in September 1992. The terms of reference of the Committee included examination of (a) the adequacy of institutional credit (both for working capital and term loans) to the SSI sector, (b) the need for modifications/relaxations in the norms prescribed by the Tandon/Chore Committees, insofar as the SSIs are concerned, (c) revision, if any, required in the existing RBI guidelines for the rehabilitation of sick SSI units, and (d) any other aspect/s relating to these matters.

2.48 The Committee has suggested that small unregistered units with credit limits of not more than Rs.1 lakh should have the first claim on the priority sector credit to SSI and the new priority sector credit dispensation, when adopted, should fully provide for the working capital requirement of all tiny units with credit limits upto Rs.10 lakhs. It has also recommended that the working capital needs of other SSIs at 20 per cent of the output should be pre-empted by commercial banks through an annual budgetary exercise and, if necessary, a part of resources flowing to the medium and large industries sector at present, should be diverted to fully meet the demands of SSIs. While the growth in the resources of the commercial banking system during the 8th Plan period will, in the Committee's view, adequately take care of the growth in working capital requirements as also the likely extent of deployment of banks' own resources in the term loans to SSI, in the event of a resources constraint, the Committee has recommended that various measures may be considered such as a part of the freed SLR being used for SSIs, funds being provided by Central Government, or a supplementary refinance window being provided by SIDBI/NABARD. The Committee has opined that the norms for inventory and receivables (as per the Tandon Committee), which have little relevance to the vast majority of SSIs, should not come in the way of SSI units getting at least 20 per cent of their turnover as working capital from the banks and that special norms for SSI units in the North-Eastern and hilly regions may also be considered.

2.49 To overcome the operational difficulties of SSIs, the Committee has made detailed recommendations, the more important of which relate to a system of annual budgeting for the working capital requirements of SSI borrowers, computerisation of information on SSI borrowers which will facilitate timely decisions by banks, delegation of adequate discretionary powers to branch managers, opening of specialised branches to cater to SSIs, creation of an 'Ombudsman' type of authority within the banks to look into the grievances of SSI borrowers, revitalising the State level forums and setting up of district level forums for overseeing and monitoring of credit to SSIs, particularly village and small tiny industries, and the allocation of districts exclusively to SFCs and commercial banks for intensive financing of SSIs, particularly, the units coming within the norms of the Single Window Scheme of SIDBI.

2.50 The Committee has recommended a modified definition of a sick SSI unit, whereunder a unit may be classified as 'sick' when any of its borrowal accounts remains overdue for a period exceeding 2-1/2 years and there is erosion in the networth due to accumulated cash losses to the extent of 50 per cent or more of its peak networth during the preceding two accounting years. Creation of Cells within the banks at Regional Centres to deal with sick SSIs, constitution of State-level tribunals, under a Central Legislation, on the lines of BIFR, changes in the State-level Inter-Institutional Committees (SLIIC) and a role for a district counterpart of SLIIC in monitoring and overseeing the banks' progress in the quick determination of viability of sick units are the other major modifications recommended by the Committee.

2.51 Other aspects considered by the Committee in regard to which recommendations have been made, include (i) indexation of the value of investment in plant and machinery of units to ensure a uniform application of the definition of SSI, (ii) moderation in the interest rates charged to tiny units, (iii) reduction in the service/collection charges and overdue interest charged by banks on the bills of their SSI clientele, (iv) abolition of the system of levying the DICGC credit guarantee fee separately from SSI borrowers, (v) creation of a separate modernisation fund for SSIs and (vi) setting up of factoring organisations in all parts of the country and allowing the private sector to enter this field.

2.52 The Committee has emphasised the role of the SSI Associations in mitigating the manifold hardships and difficulties of their member units and has recommended that the Associations should, as a first step in this direction, develop separate technical wings consisting of qualified personnel which will be able to look into the problems of the units and pursue them with various authorities.

Financial Assistance to Ex-Servicemen - Scheme for Preparing Ex-Servicemen for Self-Employment (PEXSEM)

2.53 The basic objective of this scheme is to impart training to retired defence personnel settled in rural areas so as to help them in taking up self-employment close to their homes by providing technical and financial assistance. Financial Assistance up to Rs.25,000 is made available under the scheme to trained service personnel by scheduled commercial banks. The Sainik Boards give capital and interest subsidy under the scheme. The scheme was introduced in 1983-84 in certain districts of the country. The coverage of the scheme for each year is decided by the Ministry of Defence, Government of India. During 1991-92 the scheme was in operation in 39 districts in 10 states.

Differential Rate of Interest (DRI) Scheme

2.54 As at the end of March 1992, outstanding advances of public sector banks under the Differential Rate of Interest (DRI) Scheme amounted to Rs.727 crore in 32.02 lakh borrowal accounts as against Rs.621 crore in 35.11 lakh borrowal accounts a year ago. These advances formed 0.7 per cent (as against the target of 1.0 per cent) of total outstanding advances of public sector banks as at the end of March 1991. As at the end of March 1992, outstanding advances granted under the scheme to beneficiaries belonging to SCs/STs amounted to Rs.373 crore in 14.67 lakh borrowal accounts forming 51.3 per cent of total DRI advances which exceeded the prescribed target of 40 per cent.

Integrated Rural Development Programme (IRDP)

2.55 During the year 1991-92 (April-March), under the Integrated Rural Development Programme (IRDP) banks assisted 25.17 lakh beneficiaries and an amount of Rs.1133.27 crore was disbursed as loan and Rs.800.99 crore as subsidy. Out of these beneficiaries, 12.78 lakh belonged to SCs/STs and 8.33 lakh were women. During the Seventh Plan period banks assisted 182 lakh beneficiaries of which 81.97 lakh belonged to SCs/STs and 34.32 lakh were women beneficiaries. Loans and subsidy disbursed during the Seventh Plan amounted to Rs.5,373 crore and Rs.3,316 crore, respectively. The proportion of recovery to demand of public sector banks under IRDP loans was 41.4 per cent during 1990-91 (July- June) as against 30.8 per cent in 1989-90.

Self-Employment Scheme for Educated Unemployed Youth (SEEUY)

2.56 The Scheme for providing Self-Employment to the Educated Unemployed Youth (SEEUY) introduced in 1983-84 was continued during the financial year 1991-92. At least 30 per cent of the beneficiaries to be assisted under the Scheme should belong to SCs/STs category. The performance of banks under SEEUY is given in Table II.8.

Table II.8 : Number of Beneficiaries and Loans granted under SEEUY

Year	Target	Achievement	
	No. of beneficiaries (lakh)	No. of beneficiaries (lakh)	Loans sanctioned (Rs. crore)
1	2	3	4
1984-85	2.5	2.29	430
1985-86	2.5	2.21	430
1986-87	2.5	2.17	470
1987-88	1.25	1.2	260
1988-89	2.5	1.92	404
1989-90	1.25	1.07	225
1990-91*	1.25	1	221
1991-92*	1.25	0.44@	96@

* Data are provisional

@ As per data received from scheduled commercial banks.

Source : Ministry of Industry, Government of India.

Self-Employment Programme for Urban Poor (SEPUP)

2.57 This programme introduced by the Government of India in 1986-87 with the objective of encouraging families living below the poverty line in metropolitan, urban and semi-urban areas to undertake self-employment ventures with the help of Government subsidy and bank credit, was continued during the financial year 1991-92. The share of SCs/STs beneficiaries under the programme is 30 per cent both in terms of number and amount for 1991-92. The target under the programme was one beneficiary for every 600 population of chosen centre as per the 1981 Census. The performance of banks under SEPUP is given in the Table II.9. It was decided by the Government of India to merge SEPUP with the Scheme of Urban Micro-Enterprises (SUME) with effect from April 1, 1992.

Table II.9 : Number of Beneficiaries and Loans sanctioned under SEPUP

Programme Year	Target	Achievement	
	No.of beneficiaries (lakh)	No.of beneficiaries (lakh)	Amount of Loan sanctioned (Rs.crore)
1987-88	4.84	3.82	136.6
1988-89	4.45	3.57	137.1
1989-90	4.78	3.56	128.3
1990-91	2.25	1.57	67.8
1991-92*	2.25	0.98	46.3

* Data are provisional

The Scheme of Urban Micro Enterprises (SUME)

2.58 The Scheme of Urban Micro Enterprises (SUME) was introduced on June 15, 1990 with the objective of providing employment to the unemployed and under- employed poor in urban areas. It covers unemployed urban poor living below the poverty line with an annual family income of Rs.7,200 (which has since been revised to Rs.11,850) and below for the Eighth Five Year Plan period with effect from April 1, 1992 in metropolitan areas, cities and towns not covered by IRDP. The urban local bodies are primarily responsible for identifying beneficiaries. Maximum loan amount presently permitted is Rs.15,000 in the case of SCs/STs and women beneficiaries and Rs.12,000 in the case of others with a subsidy at the rate of 25 per cent of the project cost, subject to ceiling of Rs.5,000 for SCs/STs and women beneficiaries and Rs.4,000 for others. The subsidy is routed through the urban local bodies. The scheme is implemented by selected branches of public sector banks.

Produce (Marketing) Loan Scheme

2.59 The scheme, initially introduced in 14 districts by the Government of India in December 1988 for extending loans not exceeding Rs.10,000 to farmers by way of hypothecation of agricultural produce stored in a farmer's house or by pledge of warehouse/rural godown receipt (where the produce is stored by him in warehouse/ rural godown) - which was kept in abeyance from April 1989 to March 1990 -, was reintroduced for the 1990 Rabi season and extended to 68 additional districts in January 1991. The scheme is now in operation in 82 districts.

Financial Assistance to Persons Affected by Natural Calamities, Riots, Disturbances, etc.

2.60 General guidelines for relief measures by banks in areas affected by natural calamities such as floods, drought, etc., were issued by the Reserve Bank in August 1984. On the occurance of natural calamity, banks are expected to extend assistance to affected borrowers as per the guidelines. The guidelines to banks for giving rehabilitation assistance required to be followed broadly, whenever so advised by the Reserve Bank, while extending rehabilitation assistance to riot/disturbance affected persons. The procedure for extension of the guidelines has now been simplified by delegating the power to extend the guidelines to District Consultative Committees/State-Level Bankers' Committees. This is expected to ensure quick relief to affected persons.

Central Interest Subsidy Scheme for November 1984 Riot-Affected Borrowers

2.61 Under this scheme, relief is extended in deserving cases by way of reduction of interest on bank loans to 6 per cent per annum in the case of borrowers affected by the November 1984 riots. The scheme is funded by the Government of India and administered by the Reserve Bank. An amount of Rs.16.60 crore so far released by the Government has been disbursed to banks as interest subsidy under the scheme.

Agricultural Credit Card

2.62 The facility of agricultural credit card is provided generally to farmers with good track record. The credit card enables the holder to secure production credit instantly and dispenses with procedural formalities required to be followed every agricultural season such as making an application for loan, furnishing land record certificates, other documents, etc. So far, 21 public sector banks have introduced this credit card facility.

Agricultural and Rural Debt Relief Scheme, 1990

2.63 As reported in the previous year's Report, the implementation of Agricultural and Rural Debt Relief Scheme, 1990 came to a close on June 30, 1991. Earlier figures reported by public sector banks and NABARD indicated that debt relief to the extent of about Rs.7,917 crore has been provided by banks, of which public sector commercial banks provided Rs.2,962 crore, Regional Rural Banks (RRBs) Rs.808 crore and co-operative banks Rs.4,147 crore. Against this, after carrying out verification of debt relief provided, the banks have claimed an aggregate amount of Rs.7,800 crore, commercial banks Rs.2,841 crore, RRBs Rs.804 crore and co-operatives Rs.4,155 crore (provisional). The amount of Rs.2,925 crore released up to June 1992 by the Government of India out of budgetary allocations for the years 1990-91 and 1991-92 has been allocated for reimbursement to the three agencies - Rs.755.04 crore to public sector commercial banks, Rs.592 crore to RRBs and Rs.1,577.16 crore to co-operatives. Also, loans aggregating Rs.1,604.16 crore were arranged through NABARD for meeting the State Governments' share of 50 per cent in implementation of the Scheme for borrowers of co-operatives.

7. BRANCH EXPANSION AND REGIONAL SPREAD OF BANKING

Branch Licensing Policy

2.64 As mentioned in last year's report, the Reserve Bank circulated among the Chairmen of all Indian commercial banks (including Regional Rural Banks) its 'Approach to Future Branch Expansion' in terms of which the phase of consolidation was to continue with emphasis on all-out efforts to improve efficiency, quality of assets and financial strength of banks and future branch expansion would depend on well established need, business potential, and financial viability of proposed branches. Under the 1985-90 Branch Licensing Policy (BLP), which came to an end on March 31, 1990, 5,360 rural/semi-urban centres were allotted to banks. Besides,banks were allotted 1,454 rural centres under the Service Area Approach (SAA) so that each bank branch would be able to cater to banking needs of 15 to 25 villages allocated to it under SAA. In addition, banks were allotted 635 centres, of which 309 are in urban areas and 326 are in metropolitan/port towns areas. Of the 6,814 rural/urban centres allotted under BLP and SAA, 4,624 centres were allotted to public sector banks, 2,038 centres to RRBs and 152 centres to private sector banks. Out of 7,449 centres allotted as above, banks were able to open up to end-June 1991 offices at 7,831 centres, of which 4,965 were in rural/semi-urban areas under BLP, 1,247 under SAA, and 619 in urban/metropolitan/port town centres. The validity period of the licences issued under BLP in rural/semi-urban areas, which could not be utilised on or before March 31, 1990, was extended up to March 31, 1991 and subsequently up to March 31, 1992 to enable banks to completely utilise their pending licences. By March 31, 1992, banks had opened branches at 6,289 rural/semi-urban centres, out of the total 6,814 rural/semi-urban centres allotted to them. Out of the 635 urban/metropolitan/port town centres allotted banks had opened branches at 623 centres by March 31, 1992. In order to facilitate opening of branches at 525 rural/semi-urban centres for which licences were pending with banks, the validity period of the licences was extended up to March 31, 1993.

2.65 As per the Government of India's 15-point programme for the benefit of minorities, based on the list of identified centres in the districts (identified by the Government of India), the Reserve Bank had allotted 67 eligible centres to commercial banks for opening of branches to facilitate extension of banking facilities to the minorities; the banks have so far opened their branches at 46 centres and the progress in this regard is regularly monitored by the Reserve Bank.

2.66 In terms of the Approach to Future Branch Expansion, banks were advised to forward applications for opening their branches in rural areas, which are under their Service Area, through concerned State Governments, after obtaining approval from concerned district administration, 264 rural centres were allotted to eligible banks during the year under a review.

2.67 On the basis of the list of unbanked/underbanked localities in urban/metropolitan/port town centres identified by the Working Group constituted at Regional Offices of the Reserve Bank, 993 unbanked/underbanked localities were allotted to commercial banks taking into consideration the order of priority indicated by banks. As regards semi-urban centres, a large number of applications were received from banks for opening branches at such centres; but no allotment was made pending the examination of the Narasimham Committee recommendations.

2.68 The Narasimham Committee *inter alia* recommended that the system of branch licensing be abolished; Indian commercial banks should be given full freedom to open or close branches (other than rural branches) for the present, or swap their rural branches with those of other banks on the basis of their commercial judgement. Taking into consideration the suggestions received from banks as also the Narasimham Committee's recommendations and in the context of the recent steps towards deregulation and the changed banking scenario in the country, the question of delegating more powers to banks in the matter of opening of branches, etc., was examined by the Reserve Bank. Having broadly achieved the objective of providing adequate banking infrastructure throughout the country, particularly in rural areas, it has been decided to give greater freedom to banks to rationalise their existing branch network by relocating branches, opening of specialised branches, spinning-off of business, setting up of controlling offices/administrative units and opening of extension counters. The necessary guidelines were issued to banks in May 1992. The main features of these guidelines are indicated below.

2.69 While banks cannot close down branches in rural areas, in order to enable them to rationalise their branch network in rural/semi-urban areas, it has now been decided that any shifting may be effected by banks themselves without obtaining the prior approval of the Reserve Bank, subject to their complying with the following conditions : (i) both the existing and proposed centres are within the same block and service area of the branch; and (ii) it should be ensured that the relocated branch would be able to cater adequately to the banking needs of the villages allocated under the Service Area Approach. Banks have already been allowed to shift their branches within the locality subject to compliance with the distance stipulations contained in the circulars issued from time to time. Banks can now take a decision in regard to shifting of their branches in urban/metropolitan/port town centres, within the same locality/municipal ward, without the prior approval of the Reserve Bank. Banks can now also take a decision regarding splitting or part shifting of branches within the same centre without obtaining the prior approval of the Reserve Bank, subject to the conditions that identical business is not conducted from both premises. Banks can resort to spin off a portion of their business at a branch such as Government business, small-scale industry business, etc., at their discretion without obtaining the prior approval of the Reserve Bank. The question of opening or closing of regional/administrative/zonal/controlling offices is entirely left to the discretion of banks. Banks can open service branches/regional collection centres for facilitating clearing and allied work at bigger centres without the prior approval of the Reserve Bank. They can open industrial finance, overseas or SIB/SSI branches without the prior approval of the Reserve Bank. Banks have been advised to designate one of their specific branches in each district for the purpose of housing finance, in addition to their normal banking functions. As specialised branches are expected to take over the business from other local branches, such branches should normally be opened at centres where the bank has already 10 or more branches and/or there is sufficient potential for adequate business without adversely affecting viability of other branches. Banks were earlier allowed to open extension counters up to 2 per cent of the number of urban/ metropolitan/port town branches during a calendar year. This ceiling has now been withdrawn and banks are permitted at their discretion to open extension counters at the premises of institutions of which they are the principal bankers. Banks have been permitted to close down branches other than in rural areas as well as to swap their unremunerative branches or those in remote areas with other banks; banks will continue to have same freedom to close/swap their stray/unremunerative branches.

2.70 As regards opening of new branches, the Boards of banks are required to decide on the policy and strategy for setting up new branches taking into account the need to meet overall national policy objectives, the need to cater to the special requirements of modern globalised business which call for a vast and efficient response, and the need to keep establishment costs and other overheads under control. Banks are expected to ensure that the opening of new branches results in the extension of efficient and prompt customer service to their clientele that those branches will serve. Banks have been advised to utilise the opportunity to the utmost extent possible to redeploy employees and rationalise the staffing of existing branches where surplus manpower is identified.

With the introduction of the revised capital adequacy norms and prudential accounting standards, those banks which attain the revised norms and standards have been given freedom to set up new branch offices/upgrade the extension counters into full-fledged new branches without the prior approval of Reserve Bank. Till such time they attain the revised capital adequacy norms and are specifically advised in this regard, banks are required to continue to obtain the Reserve Bank's prior approval for opening new branches or converting an extension counter into a full-fledged branch.

2.71 As at the end of March 1992, there were 60,528 branches of commercial banks (including RRBs) in the country, of which 35,275 (or 58.3 per cent)were in rural areas. As a result of rapid branch expansion witnessed since 1969, the average population per bank office, which was 65,000 at the time of nationalisation, came down to 11,000 (as per the 1981 Census) at the end of March 1992. There are, however, some inter-State disparities in the spread of branches, particularly in the Eastern, North-Eastern and Central regions. The State-wise position in this regard is indicated in Table II.10.

2.72 Of the 60,528 branches at the end of March 1992, 8,563 (14.0 per cent) belong to the State Bank of India (SBI), 3,752 (6.0 per cent) to associate banks of SBI, 29,681 (49.0 per cent) to nationalised banks, 4,007 (7.0 per cent) to other commercial banks, and 14,525 (24.0 per cent) to RRBs (Table II.11).

Rural Branch Expansion

2.73 Population group-wise distribution of commercial bank branches presented in Table II.11 shows that the total number of 60,528 branches at the end of March 1992, 58.3 per cent were in rural areas as against 22.3 per cent at the time of bank nationalisation in July 1969. This reflects substantial efforts made towards spread of banking particularly in unbanked rural areas.

8. LEAD BANK SCHEME AND SERVICE AREA APPROACH

Lead Bank Scheme

2.74 The Lead Bank Scheme, under which in each district one of the commercial banks functions as a lead bank for providing branch network and deployment of credit under various areas of priority sectors, covered all the 472 districts in the country as on June 30, 1992. During the period May 1991 to June 1992, the lead responsibility in respect of 12 new districts, formed as a result of reorganisation/ bifurcation of some of the districts (8 in Bihar, 3 in Rajasthan and 1 in Tamil Nadu), was allotted to public sector banks.

New Strategy for Rural Lending -Service Area Approach

2.75 Under the Service Area Approach, that is, the new strategy for rural lending introduced as a part of the Lead Bank Scheme for improving quality of lending by commercial banks (including RRBs) which became operational from April 1, 1989, annual (April-March) credit plans are prepared by bank branches. The all-India sector-wise targets fixed under the 1991-92 credit plans and targets/achievement under the 1990-91 credit plans are indicated in Table II.12. Total outlay at Rs.18,771 crore for 1991-92 is higher by 9.2 per cent as compared with that for 1990-91.

Table II.10 : State-wise Distribution of Commercial Bank Offices

State/Union Territory	Number of offices as at the end of			Number of offices opened during				Average population (in '000) per bank office as at the end of		
	June 1969	June 1991	March 1992	July 1990 to June 1991	Of which at unbank-ed centres	July 1991 to March 1992	Of which at unbank-ed centres	June 1969	June 1991	March 1992
1	2	3	4	5	6	7	8	9	10	11
Andhra Pradesh	567	4,585	4,620	23	16	35	3	75	12	12
Arunachal Pradesh	-	68	68	1	1	-	-	-	9	9
Assam	74	1,211	1,218	17	16	7	3	198	16	16
Bihar	273	4,850	4,862	85	85	12	2	207	14	14
Goa	85@	256	256		-	-	-	8	4	4
Gujarat	752	3,365	3,374	11	8	9	1	34	10	10
Haryana	172	1,262	1,269	6	3	7	-	57	10	10
Himachal Pradesh	42	732	735	10	10	3	2	80	6	6
Jammu & Kashmir	35	775	783	8	8	8	6	114	8	8
Karnataka	756	4,266	4,281	31	26	15	6	38	9	9
Kerala	601	2,831	2,842	3	3	11	3	35	9	9
Madhya Pradesh	343	4,329	4,358	12	11	29	8	116	12	12
Maharashtra	1,118	5,580	5,596	37	13	16	4	44	11	11
Manipur	2	84	85	3	3	1	1	497	17	16
Meghalaya	7	165	173	10	10	8	7	147	9	8
Mizoram	-	74	75	3	3	1	1	-	7	7
Nagaland	2	70	70	-	-	-	-	205	11	11
Orissa	100	2,081	2,098	25	24	17	3	212	13	13
Punjab	346	2,138	2,140	4	3	2	1	42	8	8
Rajasthan	364	3,044	3,058	5	3	14	2	70	11	11
Sikkim	-	28	29	-	-	1	1	-	11	11
Tamil Nadu	1,060	4,283	4,299	10	8	16	1	37	11	11
Tripura	5	176	178	4	4	2	1	276	12	12
Uttar Pradesh	747	8,456	8,499	69	65	43	7	119	13	13
West Bengal	504	4,195	4,208	39	36	13	5	87	13	13
Andaman & Nicobar Islands	1	21	26	-	-	5	3	82	9	7
Chandigarh	20	109	109	1	-	-	-	7	4	4
Dadra & Nagar Haveli	-	7	7	-	-	-	-	-	15	15
Daman & Diu	-	10	10	-	-	-	-	-	8	8
Delhi	274	1,123	1,125	6	-	2	-	10	6	6
Lakshadweep	-	8	8	-	-	-	-	-	5	5
Pondicherry	12	69	69	-	-	-	-	31	9	9
All India (Total)	**8,262**	**60,251**	**60,528**	**423**	**359**	**277**	**71**	**65**	**11**	**11**

@ Includes 'Daman & Diu'.

Table II.11 : Bank Group-wise/Population Group-wise Distribution of Commercial Bank Branches in India

Bank Group	19.07.1969*					30.06.1991#					31.03.1992#				
	Rural	Semi-urban	Urban	Metro-politan/ Port-town	Total	Rural	Semi-urban	Urban	Metro-politan/ Port-town	Total	Rural	Semi-urban	Urban	Metro-politan/ Port-town	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
State Bank of India	462 (29.4)	797 (50.7)	163 (10.4)	150 (9.5)	1,571 (100.0)	4,386 (51.5)	2,177 (25.6)	1,128 (13.3)	816 (9.6)	8,507 (100.0)	4,417 (51.6)	2,183 (25.5)	1,147 (13.4)	816 (9.5)	8,563 (100.0)
Associate Banks of SBI	358 (40.0)	375 (42.0)	86 (9.6)	75 (8.4)	894 (100.0)	1,508 (40.7)	1,190 (32.1)	594 (16.0)	416 (11.2)	3,708 (100.0)	1,506 (40.2)	1,194 (31.8)	627 (16.7)	425 (11.3)	3,752 (100.0)
Nationalised Banks	703 (16.9)	1,465 (35.1)	928 (22.3)	1,072 (25.7)	4,168@ (100.0)	14,589 (49.4)	5,732 (19.4)	4,999 (16.9)	4,214 (14.3)	29,534 (100.0)	14,612 (49.2)	5,747 (19.4)	5,089 (17.1)	4,233 (14.3)	29,681 (100.0)
Regional Rural Banks	(-)	(-)	(-)	(-)	(-)	13,449 (92.6)	921 (6.4)	146 (1.0)	4 (-)	14,520 (100.0)	13,453 (92.6)	921 (6.4)	147 (1.0)	4 (-)	14,525 (100.0)
Other Commercial Banks	337 (20.0)	708 (41.9)	279 (16.5)	364 (21.6)	1,688 (100.0)	1,280 (32.1)	1,261 (31.7)	763 (19.2)	678 (17.0)	3,982 (100.0)	1,287 (32.1)	1,263 (31.5)	778 (19.4)	679 (17.0)	4,007 (100.0)
Total	**1,860 (22.5)**	**3,344 (40.2)**	**1,456 (17.5)**	**1,661 (20.0)**	**8,321 (100.0)**	**35,212 (58.4)**	**11,281 (18.7)**	**7,630 (12.7)**	**6,128 (10.2)**	**60,251 (100.0)**	**35,275 (58.3)**	**11,308 (18.7)**	**7,788 (12.9)**	**6,157 (10.1)**	**60,528 (100.0)**

* Population group-wise classification of branches according to 1961 Census. # Population group-wise classification of branches according to 1981 Census.

@ Pertains to 14 nationalised banks.

Note : Figures in brackets indicate percentage to total in each group.

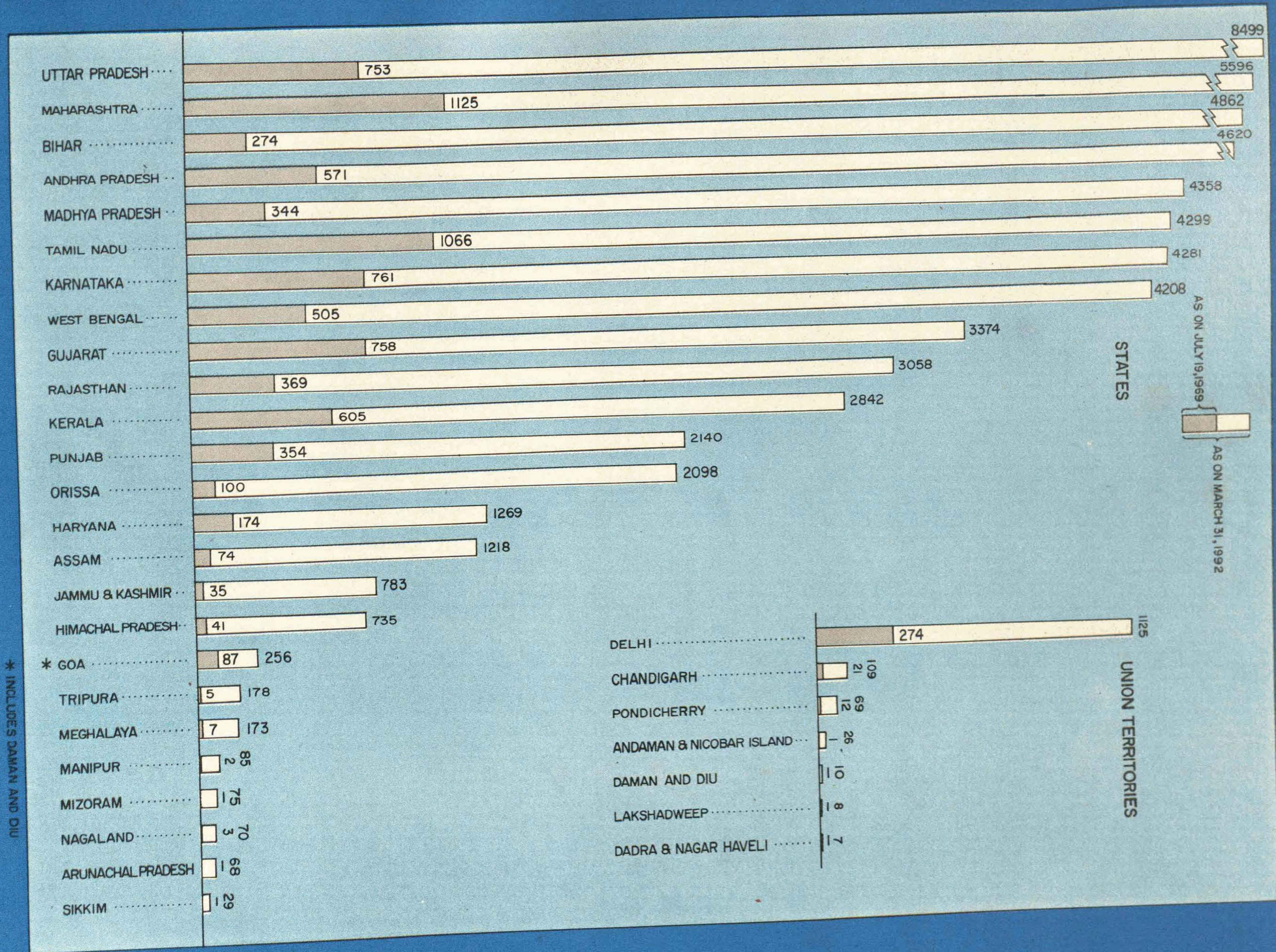
Table II.12 : Annual Credit Plans

(Rs. crore)

Sector	1990-91		1991-92
	Target	Achievement*	Target*
Agriculture	11,615	8,903	12,813
SSI	2,805	2,586	2,846
Services	2,771	2,501	3,112
Total	**17,190**	**13,991**	**18,771**

* Data are provisional.

NUMBER OF OFFICES OF COMMERCIAL BANKS



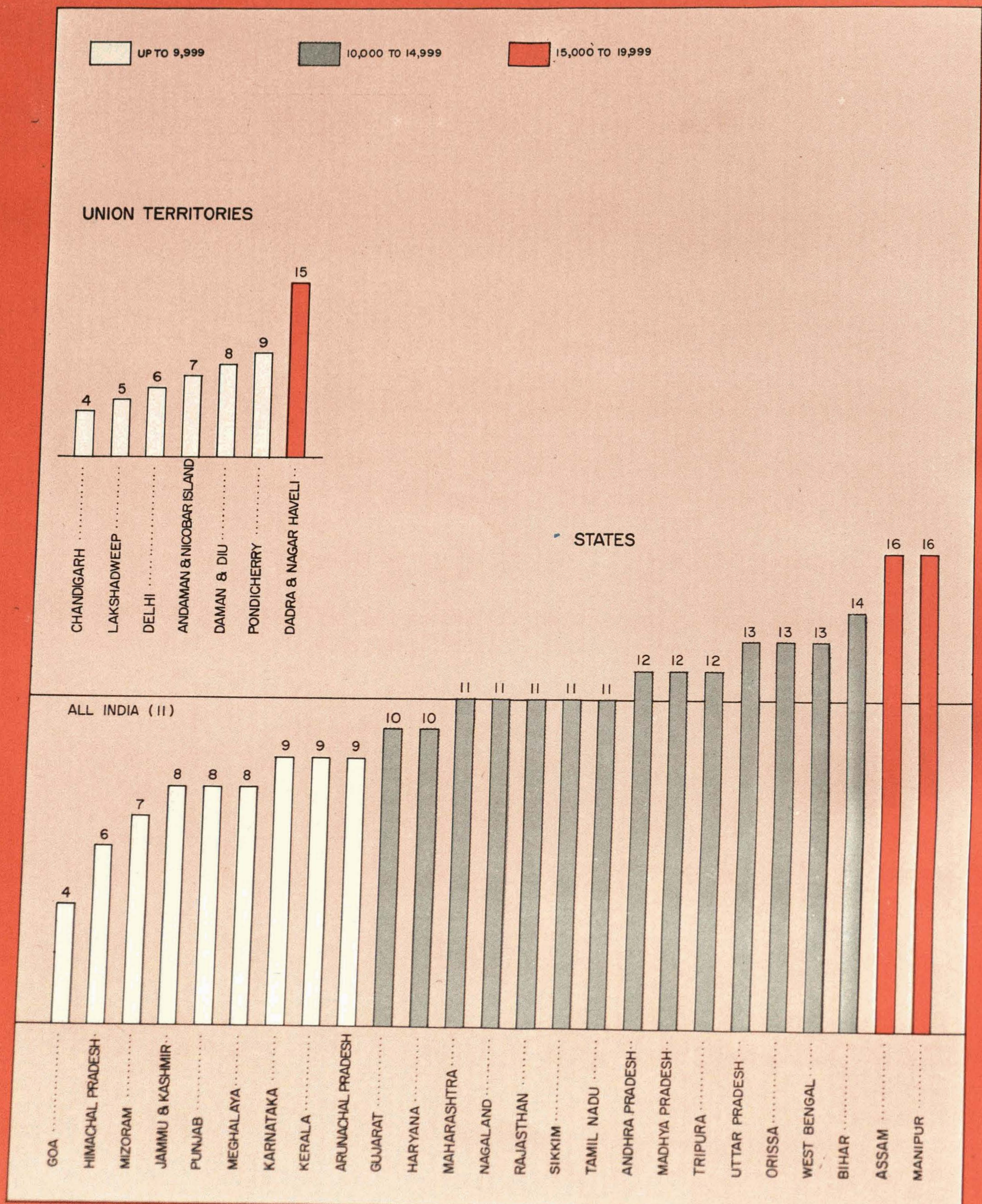
* INCLUDES DAMAN AND DIU

5

AVERAGE POPULATION PER COMMERCIAL BANK OFFICE

AS ON MARCH 31, 1992

FIGURES ARE IN THOUSANDS



DATA ARE BASED ON 1981 CENSUS

9. REGIONAL RURAL BANKS (RRBs)

Progress of RRBs

2.76 During the financial year 1991-92 (up to September 1991), while the number of RRBs remained unchanged at 196, the total number of districts covered by RRBs increased to 385 as compared with 380 in the preceding year. As at the end of September 1991, RRBs had 14,531 branches. State-wise, Uttar Pradesh had the largest number of RRB branches (3,055), followed by Bihar (1,892), and Madhya Pradesh (1,599) (Table II.13). The number of RRB branches ranged between 1,125 and 819 in the case of Andhra Pradesh, Karnataka, Rajasthan, Orissa and West Bengal and between 590 and 201 in the case of Assam, Gujarat, Haryana, Jammu and Kashmir, Kerala, Tamil Nadu, Maharashtra and Punjab; the remaining 10 States had less than 200 branches each.

Branch Expansion Programme of RRBs

2.77 In terms of the Reserve Bank's Approach to Future Branch Expansion circulated to banks in September 1990, applications from RRBs for new branches in their area of operation would be considered on merits of each case, specially looking into viability of such branches, the Service Area Approach to rural lending and the existing number of branches of RRBs.

Operations of RRBs

2.78 Aggregate deposits of all 196 RRBs rose from Rs.4,267 crore as at the end of September 1990 to Rs.5,141 crore as at the end of September 1991, recording a growth of 20.5 per cent. Aggregate outstanding advances (direct and indirect) of RRBs as at the end of September 1991 stood at Rs.3,804 crore as compared with Rs.3,555 crore as at the end of September 1990, registering a growth of 7.0 per cent. The purpose-wise break-up of outstanding advances as at the end of September 1991 is indicated in Table II.14. During the first half (April to September) of the accounting year 1991-92, RRBs disbursed a sum of Rs.783 crore to 17.36 lakh beneficiaries. Of the total loans issued, Rs.212 crore (27.0 per cent) were under Government-sponsored programmes such as IRDP, DRI, etc.

Table II.13 : Region/State-wise Number of RRBs, their Branches, Deposits, Advances, etc.
As at the end of September 1991

(Amount in Rs. lakh)

Name of the State/ Region	No. of RRBs	No.of districts covered	No.of branches	Deposits	Advances: Amount (outstanding) Agricultural Advances	Non-Agricultural Advances	Total Advances	Overdues Advances	CD Ratio (%)	NABARD Refinance: Amount (outstanding) Schematic	Non-Schematic	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
NORTHERN REGION	**28**	**68**	**1957**	**70375.49**	**19052.90**	**20746.67**	**39799.57**	**13252.70**	**57**	**8978.28**	**4481.24**	**13459.52**
Haryana	4	14	291	18507.34	5884.52	7298.32	13182.84	5017.09	71	2521.27	1754.19	4275.46
Himachal Pradesh	2	4	129	6675.78	683.81	1454.62	2138.43	604.79	32	2.52	72.12	74.64
Jammu & Kashmir	3	12	268	6821.61	1138.59	1958.57	3097.16	870.97	45	550.06	339.37	889.43
Punjab	5	10	201	8068.92	3791.17	2307.15	6098.32	1381.58	76	1254.65	1195.78	2450.43
Rajasthan	14	28	1068	30301.84	7554.61	7728.01	15282.82	5378.27	50	4649.78	1119.78	5769.56
NORTH-EASTERN REGION	**11**	**51**	**648**	**21217.68**	**5858.31**	**11136.47**	**16994.78**	**7059.63**	**80**	**2495.28**	**4187.85**	**6683.13**
Arunachal Pradesh	1	4	19	356.99	50.44	33.85	84.29	29.87	24	0.00	37.54	37.54
Assam	5	23	402	12807.45	3748.26	5567.30	9315.56	3052.53	73	1005.36	2707.92	3713.28
Manipur	1	8	29	193.55	109.37	167.98	277.35	168.78	143	113.87	57.82	171.69
Meghalaya	1	3	50	1701.81	438.41	109.37	547.78	136.96	32	2.05	216.87	216.92
Mizoram	1	3	50	830.16	122.29	346.48	468.77	127.38	56	0.00	151.74	151.74
Nagaland	1	7	8	59.84	21.20	33.41	54.61	34.51	91	0.00	17.96	17.96
Tripura	1	3	90	5267.88	1368.34	4878.08	6246.42	3509.60	119	1374.00	1000.00	2374.00
EASTERN REGION	**40**	**73**	**3575**	**127908.75**	**28537.26**	**53014.42**	**81551.68**	**25204.92**	**64**	**16690.39**	**13655.84**	**30346.23**
Bihar	22	42	1892	69265.91	12884.70	26165.43	39050.13	13229.53	56	6158.81	4942.37	11101.18
Orissa	9	13	819	18641.43	9119.75	11145.25	20265.00	6655.87	109	5939.41	5794.99	11734.40
West Bengal	9	18	864	40001.41	6532.81	15703.74	22236.55	5319.52	56	4592.17	2918.48	7510.65
CENTRAL REGION	**64**	**103**	**4654**	**186196.52**	**50737.37**	**57813.30**	**108550.67**	**32029.64**	**58**	**21444.41**	**11736.49**	**33180.90**
Madhya Pradesh	24	43	1599	38961.98	14597.40	15298.90	29896.30	10717.74	77	6935.15	2750.72	9685.87
Uttar Pradesh	40	60	3055	147234.54	36139.97	42514.40	78654.37	21311.90	53	14509.26	8985.77	23495.03
WESTERN REGION	**19**	**34**	**1020**	**21796.41**	**14535.35**	**6529.81**	**21065.16**	**7560.41**	**97**	**2036.50**	**6819.71**	**8856.21**
Gujarat	9	17	430	9986.61	5459.04	1634.36	7093.40	1579.61	71	949.76	2288.71	3238.47
Maharashtra	10	17	590	11809.80	9076.31	4895.45	13971.76	5980.80	118	1086.74	4531.00	5617.74
SOUTHERN REGION	**34**	**56**	**2677**	**86638.12**	**66292.54**	**46105.76**	**112398.30**	**40167.15**	**130**	**12477.32**	**37135.59**	**49612.91**
Andhra Pradesh	16	23	1125	39268.00	31603.32	16423.54	48026.86	16560.79	122	5044.09	16666.47	21710.56
Karnataka	13	20	1075	29915.90	22446.72	14923.42	37370.14	15783.44	125	5648.45	11225.80	16874.25
Kerala	2	6	269	12097.78	9327.00	11360.00	20687.00	6012.00	171	1547.00	7377.00	8924.00
Tamil Nadu	3	7	208	5356.44	2915.50	3396.80	6314.30	1810.92	118	237.78	1866.32	2104.10
ALL INDIA	**196**	**385**	**14531**	**514132.97**	**185013.73**	**195346.43**	**380360.16**	**125274.45**	**74**	**64122.18**	**78016.72**	**142138.90**

Table II.14 : Purpose-wise Advances of RRBs

As at the end of September 1991

(Rs. crore)

	Purpose	Amount Outstanding
	1	2
1	Short Term (Crop Loan)	645
2.	Term Loan & Agriculture activities	671
3.	Allied activities	534
4.	Rural artisans, village and cottage industries	321
5.	Retail Trade and Self-employed etc.	1,143
6.	Consumption Loan	44
7.	Other purpose	411
8.	Indirect advances	35
	Total	3,804

Overdues

2.79 The percentage of overdues to outstanding advances of RRBs increased marginally from 32.1 per cent as at the end of September 1990 to 32.93 per cent in September 1991.

Credit-Deposit Ratio

2.80 The CD ratio of RRBs declined by 9 percentage points from 83 per cent as at the end of September 1990 to 74 per cent as at the end of September 1991.

Borrowings

2.81 Borrowings of RRBs from the sponsor banks, NABARD, SIDBI, and other institutions aggregated Rs.1,762 crore as at the end of September 1991, of which Rs.1,421 crore or 81 per cent was from NABARD alone. The proportion of total borrowings of RRBs to their total outstanding advances was 46 per cent as at the end of September 1991 as compared with 50 per cent a year earlier.

Refinance from NABARD

2.82 During the financial year 1991-92, NABARD sanctioned total credit limits aggregating Rs.485 crore to 137 RRBs (Table II.15). Short-term credit limits for seasonal

Table II.15 : Refinance from NABARD to RRBs

(Amount in Rs.crore)

Type of Facility	Period (April-March)	No. of RRBs	Limits Sanct-ioned	Amount out-standing as at the end of March 1991
1	2	3	4	5
A. SHORT TERM				
1. Short-Term Seasonal Agricultural Operations (SAO)	1991-92	137	335.72	306.04
2. Short-term Other than SAO	1991-92	65	117.22	118.46
3. Short-term Oilseed Production Programme (OPP)	1991-92	23	31.60	27.45
B. MEDIUM TERM				
4. Non-Schematic	1990-91	116	88.64	240.64
	1991-92	102	71.69	246.25
5. Conversion loans	1990-91	1	1.53	11.31
	1991-92	2	0.34	6.53
		No.of Schemes	Amount Committed	Amount Disbursed
C. LONG TERM	Up to 1990-91	4379	1,956.50	1,717.30*
	Up to 1991-92	4789	2,276.17	2,012.37

* Cumulative.

Source : National Bank for Agriculture and Rural Development.

agricultural operations (SAO) aggregating Rs.336 crore were sanctioned to 137 RRBs. Other short-term credit limits aggregating Rs.117 crore were sanctioned to 65 RRBs. The outstandings under SAO and other short-term limits stood at Rs.206 crore and Rs.118 crore, respectively, as at the end of March 1992. Separate short-term credit limits aggregating Rs.32 crore were also sanctioned to 23 RRBs during 1991-92 under the Oilseeds Production Programme as against Rs.25 crore to 21 RRBs in 1990-91; the outstanding against these limits stood at Rs.28 crore as at the end of March 1992.

2.83 During 1991-92, medium-term credit limits (non-schematic) were sanctioned to 102 RRBs for an aggregate amount of Rs.72 crore as against Rs.89 crore to 116 RRBs in the previous year. The outstanding against these limits stood at Rs.246 crore as at the end of March 1992 as against Rs.241 crore as at the end of March 1991.

2.84 NABARD sanctioned medium-term (conversion) loans amounting to Rs.34 lakh to two RRBs during 1991-92. Total outstandings under medium-term (conversion) loans stood at Rs.7 crore as at the end of March 1992 as against Rs.11 crore a year ago.

2.85 RRBs continued to avail of long-term refinance from NABARD. Up to March 1992, 4,789 schemes involving NABARD's commitments of Rs. 2,276 crore were sanctioned to RRBs and drawals against these commitments amounted to Rs.2,012 crore, as against 4,379 schemes involving NABARD's commitments of Rs.1,957 crore and disbursements of Rs.1,717 crore up to March 1991. As against commitments of Rs.320 crore for 410 schemes sanctioned during 1991-92, disbursements amounted to Rs.295 crore.

Refinance from Sponsor Banks and other Institutions

2.86 The amount of refinance availed of by RRBs from their sponsor banks stood at Rs.305 crore as at the end of September 1991 as against Rs.328 crore as at the end of September 1990. RRBs had also availed of refinance to the tune of Rs.23 crore from IDBI and Rs.12.62 crore from other institutions/sources.

Increase in Share Capital

2.87 As recommended by the Working Group on RRBs, the Government of India raised the issued share capital of 83 RRBs from Rs.50 lakh to Rs.75 lakh each during 1991-92.

Efforts for Improving the Efficiency of RRBs

2.88 RRBs have fared well in achieving the objective of providing to the weaker sections of the society access to institutional credit but the recovery position of RRBs on the whole has not been satisfactory. With a view to evaluating and monitoring the performance of RRBs, NABARD has been monitoring on a quarterly basis their working in relation to important parameters such as productivity, cash management, advances portfolio and recovery performance and it has also been advising RRBs about necessary remedial steps.

R&D Fund

2.89 During 1990-91, NABARD continued to offer assistance to RRBs from its R&D Fund for setting up technical, monitoring and evaluation cells for preparation and evaluation of schemes under project lending. Out of 196 RRBs, 96 have taken advantage of the scheme.

10. EXPORT CREDIT AND FINANCING OF IMPORTS

2.90 The important policy changes in export credit and financing of imports introduced during 1990-91 (July-June) and the subsequent period up to the first week of December 1991 in the context of the deteriorating external payments situation were reviewed in the last year's report. The Reserve Bank continuously monitored the situation to ensure that the negative effect of these measures on the economy was minimal. Thus, not only the import of essential goods and commodities was allowed without the requirement of prescribed minimum cash margin but also the import of raw materials and/or components for value added exports was made permissible by either waiving the requirement of said cash margin or by reducing the level of such margin provided export outstanding and realisation of export proceeds were not delayed beyond permitted level and period. In addition, certain measures were taken in regard to provision of bank credit to exporters with a view to further improving export efforts. The policy changes introduced after the first week of December 1991 are briefly reviewed below.

A. Financing of Imports

2.91 With gradual improvement in foreign exchange reserves, it was possible for the Reserve Bank to relax some of the restrictions on financing of imports during the latter half of the fiscal year 1991-92. The various restrictions were finally withdrawn in stages commencing from February 12, 1992. The measures taken subsequent to those reviewed in the last year's report are set out below.

(i) Effective December 27, 1991, import of planting seeds,pesticides/insecticides, certain vaccines used in poultry farming and animal husbandry, homeopathic medicines [covered by item 38 Appendix 6 of the Import & Export Policy, 1990-93], and carpet grade wool of 32 microns and above were exempt from the requirement of prescribed minimum cash margin. Further, export realisations from the Rupee Payment Area countries were allowed to be taken into account for working out an exporters' entitlement to margin-free imports.

(ii) The prescribed minimum cash margins were reduced from 50 per cent to 25 per cent on imports, both under OGL and specific licences, with effect from January 1, 1992.

(iii) The requirement of prescribed minimum cash margin on all imports other than capital goods, both under OGL and specific licences, was withdrawn with effect from February 12, 1992. Banks were, however, advised that they were free to determine the quantum of margins to be maintained by importers as per their usual practice.

(iv) With effect from February 13, 1992, interest rate surcharge on import finance, which was required to be levied since May 9, 1991, was withdrawn.

(v) The restriction on limiting the level of imported inventory to 3 months was withdrawn in April, 1992 and banks were advised to be guided by the norms prescribed for the industry, or in cases where norms have not been specified, based on past trends subject to a maximum of 6 months.

B. Export Credit - Policy Changes

Extension of Packing Credit Running Account Facility

2.92 With a view to preventing possible diversion of concessive export credit, pre-shipment credit is in normal course allowed against specific export orders and such advances are required to be liquidated by export proceeds in respect of the same order. In order to provide flexibility to exporters in managing their production and procurement of raw materials and/or components for export, banks have been authorised to extend, on merits, pre-shipment credit on a 'Running Account' basis for any commodity without linking it to specific individual export orders, subject to certain terms and conditions.

Delegation of Powers to Banks Authorised to Grant Pre-shipment Credit for Periods Beyond 180 Days

2.93 With a view to further supporting export efforts, the Reserve Bank has delegated powers to banks to allow extension of period for pre-shipment credit by 90 days, i.e., upto a total period of 270 days, in cases where exporters have not been able to ship goods within the permitted period of 180 days for reasons beyond their control. Powers have also been delegated to banks to sanction pre-shipment credit up to 270 days *ab initio* in respect of any commodity for which credit would be needed for such a long duration.

Post-shipment Export Credit Denominated in Foreign Currency(PSCFC) and Refinance Facility

2.94 As mentioned in the last year's report, a scheme of Post-Shipment Export Credit in Foreign Currency (PSCFC) was introduced with effect from January 1,1992, with a view to enabling the exporters to avail of post-shipment credit denominated in foreign currency and pay interest applicable to the concerned foreign currency. The US dollar denominated export credit is provided at 6.5 per cent per annum with effect from March 2,1992. A new refinance facility for such dollar-denominated was introduced effective January 4, 1992. Under the Scheme, refinance in rupees is provided to the banks equivalent to 133-1/3 per cent of the post-shipment credit denominated in dollars extended by banks to exporters. In order to make dollar-denominated export credit scheme more attractive, the rate of interest on the refinance from the Reserve Bank under this scheme was reduced from 7.5 per cent to 5.5 per cent with effect from April 22, 1992.

Interest Rates on Export Credit

2.95 Interest rates on post-shipment export credit beyond 90 days and up to six months and beyond six months from date of shipment were reduced from 20 per cent and 25 per cent, respectively, to 19 per cent and 24 per cent, respectively effective March 2,1992. Simultaneously, interest rate on export credit not otherwise specified was reduced from 20 per cent (minimum) to 19 per cent (minimum) with effect from October 9, 1992, interest rates on export credit (rupee) were further reduced by one percentage point across-the-abroad.

Export Credit (Interest Subsidy) Scheme, 1968

2.96 As mentioned in the last year's report the interest subsidy under the Export Credit (Interest Subsidy) Scheme, 1968 was withdrawn with effect from August 6, 1991. Interest subsidy for the period prior to this date was made available to commercial banks and eligible co-operative banks at 5 per cent per annum in respect of pre-shipment and 3.85 per cent per annum in respect of post-shipment credit on cash basis. The total disbursement so far for the year 1991-92 amounted to Rs.99.86 crore. In respect of special lines of credit extended to Bangladesh for its imports from India, the Reserve Bank disbursed a subsidy on behalf of the Ministry of External Affairs amounting to Rs.32 lakh under different lines of credit.

Duty Draw-back Credit Scheme, 1976

2.97 Banks were extending, as an export promotion measure, interest-free advances to exporters against provisional entitlement certificates for duty draw-back issued by the Customs authorities. Banks in turn were allowed interest-free refinance thereagainst by the Reserve Bank. Following the announcement *inter alia* of withdrawal of all refinance facilities, except export refinance, effective October 9, 1991, in the credit policy for the second half of the financial year 1991-92 as also withdrawal of certain export incentives by the Government of India, the facility of interest-free advances to exporters under the Duty Drawback Credit Scheme, 1976 was also withdrawn. The refinance limits granted to various banks were, therefore, not renewed for the period November 1, 1991 to October 31,1992. Exporters are, however, eligible for advances from banks towards duty drawback and against incentive receivables from the Government covered by ECGC guarantee up to 90 days at 15 per cent per annum as in the case of the International Price Reimbursement Scheme (IPRS). For the period November 1, 1990 to October 31, 1991, 28 banks were sanctioned limits aggregating Rs.105.45 crore to enable them to avail themselves of interest-free refinance admissible under the Duty Drawback Credit Scheme.

All India Export Advisory Committee (AIEAC)

2.98 The Committee constituted by the Reserve Bank to deliberate on issues relating to export credit and exchange control regulations met four times during the year under review. Besides, four seminars on export credit were also held preceding the meetings of AIEAC, where both bankers and exporters met to discuss various issues of interest to the Committee.

Export Credit Performance of Banks

2.99 During 1991-92 (July-June), while total outstanding bank credit of all scheduled commercial banks increased by 14.1 per cent from Rs.1,17,261 crore to Rs.1,33,758 crore, their outstanding export credit increased from Rs.9,930 crore to Rs.12,020 crore or by 21.0 per cent. During the previous year, total outstanding credit had risen by 13.1 per cent and outstanding export credit by 11.6 per cent. Outstanding export credit formed 9.0 per cent of total outstanding bank credit as at the end of June 1992 as compared with 8.4 per cent a year ago.

11. INDUSTRIAL SICKNESS AND BANK CREDIT

Sick Industrial Undertakings

2.100 During the year under review, additional measures were taken for revival of potentially viable sick/weak industrial units. Banks and financial institutions have been delegated the option of conversion of funded interest as also term debt into equity or quasi-equity on a case-by-case basis with a view to reducing the interest burden of weak/ sick units under rehabilitation. The Sick Industrial Companies (Special Provisions) Act, 1985, was amended in December 1991 so as to bring Government companies within the purview of the Act.

2.101 The latest data available regarding sick units financed by scheduled commercial banks (excluding RRBs) are furnished in Table II.16.

Table II.16 : Viability Position of Sick/Weak Industrial Units

(Rs. crore)

	SSI Sick Units				Non-SSI Sick Units			
	Number		Outstanding Bank Credit		Number		Outstanding Bank Credit	
	end-Sept. 1989	end-Sept. 1990	end-Sept. 1989	end-Sept. 1990	end-Sept. 1989	end-Sept. 1990	end-Sept. 1989	end-Sept. 1990
1	2	3	4	5	6	7	8	9
1. Potentially viable units	16,042 (8.6)	16,977 (7.5)	568 (25.3)	657 (25.2)	456 (32.1)	531 (36.2)	1,696 (39.8)	2,058 (43.5)
2. Non-viable units	1,68,006 (90.1)	2,06,213 (91.5)	1,577 (70.3)	1,867 (71.5)	711 (50.1)	704 (48.0)	1,503 (35.3)	1,670 (35.3)
3. Viability not decided	2,393 (1.3)	2,134 (1.0)	99 (4.4)	87 (3.3)	252 (17.8)	232 (15.8)	1,059 (24.9)	1,006 (21.2)
4. Total	1,86,441* (100.00)	2,25,324** (100.00)	2,243 (100.00)	2,611 (100.00)	1,419 (100.00)	1,467 (100.00)	4,258 (100.00)	4,734 (100.00)
5. (a) Units under nursing programme	8,201	13,235	438	522	280	317	1,171	1,460
(b) (a) as percentage of viable units	51.1	78.0	77.1	79.5	61.4	59.7	69.0	71.0

(Contd.)

Table II.16 : Viability Position of Sick/Weak Industrial Units - *(Concld.)*

(Rs. crore)

	Non-SSI Weak Units				Total			
	Number		Outstanding Bank Credit		Number		Outstanding Bank Credit	
	end-Sept. 1989	end-Sept. 1990	end-Sept. 1989	end-Sept. 1990	end-Sept. 1989	end-Sept. 1990	end-Sept. 1989	end-Sept. 1990
	10	11	12	13	14	15	16	17
1. Potentially viable units	315 (41.3)	363 (44.4)	1,000 (45.8)	1,188 (45.9)	16,813 (8.9)	17,871 (8.0)	3,264 (37.6)	3,90 (39.3)
2. Non-viable units	245 (32.2)	245 (30.0)	472 (21.6)	545 (21.1)	1,68,962 (89.6)	2,07,162 (91.0)	3,551 (40.9)	4,082 (41.1)
3. Viability not decided	202 (26.5)	209 (25.6)	711 (32.6)	853 (33.0)	2,847 (1.5)	2,575 (1.0)	1,868 (21.5)	1,945 (19.6)
4. Total	762 (100.00)	817 (100.00)	2,183 (100.00)	2,585 (100.00)	1,88,622 (100.00)	2,27,608 (100.00)	8,684 (100.00)	9,930 (100.00)
5. (a) Units under nursing programme	1.83	199	638	684	8,664	13,751	2,247	2,666
(b) (a) as percentage of viable units	58.1	54.8	63.8	57.6	51.5	76.9	68.8	68.3

* : The figure is exclusive of 1,08,748 sick units (with aggregate outstanding bank credit of Rs.207.57 crore) which are not traceable/not in existance.

** : The figure is exclusive of 1,41,162 sick SSI units (with aggregate outstanding bank credit of Rs.287.26 crore) which are not traceable/not in existance.

Note : Figures in brackets are percentages to total.

Sick Small Scale Industrial (SSI) Units

2.102 As at the end of September 1990, there were 2,25,324 sick SSI units (covering rural artisans, cottage and village industries also) involving outstanding bank credit of Rs.2,611 crore. Of these, 16,977 units with outstanding bank credit of Rs.657 crore were identified as potentially viable and 13,235 units were brought under nursing programme.

Non-SSI Sick/Weak Units

2.103 As at the end of September 1990, total number of non-SSI units identified by banks as sick [as defined in the Sick Industrial Companies (Special Provision) Act, 1985] was 1,467 with outstanding bank credit of Rs.4,734 crore. Of these units, viability studies in respect of 1,235 units were completed and 531 units were considered viable. Of the units considered viable, 317 units were put under nursing programme by banks.

2.104 Total number of non-SSI units identified by banks as 'weak' as at the end of September 1990 was 817 with outstanding bank credit of Rs.2,585 crore. Out of these units, viability studies in respect of 608 units were completed and 363 units were considered viable. Of the viable units, 199 units were put under nursing programme by banks.

Total Bank Credit Involved in Industrial Sickness

2.105 Total bank credit tied up in industrial sickness rose from Rs.8,684 crore in September 1989 to Rs.9,930 crore in September 1990, the latter forming 9.7 per cent of aggregate bank credit and 17.7 per cent of total bank advances to industry.

12. ORGANISATIONAL MATTERS/ISSUES

Amalgamation

2.106 During the year under review, no bank was taken to amalgamation. The Government of India has so far sanctioned schemes of amalgamation under Section 45 of the Banking Regulation Act,1949 in respect of 59 banks. In terms of the provisions of the relative schemes, the transferee banks are required to make the final valuation of the assets of the transferor banks taken over on collection basis after a period of 6/12 years from the dates of amalgamation, or such earlier period as might be sanctioned by the Government of India in consultation with the Reserve Bank. The final valuation of the assets of 40 banks as provided in the relative scheme was completed. During the year under review, the matter with regard to the final valuation of the assets of 7 banks on the basis of scrutiny reports was pursued with the concerned transferee banks. The extension time for the final valuation of assets of two banks has been granted by the Government of India. The Government sanctioned schemes of amalgamation of 10 banks during the period 1985 to 1991.

Liquidation

2.107 During the year under review, 28 banks under liquidation were treated as dissolved and two banks were placed under liquidation. As on June 30, 1992, 96 banks were under liquidation. The matter with regard to early completion of liquidation proceedings continues to be pursued with the concerned official/court liquidators.

Bank of Credit & Commerce International

2.108 During the year under review, two banks, namely, the Bank of Credit and Commerce International (Overseas) Ltd., and the Bank of Karad Ltd., were taken into liquidation.

2.109 Consequent upon the appointment of a receiver by the regulators at Cayman Islands to look after the affairs of BCCI Ltd., the Bombay branch of this bank had suspended all payments and other transactions with effect from July 6, 1991. With a view to keeping the assets and liabilities of the Bombay branch of the bank separate from the head office operations and to settle the claims of Indian depositors, the Reserve Bank had filed a petition in the High Court of Bombay to appoint the State Bank of India (SBI) as provisional liquidator of the said Bombay branch of BCCI for winding up its operations and to grant powers to take possession of all its assets, properties and affairs by SBI. The Court granted *an interim* order on July 15,1991 as prayed by the Reserve Bank, and the provisional liquidator took possession of the affairs of the said bank on July 16, 1991 as per this order.

Bank of Karad Ltd.

2.110 Owing to large scale irregularities in the securities transactions undertaken by the Bank of Karad Ltd. on behalf of certain brokers, involving a very large financial liability which the bank might not have been able to fulfill, the bank's continuance would have been prejudicial to the interests of the public and the bank's depositors. Hence, the Reserve Bank moved the High Court of Bombay under Section 38 of the Banking Regulation Act, 1949 for liquidation of the Bank of Karad Ltd., and also for appointment of Shri S.N. Lele, an official of Bank of Baroda as a Provisional Liquidator under Section 39 of the said Act. The Court granted an *ad interim* order on May 27, 1992 on the Reserve Bank's petition and appointed Shri S.N. Lele as Provisional Liquidator of the Bank of Karad Ltd. and to take possession of all the assets, properties and affairs of this bank. Shri Lele took possession of the affairs of the bank on May 28, 1992.

Indian Banks' Offices Abroad

2.111 During the year under review, the total number of branches of Indian banks operating abroad remained unchanged at 115 (including 2 agencies) and 11 representative offices.

Banking Subsidiaries/Deposit-taking Companies Abroad

2.112 As at the end of June 1992, Indian banks had 8 wholly-owned subsidiaries (including 3 deposit-taking companies) and 5 joint venture banks/affiliates abroad.

Overseas Banks in India

2.113 There is no change in the existing policy relating to the entry of foreign banks in the country. The policy continues to be based on the principles of reciprocity and the benefits that will accrue to the country. Expansion of branches of foreign banks is based on consideration of national advantage from the point of view of facilitating exports and foreign investments. Principles of non-discriminatory reciprocal treatment and mutual benefits, besides compliance with prudential and other norms, are also given due weightage. Foreign banks operating in India are required to retain in India with effect from April 1,1993 capital funds equivalent to 8 per cent of the risk weighted assets. Assigned capital requirement for foreign banks opening their first branch in India has since been increased from Rs.15 crore to US$ 25 million.

2.114 With the opening of one branch in New Delhi by ABN AMRO bank and closure of two branches of Bank National de Paris one at Kalbadevi, Bombay and another at Park Street, Calcutta, the number of branches of 24 foreign banks declined to 139 at the end June 1992. The Bombay branch of BCCI (O) Ltd. was placed under liquidation on July 6, 1991 and State Bank of India was appointed as Provisional Liquidator to take possession of the affairs of the bank from July 16, 1991 by the Bombay High Court. Licences have been issued to Hongkong Bank and the American Express Bank to open a branch at Bangalore and Madras, respectively. With the opening of representative office by Credit Lyonnais on July 13, 1991 and by Barclays Bank on August 19, 1991 and closing of the representative office by AMRO bank, the number of representative offices of foreign banks increased to 24 at the end of June 1992.

2.115 Data presented in the Tables II.17 and II.18 explain the progress made by the branches of foreign banks in India and the role played by them in mobilising FCNR and other foreign currency accounts.

Action Plan for Banks—1990-92

2.116 Banks have been implementing specific action plans since 1985. As mentioned in the last year's report, banks were advised to draw up action plans for two years from April 1990 to March 1992 to bring about improvement in their overall performance. Banks continued to implement these action plans during the year under review. The implementation of these action plans continued to be monitored by banks. The Reserve Bank Governor held discussions with the Chairmen and Chief Executives of public sector banks to review the progress in implementation of their action plans. Banks were advised to take earnest steps for improving their profitability so as to generate adequate surplus to provide for estimated loan losses and other contingencies. In the area of credit management, the need for improving quality of appraisal, timely review/renewal of existing loan accounts and efficacy of follow-up and supervision over credit was impressed upon banks. In particular, banks were advised to ensure establishment of an adequate system for continuous monitoring of large borrowal accounts. Banks were also advised that they should lay down a comprehensive loan policy covering various aspects concerning the entire area of asset

Table II.17 : Selected Banking Variables

As on the last reporting Friday of March	Foreign Banks		Aggregate Deposits outstanding		Bank Credit outstanding	
	No. of banks	No. of branches	All scheduled commercial banks	Foreign banks	All scheduled commercial banks	Foreign banks
1	2	3	4	5	6	7
March 29, 1985*	21	135	72,244	2,083 (2.9)	48,953	1,708 (3.5)
March 28, 1986*	23	136	85,404	2,914 (3.4)	56,068	2,215 (4.0)
March 27, 1987	21	136	1,02,724	3,690 (3.6)	63,308	2,717 (4.3)
March 25, 1988	21	136	1,18,045	4,312 (3.7)	70,536	3,022 (4.3)
March 24, 1989	21	135	1,40,150	5,703 (4.1)	84,719	3,934 (4.6)
March 23, 1990	21	136	1,66,959	8,082 (4.8)	1,01,453	4,729 (4.7)
March 22, 1991	24	136	1,92,542	11,093 (5.8)	1,16,301	6,168 (5.3)
March 20, 1992	24	136	2,30,758	17,573 (7.6)	1,25,592	7,966 (6.3)

* As on the last Friday of March.

Note : Figures in brackets indicate percentages of 'Foreign Banks' data to 'All Scheduled Commercial Banks' data.

Table II.18 : Foreign Currency Deposits - Bank Group-wise
As on March 20, 1992

(Rs. crore)

Bank Group	Total	FCNR & other foreign currency accounts	NR(E)R accounts
1	2	3	4
1. SBI Group	6,094	3,736 (18.3	2,358 (30.0)
2. Nationalised Banks	12,023	7,444 (36.4)	4,579 (58.3)
3. Public Sector Banks (1+2)	18,117	11,180 (54.7)	6,937 (88.4)
4. Other Scheduled Commercial Banks	702	244 (1.2)	458 (5.8)
5. Foreign Banks	9,454	9,015 (44.1)	439 (5.6)
6. All Scheduled Commercial Banks (1+2+3+4+5)	28,273	20,439 (99.9)	7,834 (99.8)
7. Scheduled Urban Co-operative Banks	26	12	14
8. All Scheduled Banks (6+7)	28,299	20,451 (100.0)	7,848 (100.0)

Note : Figures in brackets are percentages to all scheduled banks.

management including advances and investments portfolio for guidance of their various functionaries. In this regard, banks were advised to furnish information on a half-yearly basis for the purpose of proper monitoring of advances classified under health codes 4 to 8 as on March 31, and September 30. During these discussions, banks were also advised to consider improving volume of business, concentrating on effecting quicker recoveries of overdues, ensuring efficient management of funds, controlling expenditure effectively, and reducing incidence of bad debts. In the context of increasing wage cost of bank employees as well as the need to step up productivity level in banks, banks were advised to continue moderation in their recruitment policies and ensure optimising the use of the existing manpower.

13. PRUDENTIAL AND ACCOUNTING STANDARDS AND OPERATIONAL RESULTS

2.117 Identifying the causes for the deterioration in the financial health of the banking system as pointed out in the last year's report the Narasimham Committee made certain specific suggestions regarding adoption by banks and financial institutions of capital adequacy norms, uniform accounting practices particularly in regard to income recognition and provisioning against doubtful debts and also for adopting sound practices in regard to valuation of investments on the lines suggested by the Ghosh Committee on Final Accounts. In April 1992 it was decided to implement the Narasimham Committee's recommendations, with certain modifications, in a phased manner over a three-year period commencing from the accounting year beginning April 1, 1992; these are explained in the following paragraphs :

Capital Adequacy Measures

2.118 In the light of the Basle Committee framework on capital adequacy norms and the recommendations of the Narasimham Committee, Reserve Bank introduced in April 1992 a risk-weighted assets ratio system for banks (including foreign banks) in India as a capital adequacy measure. Under the proposed system, the balance sheet assets, non-funded items and other off-balance sheet exposures will be assigned weights according to the prescribed risks weights and banks have to maintain unimpaired minimum capital funds equivalent to the prescribed ratio on the aggregate of the risk-weighted assets and other exposures on an ongoing basis. Indian banks which have branches abroad will have to achieve the norm of 8 per cent as early as possible and in any case by March 31, 1994. Foreign banks operating in India will have to achieve this norm by March 31, 1993. Other banks will have to achieve a capital adequacy norm of 4 per cent by March 31, 1993 (Tier I or core capital having been set at not less than 50 per cent of total capital) and the 8 per cent norm by March 31, 1996. The total of Tier II elements will be limited to a maximum of 100 per cent of total of Tier I elements for the purpose of compliance with the norms. Banks have been advised to review the existing level of capital funds vis-a-vis the prescribed level and plan to increase the capital funds in a phased manner to achieve the prescribed ratio by the end of the period stipulated.

Non-performing Assets of Banks

2.119 Under the Health Code System introduced in 1985, the Indian commercial banks were required to classify their advances portfolio under a uniform grading system which indicates the quality or health of individual advances. This system consisted of 8 codes of which Nos.5 to 8 are deemed as non-performing assets and such non-performing assets consist of (a) debts recalled; (b) suit-filed accounts, i.e., where legal action or recovery proceedings have been initiated; (c) decreed debts,i.e., where suits have been filed and decree obtained; and (d) debts classified as bad and doubtful. As a prudent accounting practice of cessation of interest application on non-performing loans, banks were advised in May 1989 not to charge and take to their income account interest on loans classified under Health Code classifications 6, 7 and 8 from the quarter in which the individual accounts are classified under these categories. As a further step towards greater transparency in bank accounts and with a view to ensuring that recognition of income is done on a more prudential basis, banks were advised in October 1990 that from the accounting year 1990-91 they should not charge and take to their income account interest on advances classified under Health Code classification 5 also from the quarter in which the individual accounts are so classified. As regards accounts classified under Health Code classification 4, application of interest was left to the discretion of banks based on availability of adequate security, prospects of realisability of security, etc. The non-performing advances classified under Health Code classification 4 (sick non-viable), 5 (debts recalled), 6 (suit-filed), 7 (decreed) and 8 (bad and doubtful) showed a rise during the year under review. Latest data available, as of March 31, 1992 which are presented below show that aggregate domestic non-performing advances of all public sector banks formed 14.46 per cent of total outstanding advances of these banks as against 13.59 per cent as on March 31,1991.

Non-Performing Advances (Domestic)
As on March 31, 1992

(Rs. crore)

Health Code	State Bank of India and Associate Banks	Nationalised Banks (20)	Total (2 +3)
(1)	(2)	(3)	(4)
Sick non-viable (4)	1,637.15	3,318.16	4,955.31
Debts recalled (5)	135.05	1,621.80	1,756.85
Suit-filed accounts (6)	441.07	3,037.68	3,478.75
Decreed debts (7)	163.98	649.85	813.83
Bad & doubtful debts (8)	2,257.41	4,127.16	6,384.57
Total :	4,634.66	12,754.65	17,389.31

2.120 In the light of the Narasimham Committee recommendations, the Reserve Bank has recently redefined non-performing assets and advised banks to classify their advances into four broad groups, as explained in the following paragraph.

Income Recognition, Assets Classification, and Provisioning

2.121 If the balance sheet of a bank is to reflect actual financial health of that bank, there has to be a proper system of recognition of income classification of assets and provisioning for bad debts on a prudential basis. The Narasimham Committee recommended that a policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations, that classification of assets of banks should be done on the basis of objective criteria which would ensure a uniform and consistent application of the norms, and that provisioning should be made on the basis of classification of assets into different categories. Banks have thus been instructed to treat an amount in respect of term loans, overdrafts and cash credit accounts, bills purchased and discounted and other accounts as "past due" when it has not been paid on the due date. A "non-performing asset" has been defined as a credit facility in respect of which interest has remained unpaid for a period of four quarters during the year ending March 31, 1993, for three quarters during the year ending March 31, 1994 and for two quarters during the year ending March 31, 1995 and onwards. Banks have been instructed that they should not charge and take to income account interest on any non-performing assets. As compared with the existing system of eight health codes, banks are required to classify their advances into four broad groups : (i) standard assets, (ii) sub-standard assets, (iii) doubtful assets, and (iv) loss assets, by compressing the existing eight health codes. Broadly, classification of assets into these categories has to be done taking into account the degree of well-defined credit weaknesses and extent of dependence of collateral security for realisation of dues. The existing health code system of classification of assets would, however, continue as a management information tool.

2.122 Taking into account the time-lag between an account becoming doubtful of recovery, its recognition as such, the realisation of the security and the erosion over time in the value of security charged to the banks, banks are required to make provision against sub- standard assets, doubtful assets and loss assets. Detailed instructions in this regard have been issued to the banks.

2.123 As regards accounting standards for investments, investments in approved securities have to be bifurcated into 'permanent' and 'current' investments. Permanent investments are those which banks intend to hold till maturity and current investments are those which banks intend to deal in, i.e., buy and sell on a day-to-day basis. To begin with, banks would have to keep not more than 70 per cent of their investments in the permanent category from the accounting year 1992-93 but this ratio will have to be brought down to 50 per cent in due course. While the depreciation in respect of permanent investment is not likely to affect their realisable value and therefore need not be provided for, depreciation in the current investments would have to be fully provided for. 'Permanent' investments could be valued at cost unless it is more than the face value, in which case the premium has to be amortised over the period remaining for maturity of the security. Banks are not expected to sell securities in the 'permanent' category freely, but if they do so any loss on such transactions in securities in this category has to be written off. Besides, any gain should be taken to capital reserve account.

2.124 Foreign currency assets and liabilities and unmatured spot and forward foreign exchange transactions are required to be revalued on a monthly basis. Spot and forward transactions are to be revalued at the then prevailing spot and forward foreign exchange rates, respectively. Long/short positions are to be revalued as per regulations currently in force. Gains and losses arising from the above valuations should be reported on a net basis in the income statement and should not be aggregated with any other type of income or expenses.

Working Results of Commercial Banks (excluding RRBs)

2.125 As pointed out in last year's report, the Government of India had, in terms of the powers conferred under the Banking Regulation Act, 1949, issued a notification on January 18, 1991 giving notice of their intention to make amendments to the Third Schedule to the said Act, incorporating the changes/amendments in the formats of balance sheet and profit and loss account of banks with the objective of providing better transparency of banks' performance. The suggestions received in response to the said notification were examined and a fresh notification was issued on December 19, 1991 indicating the Government's intention to introduce the revised formats after the expiry of the three month's period. In consultation with the Government, the Reserve Bank decided to introduce the revised formats for preparation of balance sheet and profit and loss account by commercial banks (excluding RRBs) from the accounting year 1991-92 (April-March). Banks were advised that while preparing final accounts for the year 1991-92 in the revised formats, they have also to restructure their balance sheet and profit and loss account for the previous year suitably for incorporation in the annual accounts for the year 1991-92. Based on the data furnished for the first time in the revised balance sheet formats, the working results of commercial banks (excluding RRBs) during 1991-92 are analysed below.

2.126 During 1991-92, profits (after provisions and contingencies) of *commercial banks* amounted to Rs.1,200 crore as against Rs.743 crore in the previous year (Table II.19). While banks' income increased by 29.7 per cent, their expenditure increased by 28.9 per cent. The ratio of banks' profits to their working funds was 0.35 per cent in 1991-92 as compared with 0.26 per cent in the previous year. In the case of *public sector banks*, their income increased by 26.9 per cent and expenditure by 26.1 per cent and the ratio of their profits to their working funds was 0.27 per cent as against

0.18 per cent in the previous year (Table II.20). Within this group of banks, the corresponding figures (in percentages) for *State Bank of India and its associate banks* are 34.0, 33.6, 0.21 and 0.16 and for *nationalised banks* 22.7, 21.7, 0.30 and 0.20 (Tables II.21 and II.22). As regards *Indian private sector banks*, the corresponding figures are 33.4, 30.2, 0.65 and 0.39 (Table II.23). In the case of *foreign banks*, the corresponding figures are 61.3, 63.9, 1.27, and 1.45 (Table II.24).

Table II.19 : Working Results of Scheduled Commercial Banks* for the years 1990-91 and 1991-92 (Revised Format)

(Rs. crore)

Particulars	1990-91	1991-92	Variation of (3) over (2)	
			Actual	Percentage
1	2	3	4	5
A. Income				
i) Interest income	27,521 (90.5)	34,739 (88.1)	7,218	26.2
ii) Other income	2,883 (9.5)	4,679 (11.9)	1,796	62.3
iii) Total income (i+ii)	30,404 (100.0)	39,418 (100.0)	9,014	29.7
B. Expenditure				
i) Interest expended	18,968 (64.0)	23,575 (61.7)	4,607	24.3
ii) Other operating expenses	7,596 (25.6)	8,829 (23.1)	1,233	16.2
iii) Provisions & contingencies	3,097 (10.4)	5,814 (15.2)	2,717	87.7
iv) Total expenditure (i+ii+iii)	29,661 (100.0)	38,218 (100.0)	8,557	28.9
C. Profit for the year [A(iii) - B(iv)]	743	1,200	457	61.5
D. Working Funds	2,84,162	3,38,737	54,575	19.2
E. Profit as % to working funds [(C) as % of (D)]	0.26	0.35	0.09	34.6

* Excluding Bank of Tanjavur, Jammu and Kashmir Bank, Nedungadi Bank, Punjab Co-operative Bank and Regional Rural Banks.

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

Table II.20 : Working Results of Public Sector Banks* for the years 1990-91 and 1991-92 (Revised Format)

(Rs.crore)

Particulars	1990-91	1991-92	Variation of (3) over (2)	
			Actual	Percentage
1	2	3	4	5
A. Income				
i) Interest income	24,756 (91.2)	30,750 (89.3)	5,994	24.2
ii) Other income	2,397 (8.8)	3,696 (10.7)	1,299	54.2
iii) Total income (i+ii)	27,153 (100.0)	34,446 (100.0)	7,293	26.9
B. Expenditure				
i) Interest expended	17,109 (64.1)	21,022 (62.5)	3,913	22.9
ii) Other operating expenses	6,883 (25.8)	7,884 (23.4)	1,001	14.5
iii) Provisions & contingencies	2,685 (10.1)	4,737 (14.1)	2,052	76.4
iv) Total expenditure (i+ii+iii)	26,677 (100.0)	33,643 (100.0)	6,966	26.1
C. Profit for the year [A(iii) - B(iv)]	476	803	327	68.7
D. Working Funds	2,59,308	3,01,717	42,409	16.4
E. Profit as % to working funds [(C) as % of (D)]	0.18	0.27	0.09	50.0

* Comprising State Bank of India and its 7 Associate Banks and 20 Nationalised Banks.

Note: Figures in brackets are percentage shaes in the total.

Table II.21 : Working Results of State Bank of India and its 7 Associate Banks for the years 1990-91 and 1991-92 (Revised Format)

(Rs.crore)

Particulars	1990-91	1991-92	Variation of (3) over (2)	
			Actual	Percentage
1	2	3	4	5
A. Income				
i) Interest income	9,061 (90.44)	11,775 (87.69)	2,714	30.0
ii) Other income	958 (9.56)	1,653 (12.31)	695	72.6
iii) Total income (i+ii)	10,019 (100.0)	13,428 (100.0)	3,409	34.0
B. Expenditure				
i) Interest expended	5,673 (57.48)	7,392 (56.07)	1,719	30.3
ii) Other operating expenses	2,556 (25.90)	2,864 (21.72)	308	12.1
iii) Provisions & contingencies	1,640 (16.62)	2,928 (22.21)	1,288	78.5
iv) Total expenditure (i+ii+iii)	9,869 (100.0)	13,184 (100.0)	3,315	33.6
C. Profit for the year [A (iii) - B (iv)]	150	244	94	62.7
D. Working Funds	93,012	1,15,081	22,069	23.7
E. Profit as % to working funds [(C) as % of (D)]	0.16	0.21	0.05	31.3

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

Table II.22 : Working Results of 20 Nationalised Banks for the years 1990-91 and 1991-92 (Revised Format)

(Rs. crore)

Particulars	1990-91	1991-92	Variation of (3) over (2)	
			Actual	Percentage
1	2	3	4	5
A. Income				
i) Interest income	15,695 (91.60)	18,975 (90.28)	3,280	20.9
ii) Other income	1,439 (8.40)	2,043 (9.72)	604	42.0
iii) Total income (i+ii)	17,134 (100.0)	21,018 (100.0)	3,884	22.7
B. Expenditure				
i) Interest expended	11,436 (68.04)	13,630 (66.62)	2,194	19.2
ii) Other operating expenses	4,327 (25.74)	5,020 (24.54)	693	16.0
iii) Provisions & contingencies	1,045 (6.22)	1,809 (8.84)	764	73.1
iv) Total expenditure (i+ii+iii)	16,808 (100.0)	20,459 (100.0)	3,651	21.7
C. Profit for the year [A(iii) - B(iv)]	326	559	233	71.5
D. Working Funds	1,66,296	1,86,636	20,340	12.2
E. Profit as % to working funds [(C) as % of (D)]	0.20	0.30	0.10	50.0

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

Table II.23 : Working Results of Indian Private Sector Banks* for the years 1990-91 and 1991-92 (Revised Format)

(Rs. crore)

Particulars	1990-91	1991-92	Variation of (3) over (2)	
			Actual	Percentage
1	2	3	4	5
A. Income				
i) Interest income	885 (91.0)	1,160 (89.4)	275	31.1
ii) Other income	88 (9.0)	138 (10.6)	50	56.8
iii) Total income (i+ii)	973 (100.0)	1,298 (100.0)	325	33.4
B. Expenditure				
i) Interest expended	552 (58.8)	708 (58.0)	156	28.3
ii) Other operating expenses	318 (33.9)	375 (30.7)	57	17.9
iii) Provisions & contingencies	68 (7.3)	138 (11.3)	70	102.9
iv) Total expenditure (i+ii+iii)	938 (100.0)	1,221 (100.0)	283	30.2
C. Profit for the year [A(iii) - B(iv)]	35	77	42	120.0
D. Working Funds	8,869	11,917	3,048	34.4
E. Profit as % to working funds [(C) as % of (D)]	0.39	0.65	0.26	66.7

* Excluding Bank of Tanjavur, Jammu and Kashmir Bank, Nedungadi Bank and Punjab Co-operative Bank.

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

Table II.24 : Working Results of Foreign Banks for the years 1990-91 and 1991-92 (Revised Format)

(Rs.crore)

Particulars	1990-91	1991-92	Variation of (3) over (2) Actual	Percentage
1	2	3	4	5
A. Income				
i) Interest income	1,880 (82.5)	2,829 (77.0)	949	50.5
ii) Other income	398 (17.5)	845 (23.0)	447	112.3
iii) Total income (i+ii)	2,278 (100.0)	3,674 (100.0)	1,396	61.3
B. Expenditure				
i) Interest expended	1,307 (63.9)	1,845 (55.0)	538	41.2
ii) Other operating expenses	395 (19.3)	570 (17.0)	175	44.3
iii) Provisions & contingencies	344 (16.8)	939 (28.0)	595	173.0
iv) Total expenditure (i+ii+iii)	2,046 (100.0)	3,354 (100.0)	1,308	63.9
C. Profit for the year [A(iii) - B(iv)]	232	320	88	37.9
D. Working Funds	15,985	25,103	9,118	57.0
E. Profit as % to working funds [(C) as % of (D)]	1.45	1.27	-0.18	-12.4

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

2.127 The profit for the year 1991-92 in respect of all reporting banks amounted to Rs.1,200 crore showing an increase of Rs.457 crore (61.5 per cent) over that in the previous year (Rs.743 crore). The improvement has been achieved through higher rate of growth in earnings in relation to expenditure. Total income of all reporting banks during 1991-92 is placed at Rs.39,418 crore showing an increase of Rs.9,014 crore (29.7 per cent) over that of Rs.30,404 crore in 1990-91. As compared to this, total expenditure during 1991-92 aggregated Rs.38,218 crore which was higher by Rs.8,557 crore (28.9 per cent) over that of Rs.29,661 crore in 1990-91. Non-interest income at Rs.4,679 crore during 1991-92 recorded a sizeable increase of Rs.1,796 crore (62.3 per cent) over that of Rs.2,883 crore in 1990-91. On the expenditure side, provisions and contingencies at Rs.5,814 crore showed a quantum jump of Rs.2,717 crore (87.7 per cent) over 1990-91 (Rs.3,097 crore). As a ratio to working funds in respect of all reporting banks, profits during 1991-92 worked out to 0.35 per cent as compared with 0.26 per cent for 1990-91.

2.128 Profits of public sector banks during 1991-92 stood at Rs.803 crore showing an increase of Rs.327 crore (68.7 per cent) over that of Rs.476 crore in 1990-91. Profits as percentage to working funds at 0.27 for 1991-92 for all public sector banks was, however, lower than that for all scheduled commercial banks (0.35 per cent). Profits as percentage to working funds at 0.30 per cent for 1991-92 for the nationalised banks was higher than that for the SBI Group (0.21 per cent).

2.129 Profits of foreign banks for 1991-92 amounted to Rs.320 crore showing an increase of Rs.88 crore (37.9 per cent) over the previous year (Rs.232 crore). The ratio of profits as percentage to working funds for the foreign banks for 1991-92 was 1.27 per cent as compared with 1.45 per cent for 1990-91. Profits as percentage to working funds at 0.65 in respect of Indian private sector banks for 1991-92 was substantially lower than that for foreign banks but significantly higher than that for public sector banks. Also, over the year, this ratio for private sector banks had substantially increased from 0.39 per cent for 1990-91 to 0.65 per cent for 1991-92.

14. IRREGULARITIES IN THE SECURITIES OPERATIONS OF BANKS AND FINANCIAL INSTITUTIONS.

2.130 It is necessary to refer to a recent development of great public concern that has tended to sideline the otherwise far-reaching reform measures and structural changes that are being implemented or underway to make the financial system much more competitive, efficient and transparent. On the basis of the information received that some banks were undertaking large-scale transactions in Government securities through the medium of brokers in the course of which they were violating the Reserve Bank's detailed guidelines issued to them in July 1991, a committee with Deputy Governor Shri R. Janakiraman as Chairman was set up on April 30, 1992 to investigate the irregularities in funds-management by commercial banks and financial institutions and in particular, in relation to their dealings in Government securities, public sector bonds, UTI units and similar instruments. The Committee submitted three Reports dated

May 31, July 5, and August 23, 1992 which were released to the public immediately. The findings of the Committee have indicated serious deficiencies in the functioning of the banks and financial institutions involved, absence of necessary internal control in various functions, raising money without the backing of genuine securities, diversions of call money to the current accounts of chosen brokers, and massive collusion between the concerned officials and the brokers involved in dealings in Government securities, public sector bonds and units, etc. The Committee has listed the devices adopted for diversion of funds from the banking system to the individual accounts of certain brokers which *prima facie* constitute evidence of fraudulent misrepresentation. Funds-management operations have been conducted in gross violation and with utter disregard of instructions and guidelines issued by RBI from time to time. The break-down of essential discipline regarding the issue and recording of Banker's Receipts (BRs), the receipt and delivery of securities and the receipt and payment for settlement of the transactions detailed in the Report. The Committee has also come across instances wherein brokers have been financed by banks through the discounting of bills not supported by genuine transactions. The total amount of exposure, of banks and institutions involved in these transactions, aggregated Rs.3,542.79 crore.

2.131 The Janakiraman Committee has made recommendations for taking a series of steps so that remedial action is taken to introduce proper control system, strengthen monitoring and remove lacunae in the existing system and procedures so as to prevent recurrence of similar lapses in future.

2.132 The Reserve Bank and the Government have taken a number of steps with a view to unearthing the entire ramifications of the episode, to recover the banking dues, to punish the guilty, and to set in motion enduring measures of a preventive nature.

2.133 The measures include examination of the entire securities transactions of banks and financial institutions for the past one year, placing Bank of Karad Ltd., under liquidation, placing Bank of Madura Ltd., under a Reserve Bank observer, starting winding-up proceedings against Metropolitan Co-operative Bank Ltd., the de-listing of three brokers from the Reserve Bank's list of approved brokers, entrusting the entire investigation to the Central Bureau of Investigations (CBI), attaching the properties of all those involved, establishment of a Special Court to exclusively attend to the cases relating to securities transactions of banks and financial institutions, appointment of reputed firms of Chartered Accountants to conduct special audit of the treasury operations of major players in the market under the provisions of Section 30 (1B) of the Banking Regulation Act, 1949 and issuance of special guidelines including the prohibition of inter-bank ready-forward deals in dated securities and approved/trustee securities except Treasury bills of all maturities and prohibition of double ready-forward deals in Government securities including Treasury bills.

2.134 The other important aspects of the guidelines are : (i) The existing prohibition on buy-back deals between banks in other securities such as PSU bonds and units will continue; (ii) Banks should ensure that Subsidiary General Ledger (SGL) transfer forms covering their sale transactions in Government/approved securities are issued only if they have sufficient balance in their respective SGL accounts in the Public Debt Offices of the Reserve Bank of India. In the event of bouncing of SGL transfer forms, banks will render themselves liable to penal action; (iii) BRs should not be issued under any circumstances in respect of transactions in Government securities, for which SGL facility is available. BRs may be issued in the case of other securities for ready transactions only, under exceptional circumstances; and (iv) BRs should not be issued covering transactions relating to either portfolio management scheme clients or other constituents including brokers.

2.135 Detailed profiles of large-scale frauds, misdemeanors and irregularities involving commercial banks and other financial institutions the world over reveal that each one of them is *sui generis* with unique and distinct characteristics. Fraudulent practices are conducted with great ingenuity by individuals but always by subverting the rules of the game with connivance and collusion. It is because of such connivance and collusion that the frauds continue for a fairly long period before they are detected; the detection is often accidental as such frauds do not get revealed in the course of normal reporting to the regulatory authorities. The occurrence of fraud is neutral to the type of institutional set-up or the nature of supervisory regulations. Frauds have occurred in most competitive conditions and also in fairly controlled systems. They have occurred in tight regulatory environments as much as they have occurred in liberal environments. One single feature which is common to almost all frauds is that the funds so generated have generally been deployed in stock markets.

2.136 The recent irregularities detected in the Indian financial system have revealed certain distinctive features in that these irregularities committed were brought to light within a short time, that the RBI's inspection machinery has been able to decipher the intricate details of fraudulent transactions, that the Committee appointed to look into the irregular transactions submitted three Reports promptly thus highlighting the short-coming, and that stern follow-up action has been initiated expeditiously by the Reserve Bank and the Government of India.

2.137 A 30-member Joint Parliamentary Committee (JPC) comprising honorable members from both the Houses of Parliament has been constituted to probe into the entire gamut of issues concerning the securities irregularities.

2.138 In its third report submitted on August 23, 1992 the Janakiraman Committee has given the updated statistics of the securities transactions undertaken by banks and financial institutions since April 1, 1991. The revised data puts the total value of the transactions - both sales and purchases - put through by banks during the period at Rs.12,25,722 crore. The Committee has analysed the total transactions bank-wise, broker wise and by nature of securities, and it has presented the findings of the scrutiny in respect of 16 banks/financial institutions including two co-operative banks. Another aspect brought out by the Committee relates to certain transactions which have resulted in problem exposures and the links between the banks and brokers in this regard. The Committee has also commented extensively on the features observed in the operation of Portfolio Management Scheme (PMS) and other similar schemes under which large sums of money have been mobilised by banks and financial institutions, mainly from public sector units and has observed that in the handling of PMS clients' funds there has been large-scale violation by banks of the Reserve Bank's prohibition of ready-forward deals in PSU bonds and units which were undertaken primarily to yield a guaranteed return to those clients and that these funds also seem to have had a significant role in the financing of brokers through the ready-forward deals. In this context, the Committee has highlighted the substantial volume of PSU bonds held by banks either on their own account or on PMS account and the significant erosion in their value due to fall in market value of the relative bonds. In view of appointment of JPC to look into these securities transactions of banks and financial institutions and the work being done by other investigating agencies, the Committee proposes to confine its future work to an examination of the findings of the scrutiny already undertaken by the Reserve Bank Inspecting Officers under its directions and to report thereon.

15. NEW TECHNOLOGY IN BANKING

Mechanisation/Computerisation in the Banking Industry\

2.139 By the end of June 1992, public sector banks had installed 5,942 Advanced Ledger Posting Machines (ALPMs) at 2,068 branches of which 5,506 ALPMs were operationalised with 5,217 on 'live' run. Banks had also installed 289 mini-computers at regional/zonal offices. Thirteen banks had installed mainframe computers at their respective head offices and several other banks are at an advanced stage in the process of installing mainframe computers. About 49,400 members of staff of banks have been imparted training in computerisation/mechanisation. Total computerisation of branch operations at one branch of each bank is under implementation and has reached an advanced stage at some banks.

Computerisation of Cheque Clearance

2.140 One way inter-city clearing was further extended to connect Thiruvanandapuram and Baroda to Bombay and Coimbatore, Salem, Trichy, Madurai, Pondicherry and Thiruvanandapuram to Madras.

Telecommunication Network

2.141 Twentythree offices of the Reserve Bank and three departments of the Government of India have been connected to the Store and Forward Transmission (SFT) network. Similarly, dedicated speech network connecting 19 offices has been developed and so far 18 offices have been connected and the remaining one office, viz., Jammu Office will be connected shortly. The Banking Division (Government of India) has been connected to the Reserve Bank speech network.

2.142 BANKNET, a dedicated communication network for the banking industry, has been expanded to include 225 ports at seven centres, viz., Bombay, Delhi, Madras, Calcutta, Hyderabad, Bangalore and Nagpur. Expansion of BANKNET to Pune and Ahmedabad is under consideration. The Reserve Bank has started using the network for transmission of transfer-responding advices pertaining to inter-city clearing and funds transfer. The Reserve Bank, 26 banks and 11 branches of foreign banks joined the Society for Worldwide Inter-bank Financial Communications (SWIFT) global network on December 2, 1991. Presently, the network is limited to Bombay, but efforts are underway to extend it to other commercial centres in the country, so that all international financial messages are routed through SWIFT network. The system is working satisfactorily.

16. CUSTOMER SERVICE AND RELATED GUIDELINES

Survey of Customer Service by Banks

2.143 Mention was made in the last year's report regarding the proposed sample surveys covering certain specific areas in customer service in the States of Gujarat, Tamil Nadu, West Bengal and Uttar Pradesh covering about 1,000 branches of public sector banks. These surveys revealed that though implementation of customer service measures has by and large been satisfactory, more effective action is called for to improve customer service in the following areas : (1) arrangement for guidance/ information to customers; (2) opening and closing of bank counters; (3) display of time norms and adherence thereto particularly for encashment of cheques and issuance of drafts; (4) updating of savings bank passbooks and issue of statement of accounts to customers; (5) settlement of claims of deceased depositors; (6) popularisation of nomination facility; (7) expeditious collection of outstation instruments; (8) immediate credit of outstation cheques upto Rs.2,500; and (9) payment of interest for delayed collection of outstation instruments. On the basis of the outcome of these surveys, public sector banks were advised in May 1992 to take suitable remedial action so that there would not be any slip back.

Check-list on Customer Service

2.144 Following the decision taken at a meeting of the Standing Committee on Customer Service held in June 1991 to strengthen the system of monitoring of implementation of instructions issued by the Government and the Reserve Bank in regard to customer service, public sector banks were advised in August 1991 that a check-list should be maintained with branch managers about the instructions issued by the Government/Reserve Bank for implementation in the area of customer service. These banks were also advised to discuss in meetings of customer service committees at branch levels about extent/ progress of implementation of the items contained in the check-list.

Committee on Customer Service

2.145 The Committee on Customer Service appointed by the Reserve Bank under the Chairmanship of Shri M.N. Goiporia, the then Chairman of the State Bank of India, submitted its report in December 1991. The Committee made wide-ranging recommendations which relate to the following aspects :

(i) improving customer service by enlarging scope of teller services, extending banking hours for non-cash transactions, devising appropriate procedure to render uninterrupted service during business hours, extending facilities for exchange of mutilated & soiled notes, and ensuring nomination in all deposit accounts;

(ii) opening of specialised branches focussing on international banking, industrial finance, and small- scale industries;

(iii) making bank employees more responsive and customer-friendly by job enrichment, proper training, reward system and more constructive role by employees' organisations;

(iv) technology upgradation and continuous review of systems and procedures in tune with changing needs of customers to support effective and efficient services;

(v) making bank deposits more attractive by raising interest rate on savings bank accounts,permitting tax benefit on deposits, etc.;

(vi) compensating customers for delay in collection of cheques, payment of mail transfer, telegraphic transfer, etc.; and

(vii) implementing the Talwar Committee recommendations on customer service both in letter and spirit.

2.146 The Committee's recommendations have been grouped into four categories, viz.,'A', 'B','C', and 'D' and banks were advised in January 1992 to implement all the recommendations in category 'A' which do not require any further processing. Regarding the remaining recommendations which require further examination by the Government, Reserve Bank, Indian Banks' Association or banks themselves, necessary steps have been taken for examination by concerned authorities the feasibility of getting the recommendations implemented.

2.147 Banks were advised in May 1992 to implement two more recommendations of the Committee. The limit of affording immediate credit of outstation cheques has been raised from Rs.2,500 to Rs.5,000 to customers who desire the facility. In the event of a cheque having been returned unpaid, a bank can recover normal rate of interest for the period it is out of funds. The existing instructions for affording immediate credit to eligible customers remain unchanged. Banks have been instructed to pay interest at the enhanced rate of 2 per cent above the rate of interest on saving bank deposits for the delay in collection of outstation instruments beyond the specified period. Such interest is now payable if it is Rs.5 or more. Incidentally, the interest rate payable on saving deposit accounts has been raised from 5.0 per cent to 6.0 per cent per annum.

Delay in Collection of Bills

2.148 As in the case of cheques, interest at 2 per cent above the rate of interest on saving bank deposits has now to be paid by banks to customers for delayed collection of bills. The delay period has to be reckoned taking into account normal transit period and a time frame of 2 days each for despatch of bill to drawees' centres, presentation of bills of drawees, remittance of proceeds to lodgers' banks, and crediting of proceeds to drawers' accounts. Further, to the extent the delay is attributable to the drawees' bank, the lodgers' bank can recover such interest from the drawees' bank.

Value-Dating of Telegraphic Transfer

2.149 Banks have been advised to give value-dating of amounts from the third day in respect of Telegraphic Transfers (TTs) issued from and payable at State capitals and Area I centres (i.e. centres with population of 12 lakh and above), excluding State capitals and Area I centres in the North-Eastern States and Sikkim in which case, credit has to be afforded immediately on receipt of telegram or confirmation copy of telegram, whichever is earlier. In case of delay beyond the said period, banks have to pay interest at 2 per cent above the rate of interest on the savings bank deposits.

Value-Dating of Mail Transfers - Delay in crediting - Payment of Interest at 2 per cent over the Rate of Interest on Savings Bank Deposits

2.150 Banks have also been advised to pay interest at the rate of 2 per cent per annum above the rate of interest on saving bank deposits for the period of delay beyond seven days (ten days in the case of the North-Eastern States and Sikkim) from the date of deposit of funds for mail transfers.

17. SUPERVISION AND MISCELLANEOUS ISSUES

Inspection of Banks

Financial Inspection

2.151 During the period July 1991 - April 1992, inspection of 10 foreign banks, 18 private sector banks was taken up .and completed.

Annual Financial Review

2.152 Annual Financial Review for the year 1991 in respect of 26 public sector banks was taken up and completed during July-September quarter of 1991-92. Annual Financial Review in respect of two public sector banks, viz., State Bank of India (SBI) and New Bank of India (NBOI) and 13 local head offices of SBI was dropped for the year 1991 in view of the management audit of SBI and special scrutiny of NBOI carried out during 1991.

Modified Scheme of Inspection of Public Sector Banks

2.153 During July 1991 - April 1992, 1,130 branches of public sector banks having advances of Rs.5 crore or above and 255 controlling offices of these banks were also inspected. Besides, 260 more controlling offices of public sector banks were programmed for inspection during April - June quarter of 1991-92.

Scrutiny/Investigations

2.154 A number of scrutinies/investigations into various complaints/frauds, etc., against various banks were carried out during the year under review.

Working Group on Inspections

2.155 A working group was set up in May 1991 under the Chairmanship of Shri S. Padmanabhan, former Chairman, Indian Overseas Bank, to look into the present system of the Reserve Bank inspections of commercial banks and to make recommendations with a view to making these inspections more purposeful and effective. The group submitted its report in September 1991.

Frauds in Banks

2.156 During the period July 1991 - March 1992, 1,329 cases of frauds involving an amount of Rs.52.38 crore were perpetrated in branches of commercial banks in India; these included 12 major cases of frauds each involving more than Rs.1 crore and together involving Rs.27.17 crore and related mainly to abuse of power by branch managers by granting indiscriminate/injudicious credit facilities, negligence on their part and cheating by borrowers. Besides, 13 cases of frauds involving Rs.1.39 crore were reported in overseas branches of Indian banks during July 1991 - March 1992. All these cases are being followed up with banks for necessary remedial measures and fixing up of staff accountability.

Committee on Frauds and Malpractices in Banks

2.157 The Reserve Bank set up a high level Committee in October 1991 under the Chairmanship of Shri A. Ghosh, the then Deputy Governor, to enquire into various aspects of frauds and malpractices in banks. The Committee submitted its report in June 1992. The Reserve Bank has advised banks to implement some of the recommendations of the Committee.

Robberies/Dacoities

2.158 During the period July 1990 to June 1992, 91 cases of robberies/dacoities involving a sum of Rs.2.85 crore were reported by public sector banks.

Composition of the Boards of Nationalised Banks

2.159 In accordance with the provisions of the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, the Boards of nationalised banks should include *inter alia* an official each from Central Government and the Reserve Bank and two directors - one representing workman staff and the other non-workman staff of respective banks. The other directors represent depositors, farmers, workers, artisans or possess special knowledge or experience in the field of accounting, small scale industries, etc. The Government has filled up some of the vacancies of non-official directors in nationalised banks. During the year under review, in three public sector banks, viz., Syndicate Bank, Vijaya Bank, and State Bank of Hyderabad, the post of Chairman and Managing Director remained vacant and in five public sector banks, viz., Bank of Baroda, Bank of Maharashtra, Central Bank of India, United Bank of India and New Bank of India, the post of Executive Directors remained vacant.

Local Advisory Boards of Foreign Banks

2.160 In pursuance of the policy of social control over banks, foreign banks were urged to constitute Local Advisory Boards as they did not have Boards of Management in India. The constitution of such Boards generally conforms to that of the Boards of Indian banks. Out of 23 foreign banks operating in India, 22 banks have constituted their Local Advisory Boards.

Appointment of Auditors of Banks

2.161 All banks in public as well as private sector (including foreign banks) have adhered to the legal provisions regarding appointment of Statutory Auditors. During 1991-92 (April - March), branches of 28 public sector banks, including State Bank of India and its seven subsidiaries, were taken up for annual audit accounting for 57.6 per cent of total branches of those banks functioning in the country as at the end of March 1991.

Promotion/Use of Hindi in Banks

2.162 All public sector banks continued their efforts under the guidance and supervision of the Reserve Bank and the Government of India for the progressive use of Hindi in their day-to-day working. Banks conducted Hindi workshops for imparting training for noting and drafting in Hindi to such of their employees as have working knowledge of Hindi. Some of the banks have conducted Hindi training programmes/workshops for their senior officers and executives. Hindi seminars/ conferences/programmes/ workshops for senior officers were also organised for promoting the use of Hindi in banking. Some of the banks have purchased and installed machines like word processors, computers, electronic typewriters, telex/teleprinters, addressograph machines, etc., with Hindi/bilingual facilities. Some of the banks have also acquired softwares for use of Hindi on computers and word processors. A number of banks have achieved various targets set by the Government regarding use of Hindi. Most of the banks have complied with the provisions of the Official Language Act and the Rules framed thereunder. Special mention may be made in this respect of the compliance with the provision of Section 3(3) of the said Act regarding the use of both Hindi and English in areas like advertisement, press communique, public notices meant for all India coverage, issue of tender forms, general orders, licences, acceptance of cheques and drafts, and execution of contracts and agreements. Banks continued to print their annual reports and balance sheets bilingually in addition to most of the forms and registers in use. Their house journals continue to include a Hindi Section.

CHAPTER III

CO-OPERATIVE BANKING

1. OVERVIEW

Important quantitative indicators such as data on credit extended by the State co-operative banks and Central co-operative banks and short-term advances provided by the National Bank for Agriculture and Rural Development (NABARD) to co-operatives for financing seasonal agricultural operations suggest that during 1991-92 (July-June) there was a pick up in operations of the co-operative banking system which were adversely affected in the previous year owing to the Agricultural and Rural Debt Relief Scheme, 1990.

3.2 The Government of India have embarked upon a programme of business-oriented development of primary- level credit institutions as recommended by the Agricultural Credit Review Committee [ACRC].

3.3 A model deposit insurance scheme has been formulated for primary agricultural credit societies by the Government of India.

3.4 The Committee on Licensing of New Urban Co-operative Banks (Marathe Committee) has suggested that the thrust of future policy should be to actively promote the growth of urban co-operative banking movement in the regions where it has not taken strong roots and to give further impetus to its growth in the cooperatively advanced States by removing the impediments thereto.

2. PROGRESS OF CREDIT CO-OPERATIVES

3.5 During 1990-91 (July-June), total deposits of co-operative banking sector (State/ Central and Primary level taken together) increased to Rs.27,885 crore from Rs.25,165 crore in 1989-90, recording an increase of 10.8 per cent as compared with 13.3 per cent in the previous year. Total loans issued by State co-operative banks, Central co-operative banks and primary agricultural credit societies increased by Rs.848 crore or by 3.5 per cent as compared to Rs.2,309 crore or by 10.4 per cent in the previous year, reflecting the adverse impact of the Agricultural and Rural Debt Relief Scheme, 1990.

(i) State Co-operative Banks (SCBs)

3.6 During the year 1991-92 (July-June), licence was issued to two SCBs to carry on banking business under Section 22 of the Banking Regulation Act, 1949. Deposits of 28 SCBs increased from Rs.5,883 crore as at end of June 1990 to Rs.6,128 crore as at end-June 1991 or 4.2 per cent. Total loans issued by SCBs during

1990-91 at Rs.9,660 crore showed a decline of Rs.567 crore or 5.5 per cent as compared to loans issued in the previous year. The percentage of overdues to their outstanding loans was higher at 15.0 per cent at the end of June 1991 as compared with 13.6 per cent a year ago; the percentage of overdues to demand was 18.0 per cent as at the end of June 1991 as compared with 17.7 a year ago (Table III.1).

(ii) Central Co-operative Banks (CCBs)

3.7 During the year 1990-91 (July-June), the number of CCBs increased by one to 356. Deposits with CCBs rose from Rs.9,338 crore at the end of June 1990 to Rs.10,251 crore at the end of June 1991, or by 9.8 per cent as compared with 10.3 per cent in the previous year. Total amount of loans issued by CCBs rose from Rs.9,552 crore as at the end of June 1990 to Rs.11,075 crore as at the end of June 1991 or by 15.9 per cent as compared to the increase of 20.9 per cent in the previous year. The percentage of overdues to their outstanding loans showed an increase from 33.0 per cent in 1989-90 to 36.0 per cent in 1990-91; the percentage of overdues to demand rose from 51.7 per cent to 58.0 per cent over the same period (Table III.1).

(iii) State/Central Land Development Banks

3.8 During 1990-91 (July-June), long-term loans issued by State/Central Land Development Banks amounted to Rs.765 crore as against Rs.665 crore in 1989-90. Total loans outstanding at the end of June 1991 were Rs.3,738 crore as compared with Rs.3,499 crore a year ago.

(iv) Primary Agricultural Credit Societies (PACS)

3.9 While the number of PACS increased from 88,341 as at the end of June 1990 to 88,407 as at the end of June 1991, their membership rose from 81.2 million to 86.0 million during the period. The deposits of PACS increased from Rs.1,284 crore as at the end of June 1990 to Rs.1,349 crore as at the end of June 1991, or by 5.1 per cent. During 1990-91, total loans disbursed by PACS declined from Rs.4,789 crore to Rs.4,681 crore showing a decline of 2.3 per cent compared to a rise of 14.1 per cent in the previous year. The overdues of PACS continued to depict a disturbing trend, rising from Rs.2,874 crore as at the end of June 1990 to Rs.3,281 crore as at the end of June 1991, or as proportion to total outstanding loans, from 38.9 per cent to 45.1 per cent (Table III.1).

(v) Primary (Urban) Co-operative Banks (PCBs)
- Progress

3.10 The number of Primary Urban Co-operative Banks (PCBs) in the country increased from 1,397 as at the end of June 1991 to 1,401 as at the end of June 1992; this number includes 92 salary earners' banks, 40 Mahila banks and 51 banks which were under

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

(Amount in Rs. crore)

Type of Institution	Items	Co-operative Year (July-June) 1988-89	1989-90	1990-91#
1	2	3	4	5
(a) State Co-operative Banks (SCBs)	Number	28	28	28
	Owned Funds	808	854	901
	Deposits	5,288	5,883	6,128
	Borrowings from RBI/NABARD	2,483	3,375	3,572***
	Of which for :			
	Short-term agricultural purposes	1,778	2,210	2,168++
	Working capital	9,592	10,639	12,307
	Loans issued	10,159	10,227	9,660
	Loans outstanding	6,017	6,833	6,593
	Loans overdue	611	933	986
	% of overdues to :			
	(i) Loans outstanding	10.2	13.6	15.0
	(ii) Demand	13.6	17.7	18.0
(b) Central Co-operative Banks (CCBs)	Number	354**	355	356**
	Owned Funds	1,391	1,546	1,716
	Deposits	8,467	9,338	10,251
	Borrowings from RBI/ NABARD/Apex Banks	4,205	4,745	5,422***
	Working capital	15,257	16,767	18,477
	Loans issued	7,903	9,552	11,075
	Loans outstanding	9,609	10,686	11,721
	Loans overdue	2,321	3,528	4,220
	% of overdues to :			
	(i) Loans outstanding	24.2	33.0	36.0
	(ii) Demand	36.7	51.7	58.0
(c) State/Central Land Development Banks (SLDBs)	Number	19	19	19
	Owned Funds	569	542	596
	Debentures outstanding	..	..	..
	Working capital	4,504	4,793	4,904
	Loans issued+	676	665	765
	Loans outstanding+	3,167	3,499	3,738
	Loans overdue@	626	775	739
	% of overdues to :			
	(i) Loans outstanding	19.8	22.1	19.8
	(ii) Demand	55.9	66.8	52.0

(Contd.)

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

(Amount in Rs. crore)

Type of Institution	Items	Co-operative Year (July-June) 1988-89	1989-90	1990-91#
1	2	3	4	5
(d) Primary Agricultural Credit Societies## (PACS)	Number (000's)	87	88	88
	Membership (000's)	91,864	81,239	85,967
	Owned Funds	1,450	1,570	1,643
	Deposits	1,227	1,284	1,349
	Borrowings	6,094	6,787	7,761
	Total Loans issued	4,197	4,789	4,681
	Total Loans outstanding	6,240	7,386	7,278
	Total Loans overdue	2,407	2,874	3,281
	% of overdues to :			
	(i) Loans outstanding	38.6	38.9	45.1
	(ii) Demand	42.6	48.8	45.3
(e) Primary Co-operative Banks (PCBs)*	Number	1,378	1,390	1,397
	Owned Funds	1,082	1.256	1,481
	Deposits	7,232	8,660	10,157
	Borrowings	376	439	468
	Loans outstanding	5,820	6,802	8,003

#: Provisional.
..: Not Available.
+: Long-term loans.
++: Figures are for nine-month period, July 1990 - March 1991
@: Include interest overdue.
*: Include Salary Earners' Banks.
**: Include three CCBs in Jammu & Kashmir, related data for which are not available.
***: Include borrowings from commercial banks and others.
##: Include Large-Sized Adivasi Multi-Purpose Societies (LAMPS) and Farmers' Service Societies (FSS).

Source : National Bank for Agriculture and Rural Development (NABARD) and Reserve Bank of India liquidation. The number of offices of PCBs increased from 3,433 at the end of June 1991 to 3,450 as on December 31, 1991 (Provisional). Total deposits of PCBs rose marginally from Rs.10,157 crore to Rs.10,590 crore as at end-December 1991. Loans outstanding of PCBs also increased marginally from Rs.8,003 crore to Rs.8,314 crore during the same period. The owned funds of PCBs also rose by 12.4 per cent during this period.

- Licensing and Inspection

3.11 Licences for new PCBs are generally issued only if such PCBs are to be set up in areas presently devoid of banking facilities. Proposals for setting up of banks for women (Mahila banks) and weaker sections are, however, given sympathetic consideration provided proposed banks are potentially viable. During the period end-June 1991 to end-June 1992, 7 new PCBs and 5 existing PCBs were issued licences to commence banking business. Thus, total number of licensed PCBs increased from 1,028 at the end of June 1991 to 1,039 at the end of June 1992. Besides, 7 urban co-operative banks were allowed to open 7 extension counters to transact banking business.

3.12 During July 1991 to June 1992 statutory inspections of 506 PCBs were undertaken under Section 35 of the Banking Regulation Act, 1949.

- Refinance Facilities

3.13 During the period July 1991 to June 1992, short-term credit limits aggregating Rs.10.76 crore were sanctioned to State Co-operative Banks on behalf of 21 PCBs for financing of cottage and small and tiny industrial units at concessional rate of interest. The outstanding against these limits amounted to Rs.8.68 crore as on June 30, 1992 as against Rs.14.83 crore a year ago.

- Priority Sector Lending

3.14 PCBs are required to attain a priority sector lending of 60 per cent of their total advances outstanding, of which at least 25 per cent should be to weaker sections. As at the end of June 1992, out of 722 PCBs, 493 had achieved the target of 60 per cent.

- Weak and Non-viable Banks

3.15 Weak and non-viable PCBs numbered 220 as on June30, 1992 as against 230 a year ago. While 2 PCBs were issued directions under Section 35A of the Banking Regulation Act, 1949 (as applicable to co-operative societies) placing restrictions, among others, on making payments to depositors beyond specified amounts and sanctioning fresh advances and incurring expenditure beyond specified amounts, two banks already under such directions were given relaxation due to improvement in their working. Total number of PCBs under directions was 10.

- Winding up of Metropolitan Co-operative Bank Ltd.

3.16 Due to involvement of the Metropolitan Co- operative Bank Ltd. in issuing Banker's Receipts (BRs) to some banks, the outstanding amount of which extended to Rs. 1,300 crore as against the bank's total working capital of less than Rs. 8 crore, the Reserve Bank asked in May 1992 the Registrar of Co-operative Societies, Maharashtra, to immediately replace, in terms of Section 110 A(3) of the Maharashtra Societies Act, 1960, the Board of Directors of this bank by an Administrator to take charge and run its affairs. After due consideration and consultation with the concerned authorities, the Reserve Bank accorded its sanction for winding up of the bank on June 19, 1992.

- Policy Changes

3.17 The accounting year of PCBs was changed, following an amendment to the Banking Regulation Act, 1949, from July 1 to June 30 to April 1 to March 31.

3.18 Some of the credit policy changes /restrictions in respect of commercial banks such as those relating to prohibition of chit business, loans for purchase of consumer durables and other non-priority sector personal loans, credit to individuals against shares and debentures/bonds, selective credit controls, interest rates on deposits and advances etc., were also made applicable, with suitable modifications wherever necessary, to PCBs and Central co-operative banks.

3.19 Changes effected in deposits and advances rates of PCBs upto October 1991 were reviewed in last year's Report. The interest rate on term deposits for a period of 3 years and above was raised from 11 per cent per annum to 12 per cent per annum with effect from April 13, 1991. Effective April 22, 1992, for deposits with maturity of 46 days to 3 years and above a single prescription of 'not exceeding 13.0 per cent per annum' was prescribed and all PCBs were given discretion to pay an additional interest 'not exceeding 0.5 per cent per annum'. With effect from October 9, 1992, the single prescription was revised to 'not exceeding 12.0 per cent per anum'. The discretion given to PCBs to allow additional interest at a rate not exceeding 1 per cent per annum on all saving deposits and at a rate not exceeding 0.5 per cent per anum on all term deposits of not less than 46 days was continued.

3.20 Effective March 2, 1992, the lending rate on PCBs' credit limits of over Rs.2 lakh in category 'A' was reduced by one percentage point from 20.0 per cent (minimum) to 19 .0 per (minimum) but effective interest rate on discounting of bills of exchange for this category of borrowers was fixed at 18.0 per cent (minimum) and it was indicated that the actual rate charged should be one percentage point below the corresponding lending rate charged to borrowers in this category. With effect from April 22, 1992, there was a rationalisation of lending rates of PCBs. The then existing five slabs were reduced to four slabs; according to the size of limit of advances. The first two slabs namely, upto and inclusive of Rs.10,000 and over Rs.10,000 and upto Rs.25,000 and the rates of interest thereon (16.0/16.5 per cent and 15.0/15.0 per cent respectively) for both the categories 'A' and 'B' were kept unchanged, while the next two slabs were clubbed together and a new slab was introduced to cover advances over Rs.25,000 and upto Rs.2.0 lakh and the rates of interest thereon were fixed at 17.5 per cent per annum and 16.5 per cent per annum for categories 'A' and 'B', respectively. For the fourth slab of 'over Rs.2.0 lakh', the rates of interest remained unchanged at 19.0 per cent (minimum) and 17.0 per cent (minimum) for the two categories, respectively. The lending rate of PCBs was reduced effective October 9, 1992, on credit limits over Rs.2 lakh for category 'A' by one percentage point from 19.0 per cent per annum (minimum) to 18.0 per cent per annum (minimum).

Committee on Licensing of New Urban Co-operative Banks (Marathe Committee)

3.21 As reported in the last year's Annual Report, the Reserve Bank had set up a Committee under the Chairmanship of Shri S.S. Marathe, a member of the Bank's Board, to review the policy relating to the licensing of new urban co-operative banks and other related matters. The Committee, in its Report submitted on May 20, 1992, has favoured a somewhat more liberal entry policy and recommended that organisation of new urban co-operative banks may be permitted on the criteria of need for the co-operative institution and the potential in the proposed centre/area. The Committee has advocated a pro-active approach to promote the growth of the urban co-operative banking movement in the regions where it has not taken strong roots. It has suggested increased pre-registration entry point criterion relating to initial share capital, membership and achievement of revised norms of viability within 3 to 5 years. Existing banks are also expected to achieve the same norms. It has recommended relaxations in the entry point norms and an elongated time-frame for achieving the viability for banks organised in the least and less developed States and Tribal Areas and also an upward revision of existing norms relating to the scheduling of urban co-operative banks in the light of various factors including the revised norms for new urban banks. In order to ensure the existence of a strong and viable urban banking structure, the Committee has suggested introduction of a monitoring system to generate early warning signals, timely detection of sickness and appropriate strategies for revival thereof. Banks failing to respond to such revival strategies are to be taken up for determination of future set-up.

3.22 In the context of the Marathe Committee Report, the main thrust of the Bank's policy initiative in the area of urban co-operative banking would relate to a controlled deregulation in the licensing of new banks, a promotional initiative for the organisation of UCBs in the less developed States based on a region-specific approach, rationalisation of the position in respect of as many as 313 unlicensed banks, weeding out of weak banks and consolidation of the system along sound and viable lines including strengthening of the regulatory as well as supervisory mechanism.

3. OPERATIONS OF NABARD

Resources of NABARD

3.23 NABARD's resources were replenished during 1991-92 (April-March) by the Reserve Bank's, as also the NABARD's own contribution to the National Rural Credit (Long-Term Operations) Fund [NRC(LTO) Fund] and National Rural Credit (Stabilisation) Fund [NRC(Stabilisation) Fund]. Aggregate net resources mobilised by NABARD during 1991-92 (April/March) amounted to Rs.1,821 crore (Table III.2).

3.24 During 1991-92, the Reserve Bank contributed Rs.400 crore to NRC (LTO) Fund and Rs.20 crore to NRC (Stabilisation) Fund out of its profit as compared with Rs.375 crore and Rs.10 crore, respectively, in the previous year. NABARD itself contributed Rs.515 crore towards NRC(LTO) Fund and Rs.20 crore to NRC (Stabilisation) Fund during the year as compared with Rs.400 crore and Rs.20 crore, respectively, in the previous year. NABARD's net borrowings during 1991-92 from the Reserve Bank of India under the General Lines of Credit (GLC) for short-term lending operations for agriculture and other purposes under Section 17(4E) of the Reserve Bank of India Act, 1934 amounted to Rs.631 crore. The Reserve Bank had sanctioned two General Lines of Credit amounting to Rs.3,350 crore (Rs.2,700 crore under GLC-I and Rs.650 crore under GLC-II). Outstanding borrowings as at the end of March 1992 under these two GLCs amounted to Rs.3,022 crore comprising Rs.2,487 crore under GLC-I (for seasonal agricultural operations) and Rs.535 crore under GLC-II (for other short-term purposes). There was a net reduction of Rs.127 crore in borrowings from the Government of India during 1991-92 (April-March).

Table III.2 : Resources (net) Mobilised by NABARD

April-March

(Rs.crore)

Resources	1990-91	1991-92
Reserves and surplus	63	105
NRC (LTO) Fund	775	915
NRC (Stabilisation) Fund	30	40
Deposits	30	69
Bonds and debentures	90	99
Borrowings from Government of India	194	127
Borrowings from RBI	560	631
ARDR Scheme, 1990	692	31
Other liabilities	21	58
Total :-	**905**	**1,821**

NABARD resorted to market borrowings during 1991-92 (April-March) to the extent of Rs.99 crore through issue of the Eleventh Series of NABARD Bonds having a maturity period of 20 years and carrying an interest rate of 12 per cent per annum. As there was no redemption during the period, net borrowings against bonds and debentures amounted to Rs.99 crore during the year.

3.25 Following the annuouncement in the Union Budgret for 1992-93 that the practice of appropriating large amounts from the profits of the Reserve Bank for allocation to the rural, industrial and housing funds before transferring the surplus to the Government would be discontinued, the Reserve Bank advised NABARD that it will not be contributing to the NRC(LTO) Fund and the NRC (Stabilisation) Fund maintained by NABARD. The resultant gap in the resources would have to be met by NABARD through raising of resources from the capital market.

NABARD's Assistance to Agriculture and Other Allied Activities

Short-term Credit

3.26 During 1991-92 (July-June), limits sanctioned by NABARD for financing seasonal agricultural operations aggregated Rs.3,059 crore as against Rs.3,015 crore in the previous year. The outstanding amount against these limits at Rs.1,989 crore as on June 30, 1992, showed an increase of 27 per cent over the year. The details of financial accommodation provided by NABARD for agriculture and allied activities such as marketing of crops, distribution of fertilisers, production and marketing of handloom products etc., are set out in Table III.3.

Medium-term Credit

3.27 Medium-term limits sanctioned by NABARD declined from Rs.175 crore to Rs.87 crore reflecting switch-over of medium-term agricultural loans to schematic lending in keeping with its policy.

Conversion Loans

3.28 During 1991-92 (July-June), NABARD sanctioned to SCBs/CCBs credit limits of Rs.74 crore to convert short-term agricultural loans (including rephasing and rescheduling of loans) granted to farmers into medium-term loans due to the occurrence of widespread crop failure following droughts/floods. The outstandings under these limits amounted to Rs.134 crore as on June 30, 1992 as against Rs.278 crore as on June 30, 1991.

Long-term Credit

3.29 During 1991-92 (July-June), long-term credit limits amounting to Rs.32 crore were sanctioned to 17 State Governments to enable them to make contribution to the

Table III.3 : NABARD's Credit to Co-operatives and State Governments During 1990-91 and 1991-92

(Rs. crore)

Section of the NABARD Act, 1981	Term-wise/Purpose-wise Finance	Period for which limits are sanctioned	1990-91				1991-92			
			Limits sanc-tioned	Drawals	Repay-ments	Out-stand-ings	Limits sanc-tioned	Drawals	Repay-ments	Out stand-ings
1	2	3	4	5	6	7	8	9	10	11
	I. Short-term	Total	3,647	4,543	4,941	2,064	3,732	4,048	3,702	2,410
21(1)(i)/2(i)	(i) (a) Seasonal Agricultural Operations (at 3% to 5% upto October 1991 and at 3% to 6.5% from November 1991)	July-June	3,015	3,179	3,723	1,566	3,059	3,231	2,808	1,989
21(1)(i)/3	(b) Out of which : for Oilseeds Production Programme	July-June	300	262	277	172	358	293	253	212
	(c) Interim limits for creation of non-overdue cover in respect of SAO	July-June	-	-	-	-	-	-	-	-
21(1)(i)/3(b)	(ii) Marketing of crops other than cotton and *kapas* (at Bank Rate from June 1978)	July-June	15	3	-	3	12	-	3	-
	Includes Produce (Marketing) Loan Scheme									
	(iii) Marketing of cotton and *kapas* including monopoly procurement of cotton (at Bank Rate from June 1978)	July-June	7	-	-	-	7	-	-	-
21(1)(ii)/3(b)(iv)	Purchase and distribution of fertilisers (at 1% above Bank Rate from June 1978)	January-December	64	108	69	50	71	122	137	35
21(1)(v)/3(a)	(v) (a) Production and Marketing of Handloom Products (at 2-1/2% below Bank Rate from March 1978)	April-March	382	1,023	1,000	324	452	582	562	344
	(b) Interim limits for creation of non-overdue cover in respect of weavers' societies	April-March	-	-	-	-	-	-	-	-
	(vi) Financing of other cottage and small scale industries (2-1/2% below Bank Rate from March 1978)#	April-March	20	15	14	15	16	13	15	13
21(1)(iv)/ 21(4)	(vii) Purchase and sale of Yarn (at Bank Rate)	April-March	20	97	101	10	19	80	84	6
21(1)(iii)/ 21(3)/(a) and (b)	(viii) Against pledge of sugar (at 5% above Bank Rate)	July-June	115	116	26	90	90	20	90	20

(Contd.)

Table III.3 : NABARD's Credit to Co-operatives and State Governments During 1990-91 and 1991-92 *(Concld.)*

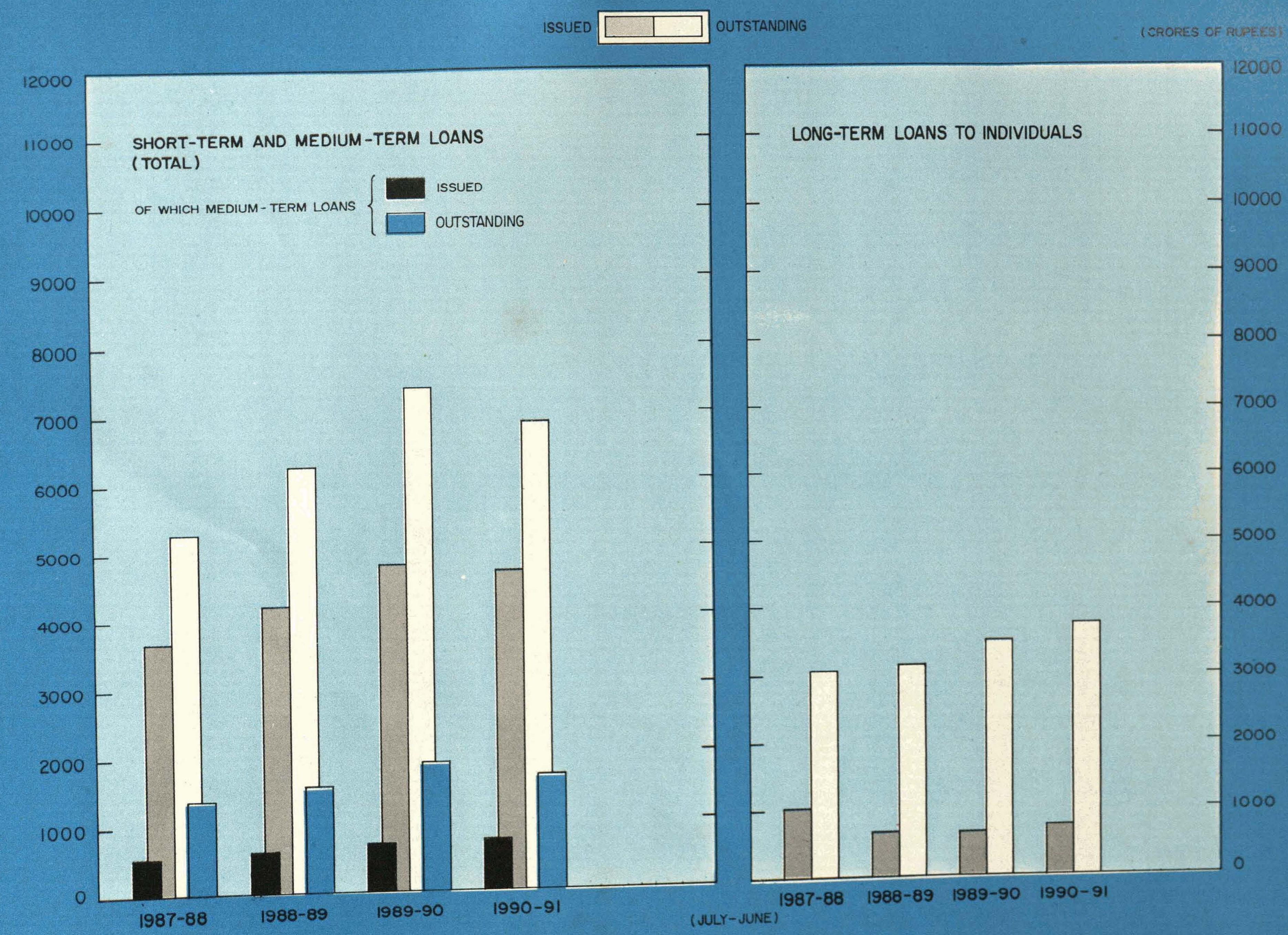
(Rs. crore)

Section of the NABARD Act, 1981	Term-wise/Purpose-wise Finance	Period for which limits are sanctioned	1990-91				1991-92			
			Limits sanctioned	Drawals	Repayments	Outstandings	Limits sanctioned	Drawals	Repayments	Out standings
1	2	3	4	5	6	7	8	9	10	11
21(1)(iii)/ 21(2)(i)	(ix) Against pledge of securities earmarked under Agricultural Credit Stabilisation Fund for meeting SCB share in M.T. conversion loans (Bank Rate)	Specified period	6	-	6	6	3	-	3	3
21(1)(iii)/ 21(3)(a)	(x) Collection and marketing of minor forest produce (Bank Rate)	July-June	3	2	2	-	3	-	-	-
	II. Medium-term	Total	175	162	158	297	87	64	212	149
24	(i) Agricultural purposes (8.5%)	January-December	11	7	10	16	11	4	8	12
	(ii) Purchase of shares in co-operative processing societies/ sugar factories (8.5%)	January-December	3	3	-	3	2	1	1	3
22	(iii) Conversion of Short-term loans into Medium-term loans in scarcity affected areas including rephasement and reschedulment (Rate of interest as applicable to SAO loans converted)	July-June	161	152	148	278	74	59	203	134
	III. Long-term	Total	34	28	15	226	32	29	19	236
27	Loans to State Governments for contribution to share capital of co-operative credit institutions (at 6%)	April-March	34	28	15	226	32	29	19	236
	Total Credit (I+II+III)		3,856	4,733	5,114	2,587	3,851	4,141	3,933	2,795

- = Nil or Negligible. $ = Includes financing of individual rural artisans through PACS.

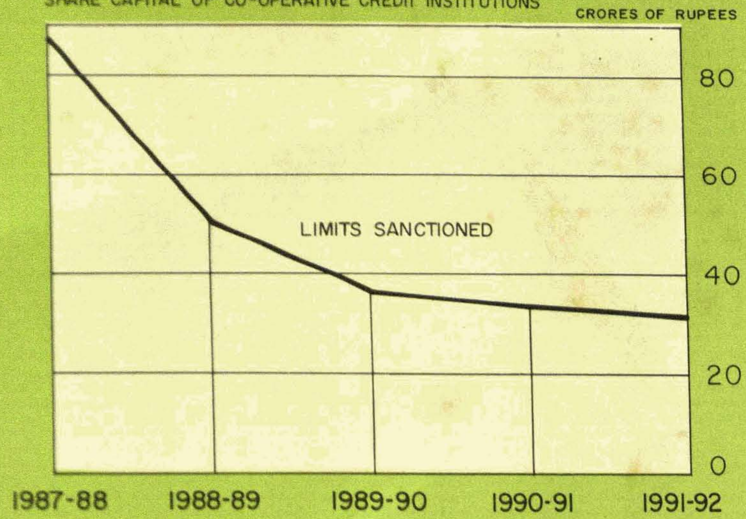
Source : NABARD

CO-OPERATIVE LOANS FOR AGRICULTURAL PURPOSES



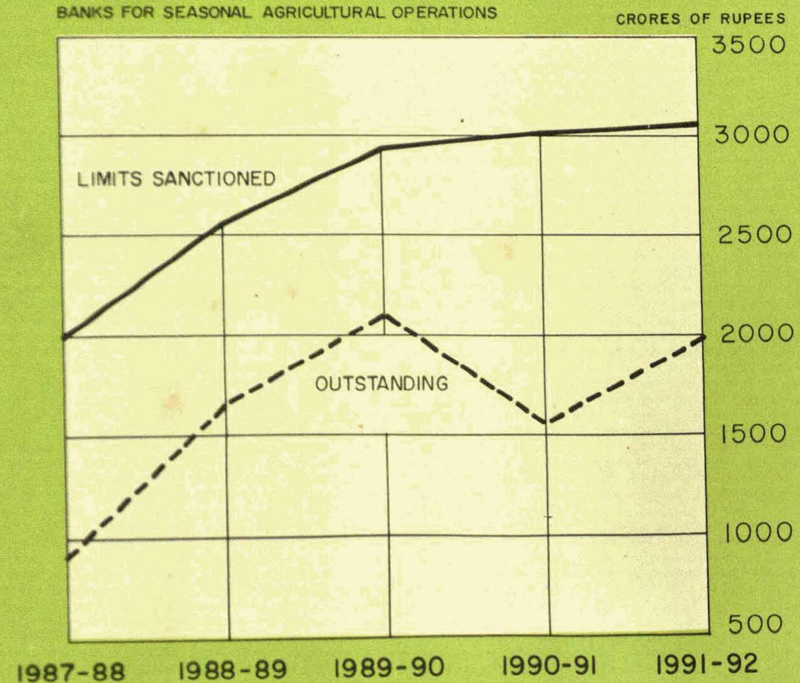
7 NABARD CREDIT FOR AGRICULTURAL PURPOSES

LOANS TO STATE GOVERNMENTS FOR CONTRIBUTION TO SHARE CAPITAL OF CO-OPERATIVE CREDIT INSTITUTIONS



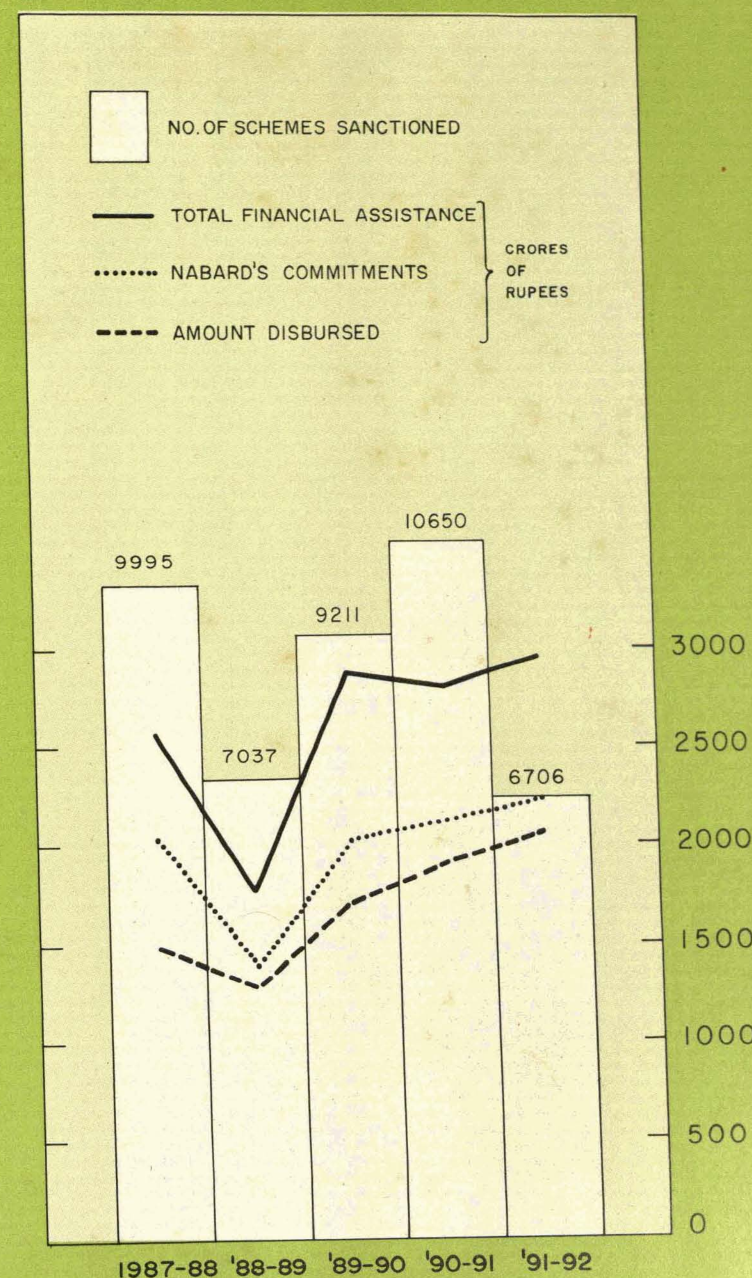
(APRIL-MARCH)

SHORT-TERM LOANS PROVIDED TO STATE CO-OPERATIVE BANKS FOR SEASONAL AGRICULTURAL OPERATIONS



(JULY-JUNE)

8 OPERATIONS OF NABARD (SCHEMATIC FINANCE)



(JULY-JUNE)

Table III.4 : NABARD's Structure of Interest Rates for Refinance As on October 8, 1992

(per cent per annum)

(A) For cooperatives institutions		
1.	Seasonal agricultural operations (SAO)	3 to 6.5
2.	Handloom/powerloom	
	(i) Production and marketing by primary weavers' cooperative societies	2-1/2 per cent below Bank rate
	(ii) Procurement and Marketing by Apex WCs	2-1/2 per cent below Bank rate
	(iii) Trading in yarn by apex weavers' cooperative societies	Bank rate
3.	Production and marketing activities of industries (other than weavers' co-operative societies)	2-1/2 per cent below Bank rate
4.	Financing individual rural artisans through primary agricultural cooperative credit societies/farmers' service societies/large and multi-purpose societies	3 per cent below Bank rate
5.	Marketing of crops	Bank rate
6.	Distribution of fertilisers	1 per cent above Bank rate
7.	Collection and marketing of minor forest produce	Bank rate
8.	Medium term loans for approved agricultural purposes	8.5
9.	Medium term loans for purchase of shares in cooperative processing societies	8.5
(B) For Regional Rural Banks (RRBs)		
1.	Short term (SAO)	6.5
	Short term (other than SAO)	8.5
	Medium term (non-schematic)	8.5
(C) For schematic lending for agriculture, small-scale industries and State road transport organisations		
	(i) Upto Rs. 25,000	6.5
	(ii) Over Rs.25,000 and upto Rs.2 lakh	10.5
	(iii) Above Rs.2 lakh	
	(a) Farm Sector	10.5 to 12.0
	(b) Non-farm Sector	
	(i) For advances over Rs.2 lakh and upto Rs.7.5 lakh	12.0
	(ii) Over Rs.7.5 lakh	13.5

Source : NABARD

share capital of co-operative credit institutions; loans aggregating Rs.29 crore were drawn till March 1992, which included some of the loans sanctioned for the previous year.

4. REFINANCE ASSISTANCE FROM NABARD

Schematic Lending

3.30 During the year 1991-92 (April-March), NABARD sanctioned 6,706 schemes involving refinance commitments of Rs.2,236 crore. NABARD's total disbursements under schematic lending amounted to Rs.2,054 crore. Up to the end of March 1992, the cumulative total of schemes sanctioned, commitments and disbursements made was 96,219, Rs.20,535 crore and Rs.16,364 crore, respectively. Data on purpose-wise, agency-wise and region-wise sanctions and disbursements of refinance by NABARD are furnished in Tables III.5, III.6, and III.7. During 1991-92, refinance for supporting activities under the Integrated Rural Development Programme (IRDP) accounted for the largest share of refinance disbursements, followed by minor irrigation and farm mechanisation. Disbursements in less developed States amounted to Rs.928 crore in 1991-92. Break-up of disbursement of refinance in respect of less developed States and IRDP is furnished in Tables III.8 and III.9, respectively. Of the total disbursements of Rs.1,642 crore under refinance for minor irrigation, land development and diversified purposes, during the year the share of small farmers accounted for 81.5 per cent.

Table III.5 : Purpose-wise Sanctions and Disbursements of Refinance by NABARD

(Rs. crore)

Purpose	1990-91 (April-March)			1991-92 (April-March)			Cumulative position as on March 31, 1992		
	No. of schemes sancti-oned*	Comm-itments	Disbur-sements	No. of schemes sancti-oned*	Comm-itments	Disbur-sements	No. of schemes sancti-oned*	Comm-itments	Disbur-sements
1	2	3	4	5	6	7	8	9	10
Minor Irrigation	6,570	528	496	2,255	444	502	38,574	7,383	5,740
Land Development/CAD	102	25	16	88	15	14	2,313	523	319
Farm Mechanisation	-	338	338	45	389	381	11,291	2,892	2,731
Plantation/Horticulture	1,089	143	94	1,216	166	99	10,334	1,482	792
Poultry/Sheep breeding/piggery	1,028	94	73	1,148	119	85	8,675	679	459
Fisheries	313	30	21	396	52	31	3,659	401	216
Dairy Development	1,059	158	73	1,043	124	84	8,177	880	523
Storage/Market Yards	22	10	14	37	13	9	2,015	327	291
IRDP	-	602	602	-	661	647	-	4,607	4,290
Others@	467	191	175	478	253	202	11,181	1,361	1,003
Total	**10,650**	**2,119**	**1,902**	**6,706**	**2,236**	**2,054**	**96,219**	**20,535**	**16,364**

@ Includes bio-gas,forestry,non-farm sector,SCAP/STAP, animal driven carts,etc.

* Excludes schemes sanctioned under ARF.

Source : NABARD

Table III.6 : Agency-wise Sanctions and Disbursements of Refinance by NABARD during the financial year (April-March) 1990-91 and 1991-92.

(Rs. crore)

Agency	Number of schemes*		Financial assistance		NABARD's commitments		Disbursements by NABARD		Cumulative position as on March 31, 1992			
	1990-91	1991-92	1990-91	1991-92	1990-91	1991-92	1990-91	1991-92	No. of schemes	Financial assistance by agencies	NABARD's commitments	Disbursements by NABARD
1	2	3	4	5	6	7	8	9	10	11	12	13
1. State Land Development Banks	5,719	2,397	846	813	746	694	565	658	31,933	8,440	7,372	5,652
2. Scheduled Commercial Banks	4,395	3,516	1,486	1,583	950	1,038	934	952	56,673	13,970	9,888	7,923
3. Regional Rural Banks	227	410	312	357	280	320	288	295	4,749	2,523	2,229	2,012
4. State Co-operative Banks	309	383	163	205	143	185	115	149	2,864	1,189	1,046	777
Total	**10,650**	**6,706**	**2,807**	**2,957**	**2,119**	**2,236**	**1,902**	**2,054**	**96,219**	**26,121**	**20,535**	**16,364**

* Excludes schemes sanctioned under ARF.

Source : NABARD.

Table III.7 : Region-wise Disbursements of Refinance by NABARD

(Amount in Rs. crore)

Region	1990-91 (April-March)		1991-92 (April-March)	
	Amount	Percentage to total	Amount	Percentage to total
1	2	3	4	5
Northern	290	15	307	15
North-Eastern	49	3	40	2
Eastern	204	11	228	11
Central	475	25	540	26
Western	327	17	349	17
Southern	557	29	590	29
Total	**1,902**	**100**	**2,054**	**100**

Northern Region : Chandigarh, Delhi, Haryana, Himachal Pradesh, Jammu & Kashmir, Punjab and Rajasthan.
North-Eastern Region : Assam, Manipur, Meghalaya, Mizoram, Nagaland,Tripura and Arunachal Pradesh.
Eastern Region : Sikkim, Bihar, Orissa, West Bengal and Andaman & Nicobar Islands.
Central Region : Madhya Pradesh and Uttar Pradesh.
Western Region : Goa, Daman & Diu, Dadra & Nagar Haveli, Gujarat and Maharashtra.
Southern Region : Andhra Pradesh, Karnataka, Kerala, Pondicherry and Tamil Nadu.

Source : NABARD

Table III.8 : Disbursements of Refinance by NABARD to Less Developed States under Schematic Lending

(Rs. crore)

State/Union Territories	1990-91 (April-March)	1991-92 (April-March)
1	2	3
Uttar Pradesh	330	382
Madhya Pradesh	135	159
Bihar	81	89
Rajasthan	80	104
Orissa	39	43
Jammu & Kashmir	6	6
West Bengal	82	94
Assam and other North-Eastern States	49	40
Himachal Pradesh	9	10
Andaman & Nicobar Islands	1	—
Sikkim	—	1
(A) **Total of above States/ Union Territories**	**821**	**928**
(B) **Total disbursements (All India)**	**1,902**	**2,054**
Percentage of A to B	**43.2**	**45.2**

Source : NABARD.

Table III.9 : NABARD's Refinance for IRDP

(Amount in Rs. crore)

Agency	Disbursements 1990-91 Amount	Disbursements 1990-91 Percentage to total	Disbursements 1991-92 Amount	Disbursements 1991-92 Percentage to total	Cumulative upto the end of March 1992 Amount	Cumulative upto the end of March 1992 Percentage to total
1	2	3	4	5	6	7
SLDBs	12	2.0	14	2.1	118	2.8
	(-)	(-)	(-)	(-)	(-)	(-)
Commercial Banks	309	51.3	342	52.9	2,179	50.8
	(133)	(49.6)	(138)	(53.3)	(834)	(47.6)
RRBs	234	38.9	222	34.3	1,594	37.1
	(120)	(44.8)	(98)	(37.8)	(805)	(46.0)
SCBs	47	7.8	69	10.7	399	9.3
	(15)	(5.6)	(23)	(8.9)	(113)	(6.4)
Total	**602**	**100.0**	**647**	**100.0**	**4,290**	**100.0**
	(268)	**(100.0)**	**(259)**	**(100.0)**	**(1,752)**	**(100.0)**

Note : Figures in brackets indicate disbursements for ISB component.
Source : NABARD.

Non-Farm Sector

3.31 NABARD has continued its policy to support activities in the non-farm sector and the share of non- farm sector in its total disbursements rose from 4 per cent in 1990-91 to 5 per cent in 1991-92. NABARD's disbursements under non-farm sector (outside IRDP) increased by Rs.24 crore or by 30 per cent in 1991-92.

5. STATE LAND DEVELOPMENT BANKS (SLDBs)

Lending Programme and Resources of SLDBs

3.32 The total lending programme of the SLDBs for the year 1991-92 (April-March) was fixed lower at Rs.881 crore as compared with Rs.902 crore for the previous year. The resources for the programme were to be raised by flotation of special debentures to the extent of Rs.775 crore to be subscribed by NABARD and Central and State Governments and by issue of ordinary debentures of Rs.106 crore to institutional investors, viz., LIC, SBI group, other commercial banks, Central and State Governments, and mutual support/self-help of SLDBs themselves. The support received for this programme is indicated in Table III.10.

Table III.10 : Resources of State Land Development Banks (SLDBs)

(Rs. crore)

Item	1990-91	1991-92
1	2	3
Lending Programme	**902**	**881**
1. Special development debentures		
(a) Programme	793	775
(b) Achievement	601	659*
2. Internal resources	**n.a.**	**n.a..**
3. Ordinary debentures		
(a) Target	109	106
(b) Actual floatation	102	106
(i) Subscription to ordinary debentures from the Central & State Governments	19	19
(ii) LIC	40	40
(iii) SBI group	20	20
(iv) Commercial banks	15	14
(v) Mutual support/self help	8	13
Total amount raised [1(b)+2+3(b)]	**703**	**765**

n.a. = not available.

* NABARD's refinance only.

Source : NABARD.

6. STRENGTHENING AND FUTURE DEVELOPMENT OF THE CO-OPERATIVE STRUCTURE

Reorganisation of Primary Agricultural Credit Societies (PACS)

3.33 Although the reorganisation of PACS was completed in Orissa State, it was not in accordance with RBI guidelines. A study conducted by NABARD in six selected districts of that State revealed that most of the PACS continued to have very low short-term loan business. In 5 out of these 6 districts, the average area was less than the minimum of 2,000 hectares prescribed for each PACS.

Business-Oriented Development of PACS

3.34 In view of the poor financial position of PACS, the Government of India have embarked upon a programme of business-oriented development of primary-level credit institutions as recommended by the Agricultural Credit Review Committee. The programme envisages preparation of Business Development Plans (BDP) for selected PACS for implementation in a phased manner during 1991-95 and aims at development of selected societies in certain States into viable units to serve all socio-economic groups in their area of operation through economically viable activities. This programme is expected to cover, in phases, all PACS in the country. According to the preliminary information available, during 1991-92, the number of PACS selected for development are : Andhra Pradesh 743, Gujarat 511, Madhya Pradesh 658, Maharashtra 1,200, Orissa 73, Tamil Nadu 409, Uttar Pradesh 1,780 and West Bengal 496.

Deposit Insurance Scheme for PACS

3.35 The Business Development Plan (BDP) *inter alia* envisages a thrust in deposit mobilisation by PACS. To facilitate this, the Government of India have formulated a model deposit insurance scheme for PACS as a supportive measure. The scheme aims at better mobilisation of resources by PACS by creating a sense of security in the depositors. The scheme will be applicable only to those PACS which are viable and which are implementing BDPs. Such PACS will have to fulfill the following conditions: (a) deposits should be of maturity period of more than 6 months and such deposits should be atleast Rs.25,000 per society; and (b) accounts should be maintained regularly. The guarantee for the deposits of PACS will be provided by the concerned DCCB. The guarantee fee of 0.30 per cent on the total deposits guaranteed will be shared by PACS, DCCB and SCB in the ratio of 0.15 per cent, 0.10 per cent and 0.05 per cent, respectively. The amount guaranteed per depositor may not exceed Rs.30,000 and all types and durations of deposits will be covered in the same right and capacity. The guarantee fee collected would form the corpus for meeting the claims and the same would be kept with the concerned DCCB. This corpus will earn the highest rate of interest payable to depositors. In order to attract deposits, PACS may offer remunerative rate of interest on deposits (not less than 1 per cent above the rates offered by CCB for similar types of deposits). Further, SCB/CCB will have to ensure that infrastructural facilities such as bank counters, safes etc., are provided to PACS. The scheme has been circulated among all State Governments for adoption and implementation with suitable modifications that may be necessary to meet local needs.

CHAPTER IV

FINANCIAL INSTITUTIONS

1. OVERVIEW

While reviewing and analysing the trend and progress of banking in India, the Reserve Bank has also been highlighting in this report the growing role of financial institutions in the process of financial intermediation and institutional linkages and, in particular, the rapid growth of the term-lending and investment institutions. This chapter provides an update of data on financial assets of financial institutions and an overview of operations of all-India and State-level term-lending and investment institutions as also a focus on the changing role of the Reserve Bank of India in providing assistance to financial institutions.

4.2 The combined balance sheet of all banks and financial institutions shows that the share of financial institutions in total financial assets further increased from 33.2 per cent as at the end of March 1990 to 34.2 per cent as at the end of March 1991.

4.3 Financial assistance sanctioned by all-India and State-level term-lending and investment institutions increased by 22.8 per cent during 1991-92 (April-March) as compared to 27.3 per cent in 1990-91 (April-March). The Reserve Bank's assistance to eligible financial institutions during 1991-92 (July-June) was less than half of that in the previous year.

2. GROWING ROLE OF FINANCIAL INSTITUTIONS

4.4 The financial assets of financial institutions increased from Rs.1,02,184 crore at the end of March 1990 to Rs.1,21,253 crore at the end of March 1991, registering an increase of 18.7 per cent (Tables IV.1 & IV.2) The combined balance sheet of all banks and financial institutions shows that the share of financial institutions in total financial assets, which has been steadily growing in recent years, has registered a further increase from 33.2 per cent as at the end of March 1990 to 34.2 per cent as at the end of March 1991. Between the end of March 1987 and the end of March 1991, the share of banks in total financial assets declined successively by approximately 1.0 percentage point per annum and that of financial institutions increased by the same proportion. As at the end of March 1991, outstanding loans and advances of financial institutions were equivalent to about 46.6 per cent of outstanding loans and advances of commercial banks (Table IV.3). At the same point of time, investments of financial institutions in Government securities, bonds and debentures of public sector undertakings, and private corporate sector equities and debentures were together equivalent to 52.7 per cent of such investments of commercial banks. During 1990-91 (April-March), while outstanding loans and advances of commercial banks increased by Rs.14,563 crore, those of financial institutions (including NABARD and net

Table IV.1 : Financial Assets of Banks and Financial Institutions

As at the end of / last Friday of March

(Rs.crore)

Institutions	1981	1986	1987	1988	1989	1990	1991
1	2	3	4	5	6	7	8
I. Banks (1+2+3)*	**46,987**	**1,08,372**	**1,27,876**	**1,47,186**	**1,76,461**	**2,05,515**	**2,32,786**
1. All Scheduled Commercial Banks**	44,622	1,03,627	1,22,513	1,40,747	1,68,480	1,96,377	2,22,613
2. Non-Scheduled Commercial Banks***	9	23	30	36	53	60	77
Total Commercial Banks (1+2)	**44,631**	**1,03,650**	**1,22,543**	**1,40,783**	**1,68,533**	**1,96,437**	**2,22,690**
3. State Co-operative Banks+	2,356	4,722	5,333	6,403	7,928	9,076	10,096
II. Financial Institutions	**16,650**	**45,907**	**54,470**	**66,828**	**83,651**	**1,02,184**	**1,21,253**
4. Term-lending Institutions# (All-India)	6,143	21,555	25,674	31,239	37,874	44,941@	51,868
5. State Level Institutions	1,733	4,341	5,290	6,241	7,204	7,899	8,832
6. Investment Institutions++	8,534	19,143	22,475	28,037	36,980	47,694	58,566
7. Other Institutions~	240	868	1,031	1,311	1,593	1,650	1,987
III. Aggregate (I+II)	**63,637**	**1,54,279**	**1,82,346**	**2,14,014**	**2,60,112**	**3,07,697**	**3,54,039**
IV. Percentage share:							
a) I to III	73.8	70.2	70.1	68.8	67.8	66.8	65.8
b) II to III	26.2	29.8	29.9	31.2	32.2	33.2	34.2

* : Include the following items : (i) Cash in hand and balances with the Reserve Bank. (ii) Asset with the Banking System, (iii) Investments, (iv) Bank Credit (Total loans, cash-credits and overdrafts and bills purchased and discounted) and dues from banks.

** : As per returns under Sec. 42 of the RBI Act, 1934.

*** : As per returns under Sec. 27 of the Banking Regulation Act, 1949.

\+ : As per returns from Rural Planning and Credit Department, RBI.

\# : Term-lending Institutions include NABARD, ICICI, IDBI, IFCI, IRBI and Exim Bank.

++ : Investment Institutions include UTI, LIC and GIC & Subsidiaries.

@ : Includes NHB.

~ : Other Institutions include DICGC & ECGC.

TABLE IV.2 : Total Financial Assets of Financial Institutions - Institution-wise

(Rs.crore)

	As at the end of						
Insitutions	1980-81	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
1	2	3	4	5	6	7	8
A. All- India Term Lending Institutions							
1. DBI	3,098.6	9,633.9	11,529.6	13,922.3	17,053.9	20,317.9	22,700.8
2. NABARD@	1,635.1	6,568.6	7,445.4	8,776.4	10,363.8	11,771.7	12,664.4
3. ICICI	727.9	2,210.6	2,799.4	3,652.8	4,500.1	5,603.9	7,083.8
4. IFCI	589.1	1,988.3	2,426.7	3,105.7	3,707.3	4,477.6	5,834.5
5. Exim Bank	-	811.1	1,042.2	1,276.0	1,478.4	1,715.9	1,983.7
6. IRBI	92.4	342.3	430.2	505.6	589.8	694.0	818.2
7. NHB	-	-	-	-	181.1	360.3	782.5
Total of A (1 to 7)	**6,143.1**	**21,554.8**	**25,673.5**	**31,238.8**	**37,874.4**	**44,941.3**	**51,867.9**
B. State Level Institutions							
8. SFCs*	1,073.6	2,696.7	3,264.9	3,910.9	4,657.0	5,494.2	5,697.4
9. SIDCs	659.5	1,643.9	2,024.6	2,329.6	2,547.2	2,404.9	3,134.3
Total of B (8 to 9)	**1,733.1**	**4,340.6**	**5,289.5**	**6,240.5**	**7,204.2**	**7,899.1**	**8,831.7**
C. Investment Institutions							
10. LIC	6,814.9	12,935.9	14,225.2	17,086.9	20,118.0	23,988.4	29,040.5
11. GIC & Subsidiaries	1,198.9	2,860.7	3,323.0	3,735.5	4,418.8	5,284.6	6,361.6
12. UTI	520.6	3,346.3	4,927.3	7,214.6	12,443.1	18,421.2	23,163.7
Total of C (10 to 12)	**8,534.4**	**19,142.9**	**22,475.5**	**28,037.0**	**36,979.9**	**47,694.2**	**58,565.8**
D. Other Institutions							
13. DICGC	200.3	781.6	919.1	1,168.9	1,377.5	1,423.1	1,743.5
14. ECGC	39.5	86.9	112.0	142.3	215.3	226.9	243.8
Total of D (13 to 14)	**239.8**	**868.5**	**1,031.1**	**1,311.2**	**1,592.8**	**1,650.0**	**1,987.3**
Grand Total (A+B+C+D)	**16,650.4**	**45,906.8**	**54,469.6**	**66,827.5**	**83,651.3**	**1,02,184.6**	**12,12,52.7**

@ Figures relating to 1980-81 pertain to ARDC.

* For the year 1990-91, data relating to 3 SFCs have been estimated.

Table IV.3 : Outstanding Loans and Advances and Investments in respect of Financial Institutions and Commercial Banks

(excluding intrasectoral transactions)

(Rs. crore)

	Outstanding as at the end of									Increase in 1990-91 over 1989-90		
	1988-89 (April-March)			1989-90(April-March)			1990-91(April-March)					
	Loans and Advances	Invest-ments	Total	Loans and Advances	Invest-ments	Total	Loans and Advances	Invest-ments	Total	Loans and Advances	Invest-ments	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
I. Financial Institutions (a+b+c+d)	**41,349**	**25,918**	**67,267**	**48,826**	**31,838**	**80,664**	**53,850**	**40,078**	**93,928**	**5,024**	**8,240**	**13,264**
a) Term-lending Institutions#	27,000	4,670	31,670	32,059	5,159	37,218	34,003	5,434	39,437	1,944	275	2,219
b) State-level Institutions	6,387	378	6,765	7,056	388	7,444	7,813	399	8,212	757	11	768
c) Investment Institutions@	7,800	19,925	27,725	9,498	25,132	34,630	11,837	32,786	44,623	2,339	7,654	9,993
d) Other Institutions*	162	945	1,107	213	1,159	1,372	197	1,459	1,656	-16	300	284
II. Commercial Banks	**84,751**	**55,671**	**1,40,422**	**1,00,936**	**65,202**	**1,66,138**	**1,15,499**	**76,095**	**1,91,594**	**14,563**	**10,893**	**25,456**
III. Aggregate (I+II)	**1,26,100**	**81,829**	**2,07,929**	**1,49,762**	**97,040**	**2,46,802**	**1,69,349**	**1,16,173**	**2,85,522**	**19,587**	**19,133**	**38,720**
IV. Percentage Share												
a) Percentage of I to III	32.8	31.7	32.5	32.6	32.8	32.7	31.8	34.5	32.9			
b) Percentage of II to III	67.2	68.0	67.5	67.4	67.2	67.3	68.2	65.5	67.1			
c) Percentage of I to II	48.8	46.6	47.9	48.4	48.8	48.6	46.6	52.7	49.0			

\# Term-lending institutions include NABARD, ICICI, IDBI, IFCI, IRBI, Exim Bank and NHB.
Figures from 1988-89 onwards include NHB and its position is as on end-June.

@ Investments Institutions include UTI, LIC, and GIC & subsidiaries.

\+ Other Institutions include DICGC and ECGC.

of inter-institutional flows) increased by Rs.5,024 crore. Although such comparison is subject to certain limitations considering that there are financial flows between financial institutions and banks, it provides an idea about the relative dimensions of financial operations of banks and financial institutions. It is pertinent to note here that apart from the financial institutions covered in this chapter, there are a number of other financial institutions which cater to specific needs of certain sectors such as the railways, power, transport, housing, etc., some of which also mobilise resources through issue of bonds or debentures; besides, there are a number of non-bank financial companies which mobilise a part of the household sector's savings and provide a variety of financial services. Some of the banks are operating through their subsidiaries in fields like mutual funds, leasing, merchant banking, venture capital, factoring, housing finance, etc. Mutual funds of subsidiaries of banks and financial institutions mobilise substantial funds through various schemes, including equity-linked savings schemes, offering attractive yields and tax concessions.

3. RESERVE BANK ASSISTANCE TO FINANCIAL INSTITUTIONS

4.5 The Reserve Bank has been providing long-term loans as well as medium-short-term credit facilities to financial institutions under Section 17 read with Section 46C and 46D of the Reserve Bank of India Act, 1934. During the year 1991-92 (July-June), total assistance (long-term and medium/short-term) sanctioned by the Reserve Bank to eligible financial institutions@ (other than the National Housing Bank) in the sphere of industrial finance+ at Rs.811.5 crore was less than half (46.7 per cent) compared to that in the previous year. The Industrial Development Bank of India (IDBI) and The Small Industries Development Bank of India (SIDBI) did not seek medium-term/short-term limits during 1991-92 unlike in the previous year when they were sanctioned limits of Rs.400 crore and Rs.600 crore, respectively. The institution-wise details of financial assistance sanctioned by the Reserve Bank are presented in Table IV.4.

4.6 During 1991-92 (July-June), the Reserve Bank sanctioned from the National Industrial Credit (Long Term Operations) Fund [NIC(LTO) FUND] Rs.440 crore to SIDBI, Rs.132 crore to Exim Bank and Rs.40 crore to IRBI. These three financial institutions availed of their sanctioned limits fully. Outstanding borrowings of these three institutions together stood at Rs.1,887 crore and those of IDBI at Rs.3,576.6 crore as at the end of June 1992.

4.7 During 1991-92 (July-June), the National Housing Bank (NHB) was sanctioned Rs.50 crore from the National Housing Credit (Long-Term Operations) Fund [NHC (LTO) Fund] at a concessive rate of interest of 8 per cent per annum for a period of 20 years. Outstanding borrowings of NHB stood at Rs.175 crore as at the end of June 1992.

@ The eligible financial institutions include IDBI, EXIM Bank, IRBI, IFCI, ICICI, SIDBI, NHB and SFCs.

+ Finance for agricultural and allied activities, etc., provided by the Reserve Bank, has been by way of contribution to the National Rural Credit (Long Term Operations) Fund and National Rural Credit (Stabilisation) Fund maintained by NABARD and through General Lines of Credit to NABARD.

Table No. IV.4 : RBI Assistance to Financial Institutions (July-June)

(Rs.crore)

Type of Assistance	1990-91		1991-92		Period (Years)	Rate of Interest (per cent per annum)	Amount outstanding as on June 30, 1992
	Sanc-tioned	Utilised	Sanc-tioned	Utilised			
1	2	3	4	5	6	7	8
A. Long-Term Credit [NIC (LTO) Fund]							
1. IDBI	-	-	-	-	15	-	3,576.6
2. SIDBI	400.0	400.0	440.0	440.0	15	8	840.0
3. Exim Bank	120.0	120.0	132.0	132.0	15	9	877.0
4. IRBI	35.0	35.0	40.0	40.0	15	8	170.0
B. Long-Term Credit [NHC(LTO) Fund]							
NHB	50.0	50.0	50.0	50.0	20	8	175.0
C. Medium/Short-Term Credit Limits							
1. IDBI	400.0	-	-	-	4 Months	#	-
2. SIDBI	600.0$	75.0	-	-	2.5 Month	#	-
3. IFCI	50.0@	*	60.0@	*	1	#	-
4. ICICI	33.0@@	*	30.0@@	*	1	#	-
5. SFCs	98.2	*	109.5	*	1	#	23.4

$: Two separate limits of Rs. 300 crore each of short-term loan were sanctioned of which only the first limit was utilised to the extent of Rs. 75 crore.

@ : Cash Credit facility sanctioned for calendar year (1991 and 1992)

@@ : Cash Credit facility sanctioned for financial year (April-March)

* : Limits utilised from time to time as per requirements.

: Prevailing Bank Rate.

4.8 During 1990-91 (July-June) medium/short - term credit limits were sanctioned to Industrial Finance Corporation of India (IFCI) and Industrial Credit and Investment Corporation of India (ICICI) against *ad hoc* bonds guaranteed by Central Government and to State Financial Corporations (SFCs) against *ad hoc* bonds guaranteed by respective State Governments-Union Territories. IFCI was sanctioned an *ad hoc* limit of Rs.60 crore while ICICI was sanctioned a limit of Rs.30 crore. Both the institutions sparingly utilised this facility to overcome occasional imbalances in their resources and repaid their entire outstandings under these limits before withdrawal of their access to this facility by the Reserve Bank from November 1, 1991. As mentioned earlier, no allocation would be made to the eligible institutions out of the LTO Funds from the year 1992-93 onwards.

4. OPERATIONS OF TERM-LENDING AND INVESTMENT INSTITUTIONS

4.9 Financial assistance sanctioned by all-India and State-level term-lending and investment institutions* (net of inter-institutional flows) during 1991-92 (April-March) amounted to Rs.23,805.1 crore and that disbursed Rs.16,072.0 crore, registering increases of 22.7 per cent and 33.5 per cent, respectively, over the previous year (Table IV.5). There was a significant increase in both sanctions and disbursements of assistance by all-India development banks (IDBI, IFCI, ICICI, SIDBI, SCICI, IFCI, IRBI, RCTC and TDICI), mainly on account of loans sanctioned and disbursed by them (Table IV.5). But the increases in sanctions and disbursements of investment institutions (UTI, LIC and GIC and its subsidiaries) during the year under review were much more spectacular; both sanctions and disbursements of UTI, increased by 84 per cent each and accounted for 39.8 per cent and 32.9 per cent, respectively, of total increases in sanctions and disbursements by all financial institutions.

Resources

4.10 During the year under review, financial institutions approached the domestic market for raising resources with market-related rates of interest. For the first time IDBI came out with a public issue of unsecured bonds in January 1992. The issue consisted of three types of bonds, viz. Deep Discount Bonds, Regular Returns Bonds and Double Option Bonds and mobilised around Rs.486 crore against the minimum target of Rs.300 crore. It also issued for the first time Certificates of Deposits (CDs) and raised Rs.359.7 crore. IDBI thus raised resources aggregating Rs.1,023 crore from the market. ICICI mobilised about Rs.1,000 crore from the domestic market through inter-corporate deposits and CDs and through loans and deposits at commercial rates from other financial institutions.

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* All-India and State-level term-lending and investment institutions comprise IDBI, IFCI, ICICI, SIDBI, SCICI, TFCI, IRBI, RCTC, TDICI, UTI, LIC, GIC and its subsidiaries, SFCs and SIDCs.

4.11 As pointed out earlier, the practice of appropriating large amounts from the profits of the Reserve Bank for allocation to the agricultural, industrial and housing funds before transferring the surplus to the Government would be discontinued. Consequently, these funds will not get augmented as before. Hence, the eligible financial institutions (viz. IDBI, EXIM Bank, IRBI, NHB and SIDBI) which used to rely on these funds will have to increasingly rely on the capital market for their resources.

Other Developments

4.12 IDBI entered the field of equipment leasing to widen its range of services to industrial concerns. It set up a venture capital division to broaden its venture capital financing and also set up a merchant banking division to provide professional advice and services to industrial units seeking recourse to capital market, acquisition of assets on lease, or take- over/merger with existing units. ICICI initiated an Export Breakthrough Service in collaboration with the Developing Countries' Trade Agency, under which exporters requiring market and commercial information necessary for entering new export markets are introduced to selected market research consultants. SIDBI introduced the following new schemes : (i) scheme of direct assistance for anciliarisation, (ii) scheme of resource support to factoring companies against factored debt of small-scale industries, and (iii) scheme for integrated infrastructure development for SSI sector with active participation of Central and State Governments.

Policy Developments

4.13 With effect from August 16, 1991, interest rates on financial assistance provided by term-lending institutions were made flexible with a floor rate of 15 per cent per annum. These institutions are thus free to charge interest rates on their loans taking into account factors such as creditworthiness of the borrowing unit.

4.14 The mandatory convertibility clause in respect of loans by financial institutions for new and expansion projects was removed in August 1991. In respect of loans sanctioned before August 1991, financial institutions could waive the convertibility stipulation if the borrowing units agreed to pay the prevailing higher rates of interest.

4.15 The norms fixed for promoters' contribution for purposes of eligibility for getting loans from financial institutions were changed; the minimum contribution of promoters in their projects was hiked to 25 per cent, with certain relaxations for large projects and projects promoted by first generation entrepreneurs.

4.16 In view of the high cost of capital, the debt-equity norm for financial institutions was tightened; the ratio was fixed at 1.5 : 1 as against 2 : 1 earlier, which could be relaxed to 2 : 1 only for large projects.

4.17 The structured system of consortium financing by the term-lending institutions was discarded and replaced by a more flexible system of loan syndication.

Table IV.5 : Financial Assistance Sanctioned and Disbursed by All Financial Institutions
(Year : April-March)

(Rs. crore)

Institutions		Loans*				Underwriting and Direct Subscription				Others				Total			
		1990-91		1991-92		1990-91		1991-92		1990-91		1991-92		1990-91		1991-92	
		S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D
1		2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
A. All India Development Banks	**@**	**14,211.7**	**8,860.9**	**16,220.7**	**10,923.0**	**673.2**	**188.3**	**624.9**	**125.3**	**1,287.4**	**728.8**	**1,208.0**	**644.9**	**16,172.3**	**9,778.0**	**18,053.6**	**11,693.2**
																11.6	**19.6**
(1 to 9)	**@@**	**12,205.3**	**7,632.9**	**14,046.7**	**9,613.9**	**673.2**	**188.3**	**624.9**	**125.3**	**1,287.4**	**728.8**	**1,208.0**	**644.9**	**14,165.9**	**8,550.0**	**15,879.6**	**10,384.1**
																12.1	**21.5**
1. IDBI		6,431.4	4,314.4	7,375.5	5,644.8	266.5	48.9	177.6	13.2	129.5	96.1	86.5	104.8	6,827.4	4,459.4	7,639.6	5,762.8
																11.9	29.2
	@	5,985.2	3,872.4	6,891.7	5,161.0	266.5	48.9	177.6	13.2	129.5	96.1	86.5	104.8	6,381.2	4,017.4	7,155.8	5,279.0
																12.1	31.4
	@@	5,173.7	3,388.2	6,242.1	4,698.4	266.5	48.9	177.6	13.2	129.5	96.1	86.5	104.8	5,569.7	3,533.2	6,506.2	4,816.4
																16.8	36.3
2. IFCI		2,721.4	1,498.1	2,648.2	1,541.6	141.1	15.9	135.5	30.6	102.6	60.8	85.5	33.0	2,965.1	1,574.8	2,869.2	1,605.2
																-3.2	1.9
3. ICICI		2,459.7	1,293.0	3,027.9	1,787.4	255.9	113.4	300.3	79.8	1,028.4	561.1	977.7	484.1	3,744.0	1,967.5	4,305.9	2,351.3
																15.0	19.5
4. SIDBI	@	2,403.3	1,837.8	2,872.1	2,020.2	-	-	-	-	5.5	0.7	26.0	7.2	2,408.8	1,838.5	2,898.1	2,027.4
																20.3	10.3
	@@	1,208.4	1,094.0	1,347.7	1,173.7	-	-	-	-	5.5	0.7	26.0	7.2	1,213.9	1,094.7	1,373.7	1,180.9
																13.2	7.9
5. IRBI		215.5	144.3	251.9	169.7	-	-	7.0	-	19.2	9.6	18.8	15.5	234.7	153.9	277.7	185.2
																18.3	20.3
6. RCTC		10.5	7.3	14.5	7.4	-	-	-	-	-	-	-	-	10.5	7.3	14.5	7.4
																38.1	1.4
7. TDICI		11.4	12.4	19.9	18.5	-	-	-	-	-	-	-	-	11.4	12.4	19.9	18.5
																74.6	49.2
8. SCICI		324.1	156.9	393.8	169.6	7.5	10.0	3.2	1.3	-	0.1	12.0	-	331.6	167.0	409.0	170.9
																23.3	2.3
9. TFCI		80.6	38.7	100.7	47.6	2.2	0.1	1.3	0.4	2.2	0.4	1.5	0.3	85.0	39.2	103.5	48.3
																21.8	23.2

(Contd.)

Table IV.5 : Financial Assistance Sanctioned and Disbursed by All Financial Institutions *(Concld.)*
(Year : April-March)

(Rs. crore)

Institutions	Loans*				Underwriting and Direct Subscription				Others				Total			
	1990-91		1991-92		1990-91		1991-92		1990-91		1991-92		1990-91		1991-92	
	S	D	S	D	S	D	S	D	S	D	S	D	S	D	S	D
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
B. Investment Institutions (10+11+12)	**875.1**	**562.3**	**2124.8**	**1094.6**	**1539.6**	**841.7**	**2934.3**	**2186.4**	**663.5**	**752.5**	**945.9**	**893.7**	**3,078.2**	**2,156.5**	**6,005.0 95.1**	**4,174.7 93.6**
@	**875.1**	**562.3**	**1724.8**	**1044.6**	**1539.6**	**841.7**	**2934.3**	**2186.4**	**153.5**	**227.5**	**295.9**	**393.7**	**2,568.2**	**1,631.5**	**4,955.0 92.9**	**3,624.7 122.2**
10. UTI	569.5	342.6	1,108.6	654.4	844.2	487.6	1,778.0	1,362.3	663.5	752.5	945.9	893.7	2,077.2	1,582.7	3,832.5 84.5	2,910.4 83.9
@	569.5	342.6	1,108.6	654.4	844.2	487.6	1,778.0	1,362.3	153.5	227.5	295.9	393.7	1,567.2	1,057.7	3,182.5 103.1	2,410.4 127.9
11. LIC	234.4	170.3	814.2	361.9	453.7	257.1	701.1	660.6	-	-	-	-	688.1	427.4	1,515.3 120.2	1,022.5 139.2
@	234.4	170.3	414.2	311.9	453.7	257.1	701.1	660.6	-	-	-	-	688.1	427.4	1,115.3 62.1	972.5 127.5
12. GIC	71.2	49.4	202.0	78.3	241.7	97.0	455.2	163.5	-	-	-	-	312.9	146.4	657.2 110.0	241.8 65.2
C. Total Assistance by All-India Financial Institutions (A@+B@)	**15,086.8**	**9423.2**	**17945.5**	**11967.6**	**2212.8**	**1030.0**	**3559.2**	**2311.7**	**1440.9**	**956.3**	**1503.9**	**1038.6**	**18,740.5**	**11,409.5**	**23,008.6 22.8**	**15,317.9 34.3**
D. State-level Institutions (13 and 14)	**#**	**#**	**#**	**#**	**#**	**#**	**#**	**#**	**#**	**#**	**#**	**#**	**2,663.0**	**1,857.7**	**2,970.5 11.5**	**2,063.2 11.1**
13. SFCs	#	#	#	#	#	#	#	#	#	#	#	#	1,848.0	1,267.3	2,065.0 11.7	1,393.2 9.9
14. SIDCs	#	#	#	#	#	#	#	#	#	#	#	#	815.0	590.4	905.5 11.1	670.0 13.5
E. Total Assistance by All Financial Institutions(A@@+B@+D)	**#**	**#**	**#**	**#**	**#**	**#**	**#**	**#**	**#**	**#**	**#**	**#**	**19,397.1**	**12,039.2**	**23,805.1 22.7**	**16,072.0 33.5**

S = Sanctions. D = Disbursements. # Not available.
* Loans include rupee loans, foreign currency loans and guarantees.
@ Data are adjusted for inter-institutional (all-India) flows.
@@ Data are adjusted for inter-institutional (all-India and state level) flows.

Note:
1. Data for 1991-92 are provisional for all institutions and estimated for SFCs and SIDCs.
2. Data have been adjusted for inter-institutional flows.This involves adjustment in regard to loans to and investments in shares and bonds of financial institutions by IDBI, IDBI/SIDBI's refinance assistance to SFC's and SIDC's and seed capital assistance, term loans given by LIC to IFCI and ICICI, and special deposits by UTI to IDBI, IFCI and ICICI.
3. IDBI assistance for 1989-90 include assistance to small sector.
4. SIDBI commenced its operations from April 2, 1990.
5. Others include leasing, deferred line of credit, special deposits in case of UTI.

Source: IDBI and Respective Financial Institutions.